Foreign Direct Investment in the City of Qingdao: Experiences of Chinese Workers in Foreign-Invested Enterprises, 1996 to 2009

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CONTENTS

ABSTRACT

The debate concerning whether foreign investment in developing nations benefits or exploits workers is a highly emotive and unresolved debate. This dissertation contributes to literature that explores the impact of foreign direct investment (FDI) on a host economy, more specifically on the experiences workers employed within foreign-invested enterprises in a developing nation. Amongst developing nations, China has absorbed the lion's share of FDI throughout the 2000s and is therefore a sensible location to study the effects of FDI on a developing nation host economy. Given the variety in levels of economic development across China, we avoid errors of generalisation by targeting a specific location. Shandong is one of the most important – and understudied – provinces in China, contributing significantly to China's economy and being the destination for an increasing share of China's FDI; within Shandong, Qingdao is the most popular destination for FDI.

Existing literature that explores the effects of FDI on host nation employees either takes a quantitative, macro-economic level approach, such as International Business literature, or uses qualitative methodology to give anecdotal evidence of worker experiences, such as in the globalisation and labour studies bodies of literature. We combine both these approaches to investigate the experiences of FIE employees in Qingdao. The key research findings are: a domination of South Korean, wholly foreign-owned enterprises targeting the relatively more labour-intensive manufacturing sectors from 1996 to 2006 in Qingdao, having implications in terms of FIE employment opportunities and human capital accumulation; a sharp decline in the size of the FIE workforce from 2007 to 2009, highlighting the potential problems a developing nation may face if it has a large concentration of 'flexible' foreign investments; and reports of a wide range of experiences of FIE employees engaged in more white-collar roles, including positive development opportunities and negative experiences of discrimination.

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ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
BBC	British Broadcasting Corporation
BV	Bureau Veritas
CBBC	China-Britain Business Council
CJV	Co-operative Joint Venture
CSR	Corporate Social Responsibility
EJV	Equity Joint Venture
ETI	Ethical Trading Initiative
FDI	Foreign Direct Investment
FIE	Foreign-invested Enterprise
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GRP	Gross Regional Product
HRM	Human Resource Management
HMT	Hong Kong, Macau and Taiwan
ILO	International Labour Organisation
IMF	International Monetary Fund
IR	Industrial Relations
ISIC	International Standard Industrial Classification
JV	Joint Venture
LCL	Labour Contract Law (劳动合同法)
LMAL	Labour Mediation and Arbitration Law (劳动争议调解仲裁法)
MHRSS	Ministry of Human Resources and Social Security (中国人力资源和社会保障部) – see MLSS

MLSS	Ministry of Labour and Social Security (中国劳动和社会保障部) – merged with the Ministry of Personnel on 31st March 2008 to become the MHRSS
MNC	Multi-national Corporation (*aka* MNE – Multi-national Enterprise)
NBS	National Bureau of Statistics
NGO	Non-Governmental Organisation
NIE(s)	Newly-Industrialised Economy(-ies)
ODI	Outward Direct Investment
OECD	Organisation for Economic Cooperation and Development
QDHRSS	Qingdao Bureau of Human Resources and Social Security (青岛人力资源和社会保障局) – see QDLSS
QDLSS	Qingdao Bureau of Labour and Social Security (青岛劳动和社会保障局) – merged with the Qingdao Personnel Bureau in mid-2010 to form the QDHRSS
QDTJNJ	Qingdao Statistical Yearbook (青岛统计年鉴)
SDTJNJ	Shandong Statistical Yearbook (山东统计年鉴)
SGS	Société Générale de Surveillance
SOE	State-owned Enterprise
SSI	Semi-structured Interview
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USCBC	US-China Business Council
USD	United States Dollars
WFOE	Wholly Foreign-owned Enterprise
WTO	World Trade Organisation
ZGTJNJ	China Statistical Yearbook (中国统计年鉴)
ZGLDTJNJ	China Labour Statistical Yearbook (中国劳动统计年鉴)

Chapter One: Introduction and Methodology

1.1 Introduction

At the time when this project was conceived and began in 2008, ever increasing flows of foreign direct investment (FDI) were being recorded across the globe; four consecutive years of growth lead to the highest ever recorded volume of total global FDI flows in 2007, standing at USD 1,833 billion (UNCTAD, 2008: xv). Statistical data on global FDI[1] flows up until 2007 clearly illustrated that not only was FDI becoming an increasingly common tool of investment – total stock[2] of FDI as a percentage of global gross domestic product (GDP) rose from 8% in 1990 to 26% by 2006 – but also that non-OECD nations were beginning to absorb more and more of the FDI: the non-OECD share of total global stock of inward FDI (at 2000 constant prices) went from twenty-two percent in 1990 to thirty-two percent by 2005 (OECD, 2008a: 2). Of this increasing flow to non-OECD nations, the People's Republic of China (hereafter China) was taking the lion's share, accounting for around a third of the FDI absorbed by non-OECD nations in 2005 (*ibid*.). The *World Investment Report 2008* confirmed the significance of developing nations[3] as recipient host economies, and that of China's position: 2007 saw USD 499 billion of the total global flows of USD 1,833 billion flow in to developing economies, of which USD 83.5 billion went to China (UNCTAD, 2008a). The global financial and credit crises that began in the second half of 2007 (UNCTAD, 2008: xv)

[1] The terms 'FDI' is not such a solid definition as we may wish. The United Nations Conference on Trade and Development (UNCTAD) define it as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor" (UNCTAD, 2005: 297), and institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) issues guidelines as to what FDI is and how it is distinct from portfolio investment (Stephan and Pfaffmann, 2001: 192). Despite the plethora of guidance, there is variety within nations as to how FDI statistics are recorded, with some nations using the IMF-recommended cut off of ten percent ownership of shares or of voting rights of an enterprise as the distinction between portfolio investment (aka 'hot money' investments) and FDI, others using twenty or twenty-five percent (Stephan and Pfaffmann, 2001: 202-205). Huang Yasheng states that China, in the early-2000s at least, used a foreign equity stake of twenty-five percent or more to define a foreign-invested enterprise (2003: 2). Coupled to this there are issues surrounding data collection techniques, various techniques having their own inherent flaws, not to mention issues that arise when one tries to conduct international comparisons (Stephan and Pfaffmann, 2001: 200-206). As Stephan and Pfaffmann put it: "FDI is only a second-best indicator of the international business activities of MNCs, but FDI data are first best in its availability" (2001: 212). Despite these limitations, for the purposes of our research they do provide a readily available, useful indicator as to the activities of multinational corporations within China. Furthermore, as we are relying on within-China data, there will be no errors introduced from cross-country comparisons.

[2] FDI stock refers to the total accumulation of FDI inflows over time, whereas FDI flows refer to the inflow that year.

[3] The *World Investment Report 2008* defines counties as follows: the developed economies are the OECD countries (minus Mexico, Republic of Korea [South Korea] and Turkey), the recently added EU nations that aren't OECD members (Bulgaria, Cyprus, Estonia, Latvia, Malta, Romania and Slovenia), and Andorra, Israel, Liechtenstein, Monaco and San Marino; transition economies are those of South East Europe and the Commonwealth of Independent States; and developing nations are all the remaining nations, with data for China *not* including that of the Hong Kong Special Administrative Region (SAR), the Macao SAR or Taiwan (UNCTAD, 2008: ii).

have obviously had repercussions for the levels of FDI recorded globally, but recent UNCTAD statistics show that FDI flows have recovered well, and that developing nations are continuing to be attractive investment locations. After falling mildly in 2008 and then drastically in 2009, global FDI flows recovered in 2010 and stood at USD 1,240 billion (UNCTAD, 2010: xvii; 2011: xiii). For the first time ever, 2010 saw developing economies absorb more than half of the total global FDI flows; inflows to China climbed by eleven percent versus 2009, standing at USD 106 billion for 2010 (UNCTAD, 2011: xii, xiv). Given the increasingly significant levels of absorption shown by developing economies, of which China is the largest recipient, it is essential that we have an accurate understanding of exactly how foreign investment interacts with and impact upon the developing host economies so as to best guide policy debates.

Policy makers have tended to emphasise the many benefits that FDI can theoretically bring to a host economy, which obviously has then led to many governments setting FDI friendly policies (OECD-ILO, 2008: 2; OECD, 2008b: 264). For developing and transitional economies, the main advantage often cited is that being a recipient location for FDI enables them to leap-frog technology and 'catch up' with the technical skills and technological levels thus far achieved by the developed world. FDI can, theoretically, be the source of hard technology and can transfer soft skills (for example, management techniques or accounting skills) to a host nation; furthermore it is argued that it can potentially provide a host nations' domestic enterprises with access to international markets and stimulate local competition (Sun, 1999: 100; Wu, 1999a: 57; Wu, 1999b: 3; Yusuf and Nabeshima, 2006: 66; Giroud, 2007: 159; Tuan and Ng, 2007: 352).

As the literature review in Chapter Two will show, there is a wealth of literature dedicated to studying the effects of FDI on host nations, some of which is directly focused upon China.[4] However, the FDI literature is generally more focused on broader economic issues – such as the impact of FDI on host industry development – rather than on the effects on employees. Literature that does address issues related to the workforce is focused on areas such as the effect of FDI on wages and employment levels, and predominantly targeted on developed nations. As was acknowledged by the OECD and the ILO (International Labour Organisation) in 2008 at a joint conference concerning corporate social responsibility (CSR): "very little is known about the impact of foreign ownership of non-wage working conditions" (OECD-ILO, 2008: 14). This seems surprising given the amount of anecdotal evidence that is present not only in academic literature focusing on issues of worker exploitation owing to globalisation (Elliot and Freeman (2003); Mary Gallagher (2005); Anita Chan (1998; 1999; 2000; 2001; 2003; 2006; 2007)), but also given the number high profile media cases of multi-national corporations contributing to the exploitation of workers in the developing world. Papers such as that by, for example, Brown, Deardorf and Stern (2003) give useful summaries on how FDI can affect wages, but the topic of how FDI can affect non-wage working conditions

[4] For a comprehensive review of the literature of FDI impact, see Dunning and Lundan, 2008, chapters 10, 12, 13 and 16.

receives next to no coverage; bar a recent attempt by the OECD (OECD, 2008b), there is no research that attempts to *comprehensively* assess the impact of FDI on the well-being of the domestic workforce in a host economy. Given the increasing flows of FDI across the globe, the increasing percentages flowing in to developing nations, and the general pro-FDI stance adopted by policy makers in developing nations, it seems odd that such a central question such as the effect of FDI on a developing nation's employees is still not fully understood. This dissertation will contribute towards this knowledge gap by combining the quantitative approaches of the International Business literature with the qualitative approaches of some of the globalisation and labour studies literature in order to explore the experiences of employees in foreign-invested enterprises (FIEs) within a developing nation.

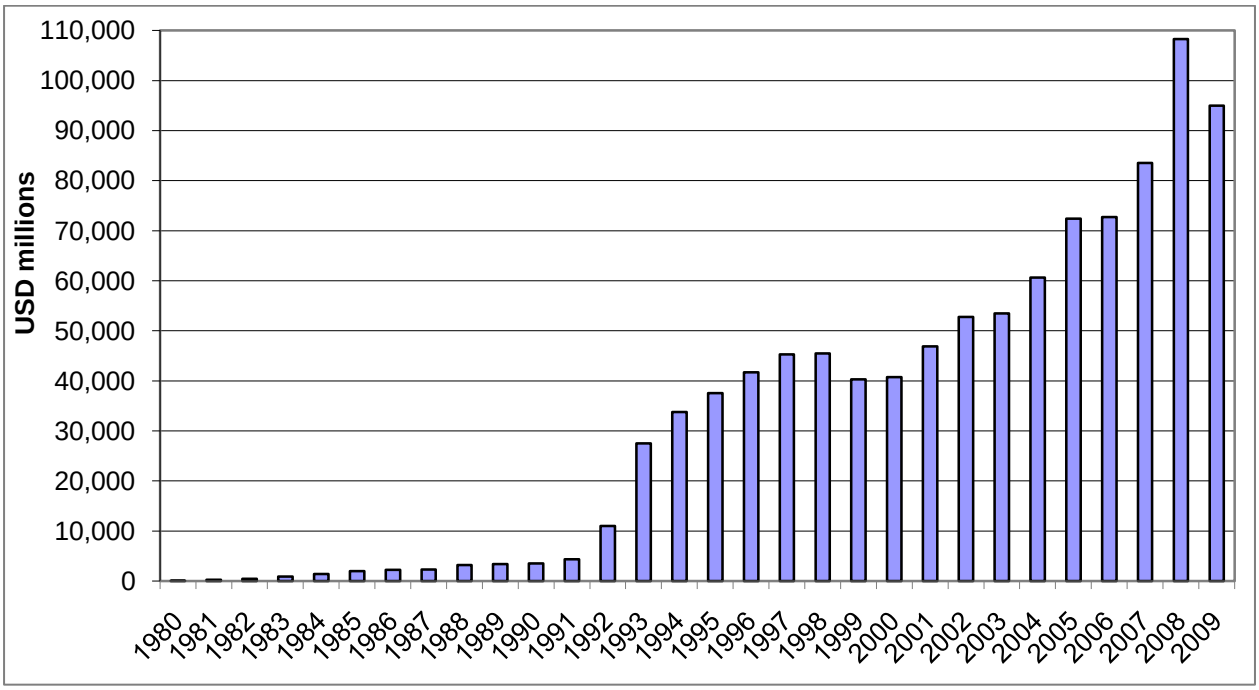
As indicated above, the strongest performing developing nation in terms of attracting FDI is China. The popularity of China as a host nation for FDI has only really been evident since the early 1990s. Some scholars ascribe the turning point in China's attitude towards FDI being decisions taken at the third plenum of the 11th Central Committee of the Chinese Communist Party in December 1978 – for example, Chen, Chang and Zhang, 1995: 692 – but in reality significant amounts of FDI did not begin to flow in until 1992, after concerted efforts were made by the Chinese authorities to improve the nation's investment environment.[5] **Figure A** illustrates China's utilised[6] FDI inflows from 1980 onwards; the increase in inward FDI from 1992 is clearly discernable. **Table A** puts China's levels of FDI in perspective by illustrating the percentage absorption of global FDI of a selection of nations over a selection of years.

Scholars have shown that transition economies have significant variations in the pace and scale of economic evolution across the nation, and this is especially applicable to China (Li, 2004: 156; Ma and Delios, 2007: 208). This necessitates that we should take a sub-national approach in our analysis; we will focus our research on the city of Qingdao in Shandong province.

[5] Basic legislation alone is not enough to attract foreign investors, factors such as the stability of the political and economic environments as well as the levels of bureaucratic impediments are also important considerations, elements that China needed to address during the 1980s (Hou and Zhang, 2002: 194). For example, issues contributing to discouraging investors in the 1980s included: the difficulties surrounding currency conversion, meaning that foreign-invested enterprises had to rely heavily on exports to earn foreign currency to service (foreign currency) debts; the fear of a political u-turn by the authorities in China, which could result in an investment write-off; the minimal access to China's domestic markets that was initially offered to foreign investors; and the bureaucratic delays associated with getting joint-ventures (JVs) approvals (Chen, Chang and Zhang, 1995: 692). By the late 1980s and early 1990s, there noticeable improvements in China's investment environment, such as overt and explicit signs of commitment to the reform process signalled by, amongst other things, Deng Xiapping's well-documented '1992 Southern Tour', and continued efforts to improve the infrastructure in the coastal areas (Yabuki and Harner, 1999: 239).

[6] Chinese FDI statistics can be analysed as "contract FDI" or "utilised FDI". The former is the amount pledged for a given year, and the later is the amount actually invested in a given year. Where possible, utilised FDI figures will be used because levels of contracted FDI can vary quite dramatically and offer no reflection as to how much capital was actually invested.

Figure A: China's Utilised Foreign Direct Investment, 1980-2009



Source: UNCTAD (2011a)[7]

Table A: Percentage Absorption of Global FDI, Select Nations, Select Years

	1995	2000	2005	2006	2007	2008	2009
World flows of FDI (USD millions, current prices)	342,544	1,401,466	985,796	1,459,133	2,099,973	1,770,873	1,114,189
World flows absorbed by China (%)	11	3	7	5	4	6	9
World flows absorbed by ASEAN[8] (%)	8	2	4	4	4	3	3
World flows absorbed by EU (%)	39	50	51	40	44	30	32
World flows absorbed by Bermuda, Canada and USA (%)	20	27	13	20	18	21	13

Source: Author's Calculations Based on UNCTAD (2011a)

[7] **Figure A** is based upon UNCTAD's FDI statistics for China. Chinese official statistics as published in the *China Statistical Yearbooks* (ZGTJNJ) match those of UNCTAD up to and including 2004; for the years 2005 to 2009 (inclusive) the statistics are not the same and we will rely on the UNCTAD figures. Up until 2005, owing to tight controls on the inflow of foreign capital in to the financial services sector, the Chinese authorities did not include the "financial services sector" in the FDI statistics listed in the ZGTJNJ as it was insignificant (UNCTAD, 2006: 52). However, from 2005 onwards this inward flow has no longer remained negligible: the inward FDI reported in ZGTJNJ for 2005 was USD 60.3 billion, whereas the UNCTAD's *World Investment Report 2006* shows that the true figure is actually USD 72.4 billion for 2005, which includes the USD 12.1 billion that flowed in to the financial services sector that year (ZGTJNJ, 2006: T18-1; UNCTAD, 2006: 52). The Chinese authorities appeared to switch to including the financial services sector FDI in the overall FDI figures for their 2006 data listed in their 2007 yearbook (ZGTJNJ, 2007: T18-14), but then reverted to the old reporting method for 2007 data and beyond (ZGTJNJ, 2008: T17-14). As the exclusion of a large section of inward FDI would be misleading, the UNCTAD statistics have been used to illustrate the total national flows. This serves to highlight the care that must be taken when relying on statistical data from the Chinese statistical authorities, especially when conducting longitudinal analysis owing to changes in how statistical data is recorded.

[8] In 2009, the ten ASEAN member states were: Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand and Vietnam (ASEAN, 2009).

Shandong province (see **figure F**, Chapter Three) is significantly under-represented in the academic literature that investigates the impact of foreign direct investment, which is curious given the importance of the province to the Chinese economy and given the percentages of China's FDI that flows in to the province. Shandong has been consistently in the top three largest provincial economies from 2000 through to 2009, being second biggest in 2004 and 2006 (SDTJNJ, 2009: Appendix T1-2; 2010: Appendix T1-2). The province absorbed 4.3 percent, 6.9 percent, 7.3 percent and 14.8 percent of China's total utilised FDI for the years 1990, 1995, 2000 and 2005 respectively; the absorption level stayed at around 14-15% for the period of 2004-2007 (SDTJNJ, 2010: T6-5; ZGTJNJ, 2008: T17-14).[9]

As well as being an important provincial economy that absorbs significant levels of FDI, several organisations that seek to encourage and facilitate FDI have also highlighted the province's potential for investment through various pieces of research, which we can logically argue may contribute to increased FDI flows. As we shall see in Chapter Three, research conducted by the World Bank (2006), by scholars at the Centre for International Business, University of Leeds and the China-Britain Business Council (CBBC-CIBUL, 2008), and by research divisions of large financial companies such as MasterCard[10] (MasterCard, 2008) have all highlighted and promoted the importance of Shandong as a potential investment location in China, and that of Qingdao within Shandong (see Chapter Three). Within Shandong, Qingdao has been one of the cities at the centre of China's plans to attract FDI since the start of the 1980s; Qingdao – along with two other port cities in Shandong – was among the first fourteen coastal cities 'opened up' across China for foreign investment in 1984 (USCBC, 2003: 152). Qingdao is the most popular destination for FDI within Shandong: from 1998 to 2008, Qingdao absorbed between thirty and forty-five percent of Shandong's FDI *per annum*, significantly more than any other destination in the province (see **figure L**, Chapter Three). Shandong and Qingdao remain at the cutting edge of trial economic reforms, the Central authorities selecting Shandong as one of four provinces allowed to engage in an extremely small-scale, one year trial centring on depositing export earnings in overseas bank accounts (Squire Sanders, 2010: 5).

Given the importance of Shandong, and Qingdao within Shandong, we shall be focusing our research project on the experiences of Chinese employees within FIEs in Qingdao. We are not suggesting that Qingdao is a unique city in China, merely that given its profile and its

[9] Having acknowledged the discrepancies between the UNCTAD and Chinese official FDI statistics in footnote seven above, these percentages are calculated using data from the ZGTJNJ. Working on the premise that whatever data is being excluded from FDI figures at a national level in China will also be excluded at a provincial level, it is better to compare the two "domestic" statistics for a clearer picture of Shandong's percentage absorption. If one uses Shandong's inward FDI as a proportion of China's inward FDI as reported by UNCTAD, the percentages calculate as slightly lower.

[10] Although some may be tempted to question the reliability of research that is not subject to academic scrutiny, informal conversations with senior company executives of UK firms looking to invest in China – had during events organised by the CBBC – highlighted that companies give weight to the opinions of other businesses engaged in China, sometimes more so than to academic research.

importance it is a worthy focus of academic research. Section 1.2 will detail the methodology behind this dissertation.

1.2 Methodology

The data gathered for analysis in this dissertation can be divided in to two, broad categories: the quantitative data and the qualitative data. For each of these two categories we shall now detail the sources of the data and the methods used in collecting the data.

Quantitative Data

The research project required a large amount of detailed statistical data covering a time period of at least a decade, but preferably a decade and a half. Any researcher who requires statistical data on China will no doubt be familiar with the series of *China Statistical Yearbooks* (中国统计年鉴, hereafter ZGTJNJ) available. These are collated not just at a national level but also at a provincial, and sometimes city level, too. Qingdao is one of the cities that has compiled such a series of data, known as the *Qingdao Statistical Yearbooks* (青岛统计年鉴, hereafter QDTJNJ). Unfortunately, these city-level data books, particularly back issues, are rather more difficult to acquire than the national data series of books. The first approach to gather statistical data for Qingdao was to use the websites of the Shandong and Qingdao statistical authorities,[11] which yielded some information – from the year 2000 onwards for Qingdao – but did not facilitate a longer time line of data to be accessed and analysed. A secondary issue with the data available online was one of personal preference and convenience: it is easier to browse data and see what information can be compared over a time series if one is sat in front of several statistics books as opposed to many screens of statistical data. For these reasons, an attempt was made to approach the Qingdao Statistical Bureau in order to see if a long series of books could be purchased. The end result was a full set of statistical data books from 1997 to 2009, which was supplemented with data from the 2010 yearbook that was accessed online. Earlier editions were not available for purchase. Acquiring these statistical sources was essential to be able to chart the inflow and characteristics of foreign direct investment in to Qingdao for a reasonable time period.

When using Chinese statistical data, we must be aware of the debate that surrounds the reliability of the data (for example, see Holz, 2005), particularly at the sub-national level. At the national level, we have already made reference to large discrepancies in recent years in the FDI volumes reported by UNCTAD and by Chinese official statistics (see footnote seven above), and reports by international banks and Chinese NGOs occasionally paint a picture of large sections of China's true wealth being hidden from official statistics, China's so called "grey economy", raising doubts about what else is missing from official statistics (*Financial*

[11] The websites for the Shandong Statistical Bureau and the Qingdao Statistical Bureau are, respectively: http://www.stats-sd.gov.cn and http://www.stats-qd.gov.cn [30th Nov 2011]. The pages are in Mandarin Chinese.

Times, 2010; IHS Global Insight, 2010; *The Guardian*, 2010). Despite these limitations, China-focused economists at the World Bank that continuously scrutinise Chinese official statistics argue that, at the national level at least, the data is fairly sounds and can be used to make reliable analyses and to draw reasonable conclusions (World Bank, 2010).

The bulk of the statistical data analysed in this dissertation comes from the Qingdao statistical authorities; there are several caveats that we should mention about the data. First, a detailed examination of the data presented across several tables occasionally presented the researcher with curious anomalies; whilst most of the time a rigorous analysis, a calculator and a good deal of patience can get to the bottom of the anomalies,[12] it is always worth bearing in mind that the reliability of the analysis is heavily dependent on the quality of the data upon which it is based.

Second, the QDTJNJ books – particularly the earlier editions – are not so fixed in their category breakdowns as are the national-level statistical books meaning that it was sometimes quite challenging to create time series data. To overcome such limitations, it was occasionally necessary to make assumptions about possible similarities of category, assumptions which are clearly highlighted during the following analysis where necessary.

Third, we must bear in mind that the categories used across the tables of data within the yearbooks do not necessarily reflect our understanding of that category label. For example, one nation may classify the export of computers built by simply assembling imported semiconductors and various others parts as 'high-tech exports', where as another nations' definitions might exclude this and instead just classify it under 'processing trade'. These limitations serve to remind us that in order to make the most use of the Qingdao city data and in order to draw safe, reliable conclusions, we must remain cautious and attentive to detail at every stage of our analysis.

Alongside the data gathered from the statistical authorities in Shandong and Qingdao, additional data was gathered via accessing online statistical sources such as those made available by the UNCTAD and the World Bank.[13] Finally, Chinese articles from a variety of sources – for example, internal government magazines – that reported statistical data were sought out. The combination of these quantitative data sources made for a rich set of data, dominated by the data gathered by Qingdao's own statistical authorities, which could allow the researcher to develop a clear picture of the inflow of FDI to Qingdao for over a decade and a half.

[12] Examples include discovering a careless "line slip" in the data presented across several tables of one edition of the QDTJNJ that resulted in pages of useless graphical data, or difference in category inclusions not expressed in earlier QDTJNJ editions that resulted in there seeming to be more workers employed just in foreign enterprises than employed in total in certain districts.

[13] The websites for the statistical data available via UNCTAD and the World Bank are, respectively: http://www.unctad.org/Templates/Page.asp?intItemID=1584&lang=1 and http://data.worldbank.org/ [30th Nov 2011].

Qualitative Data

Alongside the quantitative data, an equally important element of the analysis in this dissertation was based upon the information acquired via qualitative research techniques. The qualitative data supplements the statistics with both personnel experiences of FIE employees, and with a flavour of the views and attitudes of a wide range of relevant actors. The qualitative data consists of two main elements: the data gathered via interviews with and questionnaires distributed to willing participants; and information from monitoring and analysing written sources, such as those published by the media and by the authorities in Qingdao.

Interviews and Questionnaires

The interviews were a key strand of data as they allowed for a more personnel understanding and appreciation of the impact of FDI on workers' everyday lives, an understanding that is sometimes lacking when one relies solely on statistical data. Alongside the usual issues surrounding conducting fieldwork in China,[14] interviewing in China can sometimes be a delicate process, especially when exploring such sensitive areas such as workers' experiences and rights, as scholars such as Ching Kwan Lee (2007: 265) have discovered. Two main issues had to be tackled and overcome when collecting the interview data: the unwillingness of some participants to be interviewed face-to-face; and unavoidable sample bias.

Semi-structured interviews (SSIs) were the preferred method of interacting with participants because the technique has many advantages, such as: allowing us to use an interviewee's *own language* to illuminate their points of view; being a setting where we can get the interviewee's 'gut response'; and being a setting that offers the chance to follow up answers with probing questions (Legard, Keegan and Ward, 2003: 138-153; Bryman, 2004 [2001]: 320-324).[15] However, when initially recruiting FIE employees for interviews, a strong preference was expressed by many potential participants that the interviews were not conducted face-to-face, but rather the questions were sent to them and any follow up questions required could be answered via email, MSN Messenger or QQ (a Chinese equivalent to MSN Messenger) if necessary. Despite continuous efforts made throughout the initial phases of the fieldwork, participant reluctance[16] from FIE employees was such

[14] See the comprehensive collection of essays addressing a wide range of common fieldwork issues in China, collected together in Heimer and Thøgersen (2006).

[15] There is some debate about nature of information 'generated' in SSIs, concerning whether the information is *created* in the interview or is simply *transmitted to the interviewer*, with implications for the external validity and the stability of the data. See, for example, Legard, Keegan and Ward (2003: 140). However, SSIs are an accepted and popular technique for gathering qualitative data.

[16] Two examples of this reluctance were as follows. First, a respondent who was willing to talk about her time in a previous South Korean FIE, but her long hours at her new employer meant she was unwilling to travel for a meeting. It was suggested that the interview was instead conducted near her new employer, but she was extremely reluctant as she did not want to be seen speaking to a foreigner near her work place as she believed

that it was decided to design a Chinese language questionnaire based on the topic guide formulated for the proposed SSIs with FIE employees, which was then distributed to FIE employee participants (see **appendix**). It can be argued that this form of self-completion questionnaire is more of a quantitative research method (Bryman, 2004 [2001]: 133-140), but the nature of the questionnaire is such that it was designed to elicit free-text responses from the participants (as can be seen in the **appendix**), more in line with the qualitative data that was generated in the SSIs that were conducted. Questionnaires have benefits of their own as a research technique: they allow the direct comparison of responses across specific questions; they guarantee the same topics are asked of all respondents (as should topic guides in SSIs); and they provide respondents more time to think of examples and fully explain them in their own time. For continuity, the FIE employees that did consent to face-to-face interviews were also asked to fill in the questionnaire, hence the qualitative data from the worker interviews is referred to by 'respondent' numbers rather than interview numbers, even if an interview was conducted in addition to the questionnaire.

The FIE employee sample will be discussed in depth in Chapter Five, but briefly the FIE respondents, fourteen in total, were either current or ex-employees from four nationalities of firm: Danish (2), USA (1), South Korean (4) and Japanese (7). One of the respondents had worked in two separate Japanese FIEs and completed two questionnaires in detail about his experiences in each firm, making fifteen questionnaires to be analysed in total. The FIEs operated in a range of different industries including: logistics; hotels and catering; IT; and textile product manufacturing. Three of the respondents were interviewed face-to-face, one of which did not complete the questionnaire afterwards. The size of enterprises in which the respondents were employed or used to be employed ranged from five employees to two thousand employees, and the roles and responsibilities varied from junior sales roles, domestic purchasing roles, export sales responsibilities to heads of department and secretary to general manager of the FIE. Six of the respondents were female and eight were male.

Along with the interviews conducted with and questionnaires distributed to FIE employees, interviews were also conducted with other relevant actors, including:

- representatives from global organisations dealing with labour standards such as the International Labour Organisation (ILO), the ETI (Ethical Trading Initiative), and freelance certification auditors;
- individuals that have interacted with the Chinese authorities concerning labour relations, for example mediators and scholars that have been invited to China by various elements of the government apparatus to advise on industrial relations;
- and businessmen that had either established small-scale enterprises in China or that had dealt with FIEs that needed to hire Chinese staff.

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questions would be asked at work. A second case concerned an ex-FIE worker that was now employed by the government who said that the nature of his role meant that is was not really sensible to meet face-to-face.

The interviews with these non-FIE employees had less rigid topic guides; prior to each interview, a list of seven or eight key areas that needed to be discussed were decided upon, which would then form the basis of the interview.

The main language of communication in all of the interviews was English, but sometimes Chinese was used for added clarification.[17] All bar one of the interviews were one-to-one; the remaining interview was conducted with a mutual friend present. In the initial round of interviews, participants were asked permission for the interview to be recorded, which they generally either refused or tentatively agreed but then when the interview began seemed reluctant and gave the impression of being more on edge. For this reason, a decision was made to not record any of the interviews but to instead take detailed shorthand notes during the interviews, which were then written up immediately afterwards. **Table B** shows a basic summary of the number of interviewees and respondents:

Table B: Summary of Interviewee and Respondent Numbers

Description	*Quantity*	*Notes*
'Consultative' roles	4	E.g. ILO, ETI.
Lawyers	3	One International Law Firm.
Academic contacts	3	-
Business contacts	6	-
FIE Respondents	14	3 Interviewed face-to-face; 1 completed 2 questionnaires – once for each FIE role

[17] If a researcher does not have a grasp of the relevant foreign language, conducting qualitative research across a language barrier relying on interpreters can present difficulties, see for example: Temple (1997; 2002), Jentsch (1998), Temple and Edwards (2002), Marschan-Piekkari and Reis (2004). Although I have an intermediate grasp of the Chinese language, conducting an interview in Chinese would have most likely required the services of an interpreter to guarantee that no information was overlooked. There are many considerations that one must make when using an interpreter. For example, does one decide to use someone who is detached from the research but who excels at translating? Or perhaps someone more familiar with the research topic but not so skilled at interpreting? If you decide to use someone familiar with the research topic, will they explore their own angles in the interview rather than the nuances that you are interested in? One could collaborate with local researchers – if there are any investigating the same area – and have them conduct interviews on your behalf, agreeing to share data in the analysis phase. Cost and time factors also must be considered – professional interpreters are costly, and having to translate during the interview could double the length of time required of your participants. Luckily, all the interviewees had a competent command of English, and my Chinese language level was such that it was possible to clarify any particular answers if needed.

Sampling Issues

Practical limitations encountered during the collection of the qualitative data mean that there were some unavoidable sampling biases introduced. There were two main areas where this was the case: with the sample of FIE employees; and with the lawyers interviewed. These two limitations are explored below.

There is a narrower range of FIE employees than was initially desired: there are no factory-floor workers represented in the data. It would have been beneficial to have been able to include staff employed in factory-floor roles within labour-intensive enterprises, but careful consideration of certain practical and potential ethical implications of approaching such workers led to a balance of interviews that is bias towards higher levels of staff (from lower level managerial staff upwards). These implications arise from potential methods of recruiting such staff to participate in research. One method would be to approach the workers near or just outside their place of work. There are several complications that made this approach both impractical and potentially ethically unsound for use in our research. First, there is the difficulty stemming from this author's nationality – being non-Chinese, standing outside the places of work was a not a subtle way to approach workers as it was impossible to keep a low profile and blend in. The inability to blend in by default serves to highlight the researcher's presence, which then can attract unwanted attention (either from enterprise security personnel, or from Qingdao's authority structures such as the police and the government). Given the nature of the research subject – work place relations and experiences – and the fact that the research was not being conducted in conjunction with any local academic institutions, drawing attention to the research was not a sensible strategy. Second, even if one manages to maintain a reasonably low profile and subtly approach a selection of workers, gaining their trust and consent to participation, there are serious ethical considerations. The interaction with a foreign researcher may be noticed by fellow enterprise staff[18] and reported to authority figures within the enterprise, which may then lead to unfortunate repercussions for the worker – either physical or in terms of threatening potential promotion opportunities due to a perceived breach of trust. Ethical codes of conduct in the social sciences field clearly stress that one of the most paramount ethical considerations is that one must avoid bringing *any* harm to participants.[19] Consulting scholars with much experience in accessing and interviewing factory-floor workers (such as Anita Chan) in order to tackle some of these approach issues, it was acknowledged that to get oneself in to a position to gain this sort of information takes many years of painstakingly slow work, building up two-way trust with a selection of domestic, local actors (such as NGOs), and eventually establishing a network that can filter information and interviews back

[18] For example, if the worker is approached on leaving the enterprise premises, there is a real chance of the interaction being observed, or if contact is made in a local area where workers congregate, fellow employees will likely notice.

[19] For example, see the British Sociological Association code – http://www.britsoc.co.uk/equality/Statement+Ethical+Practice.htm – or the Social Research Association code – http://www.the-sra.org.uk/documents/pdfs/ethics03.pdf [30th Nov 2011].

to the researcher. For the purposes of this dissertation it was accepted that this approach is impractical and that, consequentially, a bias in the range of FIE employee participants had to be accepted.

Another limitation with the FIE employee sample relates to the sampling method used to recruit the participants. When the population for potential research is relatively large, it is impractical to take a random sample from the whole population; it was impractical to take a random sample of all FIE employees in Qingdao so it was decided that the most practical approach would be to use snowball sampling. A selection of trusted Chinese friends were asked to contact friends, colleagues and family members who were either current or recent employees of an FIE, and to then ask if they were willing to have a brief discussion on the topic of experiences in an FIE; care was taken to avoid using terms such as 'worker welfare' or 'labour disputes' as these terms could have affected people's reactions. As will be reported in more detail in Chapter Five, this approach led to a sample of interviewees across a wide range of nationality of foreign investors and an interesting selection of jobs.[20] Such a sample generation method does mean that there is limited external validity of the sample in terms of generalising across the population of FIE employees (Bryman, 2004 [2001]: 29), but the results do give us an idea of the *range* of attitudes expressed amongst FIE employees even if they are unable to give us indications of the levels of prevalence of such attitudes in the wider population.

As well as the selection bias introduced to the FIE employee sample, there were issues to consider when approaching lawyers for interviews. Lawyers based at international law firms were approached first because it was reasoned that it was sensible to test the water with this potential group of lawyer interviewees before moving on to domestic Chinese lawyers. Although there are many international law firms in operation in China, none have a major presence or a speciality focusing on Qingdao. As such, it was decided to approach three international law firms that are known to be active researchers of the legal situation concerning human resource management in China and that had offices in locations outside of solely Beijing and Shanghai. The geographic element was introduced because it was felt that law firms based solely in Beijing and Shanghai may potentially be less well informed about situations outside of these two locations than law firms that have an active presence all across China. Three law firms clearly stood out using these criteria, and the offices closest to Qingdao were contacted (via telephone and email) with general enquiries first until it was possible to establish a named contact that could be approached. In the end, it was only possible to interview a lawyer from one of these international law firms. For lawyers from Chinese law firms, first a rapport with built with lawyers from a selection of law firms (based

[20] We may expect that snowball sampling would imply that the 'level' of worker interviewed was likely to remain within a particular layer; interviewees passing on the information of further willing participants are going to be limited to their own networks of relationships, which may potentially be limited to those within the same level of work as their own (i.e. a mid-level management figure being more likely to be friends with another mid-level management worker rather than the CEO or a factory-floor worker). In the sample generated for my research, this did not seem to be the case.

both in Qingdao and Shandong) that were frequently represented at business forums arranged by elements of the foreign-invested community in Qingdao. Once it was assured that they trusted me, two specific lawyers (from two different law firms) were approached for interviews, both of whom agreed.

The bias introduced in the recruitment of both FIE employees and lawyers to participate in our research were accepted as practical limitations. Although they do have implications for our interpretation of results in terms of the external validity of our sample, the limitations do not affect the quality of the qualitative data collected.

Analysis of Data[21]

Analysis of the free-text answers from the questionnaires and the FIE employee interviews was based on the 'Framework' methodology, as developed by the National Centre for Social Research (Bond, 2011: 8). This method involves familiarisation with all the qualitative data – normally transcribed interview data – and the identification of emerging themes. The themes are then developed in to a thematic matrix in to which all the data from the respondents is then placed. The benefit of the approach is that it allows for clear and insightful analysis of a wide range of data to ensure that the full range of views and experiences are noted, and it allows for patterns and comparisons to be drawn between groups of respondents, if present.

As the questionnaires were completed in Chinese Mandarin, clarification of answers was sometimes required, in which case either further explanation was sought from the respondent or the researcher would turn to close, trusted Chinese friends for explanations of particular turns of phrase whilst being sure to safeguard the anonymity respondents in line with ethical and legal responsibilities.

Written Sources

All well as the sources of qualitative data detailed above, additional information was gathered by searching local newspapers, government articles in the public domain, internal government articles and communications (where accessible), and blogs. Local newspaper articles and government articles in the public domain were accessed online and via local library archives; internal government documents were acquired from a variety of sources, such as certain interviewees sharing information from departmental internal magazines. In line with ethical requirements of social science research, extra care has been taken with these later sources to ensure that information used will not compromise the anonymity of the interviewees.

[21] The data from the interviews and questionnaires has been stored digitally with all identifying information and contact data removed and stored separately in order to protect the identity of participants.

Dual Methods Approach

In summary, the dual methods approach offers us many advantages. The use of both quantitative and qualitative sources of data allows for a more comprehensive, holistic, and potentially more vivid, analysis of the experiences of FIE employees in Qingdao. Such a picture may be half obscured if one were to rely solely on statistical data or on qualitative interviews.

1.3 Thesis Structure

The remainder of the dissertation is divided up in to five chapters. Chapter Two will review the relevant theory and literature that has informed and guided this dissertation. The chapter uses the literature to shape the research questions asked, which are detailed at the end of the chapter. Chapter Three presents a brief introduction to Shandong province, highlighting the inflows of FDI to the province overall, and further justifying our focus on the city of Qingdao. Chapter Four presents the bulk of the statistical data, and analyses the data in order to draw conclusions about the experiences of FIE employees at the more macro-level. Chapter Five presents the micro-level approach, using personal accounts and other qualitative sources to paint a more detailed picture of the range of experiences that FIE employees may face. Finally, Chapter Six returns to the research questions and addresses them alongside the conclusions drawn in Chapters Four and Five.

Chapter Two: Review of Theory and Literature

The purpose of this dissertation is to examine and report on the experiences of the workers in FIEs in a specific area in Shandong province, namely the city of Qingdao. Within this chapter we shall first introduce the two main areas of literature that we aim to contribute towards, before then exploring the relevant theories and literature broken down in to four sections, as will be defined. The fifth and final section of this chapter will draw out the key themes from the previous sections in order to inform and frame our research questions.

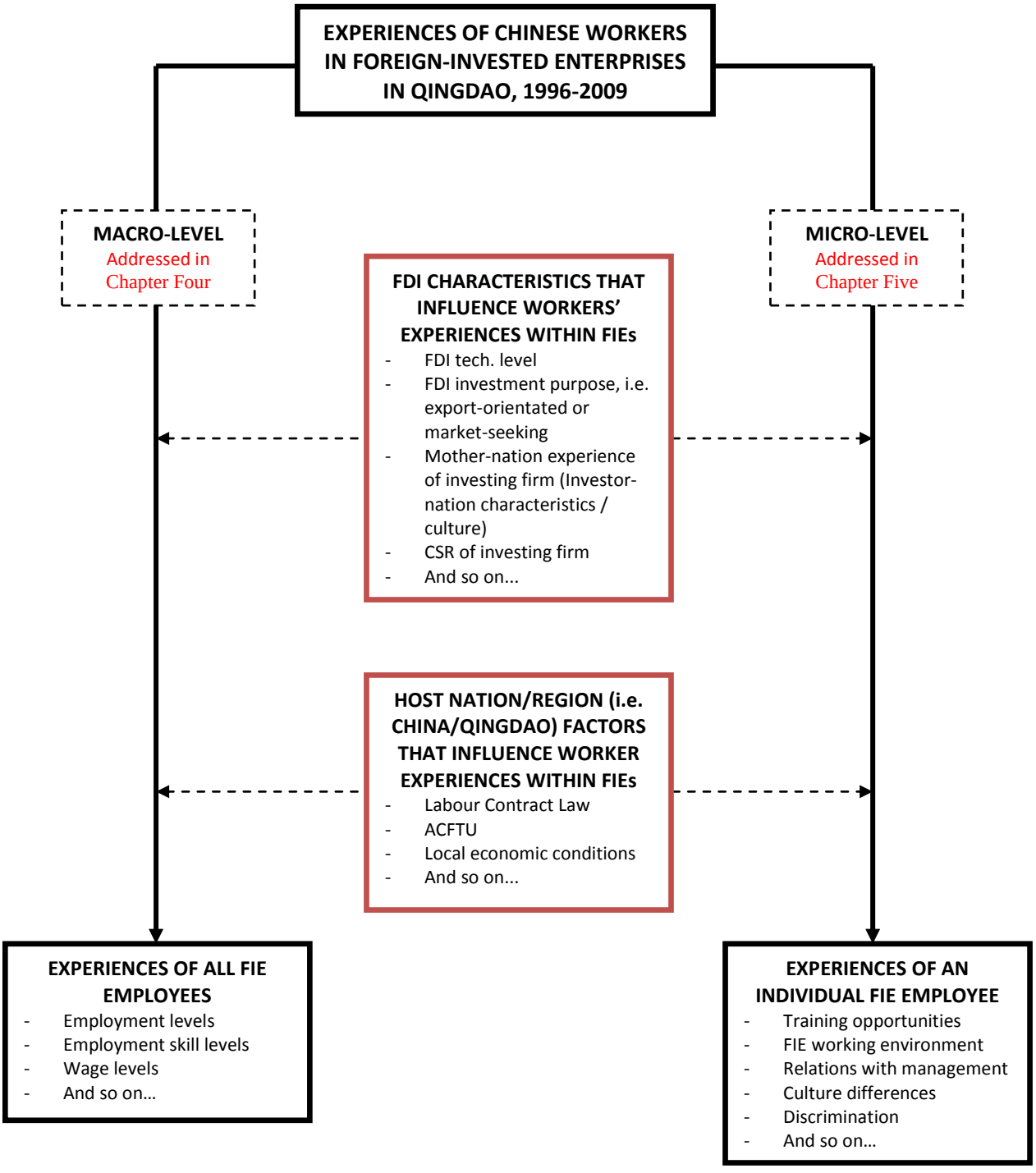
This dissertation builds upon work being done in two main bodies of literature. In simplest terms, the first block of literature that informs this dissertation and to which this dissertation will add to is that of the International Business (IB) literature focused on FDI. Scholars contributing to this field tend to focus more on the business aspects of FDI: its impact on a host economy in terms of economic development; the driving factors behind a multi-national corporation (MNC) engaging in FDI; and the potential impact and interactions of FDI with a host economy. Such research is normally conducted at a more aggregate, macro-level (as we shall see in the literature review), relying on quantitative analysis of rich, detailed data sources.

The second body of literature that informs this dissertation and to which we aim to contribute towards can actually be better defined as the crossover area of Globalisation literature – such as the work done by Theodore Moran and Mary Gallagher – and the Labour Studies literature – such as the work by Anita Chan and Ching Kwan Lee. These fields of work tend to be more reflective of the individual worker experiences relating to MNCs investing in developing economies, focusing on the impact that FDI can have on a micro-level, using qualitative techniques such as media discourse analysis and anecdotal evidence. For the purpose of this dissertation, as described in the methodology, we are going to bridge the divide between these two approaches and use a mixture of qualitative analysis and individual accounts in conjunction with quantitative analysis of the most detailed statistical data that we can acquire in order to form a holistic picture describing the experiences of the Chinese workers within FIEs in a specific, and increasingly important city in China.

Figure B depicts the framework behind the review of theory and literature that this dissertation will build upon; it is predominantly informed by the combination of the above described bodies of academic research. We shall proceed with this literature review by detailing the significant and current research relating to each one of the four boxes identified in the figure, namely: FDI characteristics; host nation factors; experiences of all FIE employees; and experiences of individual employees. To ensure a broad coverage of the literature we shall be using a combination of the literature that addresses developing nation economies overall as well as the China-specific literature. Specifically regarding Qingdao, there is almost no literature that investigates FDI in Qingdao. The author is aware of two

papers that have some relevance: one explores the effect of FIE presence in the development of the local electronics industry (Kim and Zhang, 2008); the other makes a very small-scale investigation as to influences on labour dispute levels with FIEs, where Qingdao was one of five (wide-spread) research locations (Choi, 2008). The relevant results from each paper will be discussed at the appropriate time.

Figure B: Research Framework



2.1 FDI Characteristics Affecting Worker Experiences

To address how FDI characteristics can influence the experiences of FIE employees, it is first necessary to briefly review some basic FDI theory, for which we will draw strongly on IB literature. In simplistic terms, there are many reasons why a nation may strive to attract FDI. One of the key advantages often cited in the literature concerning the impact of FDI is that it enables developing nations to 'leap-frog' and rapidly catch up with technical skills and technological levels thus far achieved by developed nations. It is often argued that FDI can be the source of both hard technology (automated assembly line technology, for example) and also so-called soft skills, such as accounting skills, management techniques and so on. Furthermore, it has the potential to offer the host nations' domestic enterprises access to international markets and to stimulate domestic industries via competition (Sun, 1999: 100; Wu, 1999a: 57; Yusuf and Nabeshima, 2006: 66; Giroud, 2007: 159; Tuan and Ng, 2007: 325; Dunning and Lundan, 2008: 340-381, 444-450).[22] In the literature, much attention is also given to the potential effect that FDI may have on the productivity of host nation enterprises (both competitor and non-competitor enterprises) outside of the specific enterprise that receives the injection of foreign capital or technology; these are generally referred to as 'spillover' effects.[23]

As this dissertation is focused on the experiences of workers within FIEs, we shall not explore in detail the literature relating to the effects of FDI upon non-FIE firms. It is also not within the remit of this dissertation to explore *why* firms are engaging in FDI in Qingdao – as stated, we are concerned with the experiences of Chinese workers within the FIEs – however it is important that we briefly cover some of the key MNC incentives to engage in FDI as it will help elucidate motivating factors, such as seeking out a low-cost labour force, that will then assist us in framing our research questions.

Academic interpretation and categorisation of MNCs' FDI motivations vary, making it important to clearly define meanings before using certain terminology in research. For example, Jack Hou and Kevin Zhang (2002: 194) describe five types of driving behaviour including "export-orientated FDI" and "technology-seeking FDI", whereas a recent publication by John Dunning and Sariannna Lundan lists neither of those as separate categories but instead define four, more broad labels: natural resource-seeking FDI; market-

[22] Whilst not specifically IB literature, FDI as a source of soft skills has echoes in the work of Paul Romer, where his discusses the "idea gaps" that must be addressed in poorer nations (as well as the "object gaps") in order that they may develop (Romer, 1993).

[23] This term has been widely used across the IB literature and has unfortunately acquired some confusion, meaning extra care must be taken if one wishes to use the term. Some scholars interpret the term as being a broad term focused on influences of FIE presence on productivity of host nation enterprises, placing 'linkages' (linkages being direct relationships such as FIE-supplier links that can help supplier firms increase productivity) under the more broad spillover category (for example, Buckley, Clegg and Wang, 2002: 638-9; Buckley, Clegg, Zheng, Siler and Girogioni, 2007: 713-5). Others use the term spillover as one form of indirect interaction between the FIE and host nation enterprises, distinct from linkages (for example, Dunning and Lundan, 2008: 552).

seeking FDI; efficiency-seeking FDI; and strategic asset-seeking FDI (2008: 67). Even when the same category is shared by scholars, the definition need not be the same; Hou and Zhang (2002: 194) label investments where the purpose is to acquire new skills to increase an operation's efficiency, for example by investing in an area with advanced management techniques and recruiting local managers, as efficiency-seeking FDI, which is quite different to Dunning and Lundan's interpretation (2008: 72). For the purposes of this dissertation, we shall focus upon and define three broad categories of investment motivation that we may expect to see in Qingdao: natural resource-seeking FDI; market-seeking FDI; and efficiency-seeking FDI.

Natural resource-seeking FDI will be understood as referring to those investments made mostly by primary producers and manufacturers that are seeking supply security for their specific inputs, for example of metals or minerals. Shandong province is a resource rich province – as we shall see in Chapter Three – and so we may expect some natural resource-seeking FDI elements to be present in Qingdao.

The term market-seeking FDI shall be used to describe FDI that essentially creates replica production facilities (usually in several host nations) so that the MNC may serve existing or new markets from a closer proximity, thus achieve more economic distribution (Hou and Zhang, 2002: 194; Dunning and Lundan, 2008: 69). There is a particularly strong incentive to engage in market-seeking FDI if the cost of servicing new or existing markets from existing production facilities and distribution networks is (or becomes more) expensive owing to market protection mechanisms such as import tariffs or non-tariff barriers (for instance, import quotas). It may be that a firm engaging in market-seeking FDI is not targeting the host nation's economy, but rather it may be a supplier MNC aiming to establish production facilities closer to some of its customer firms, and possibly to better target potential customer MNCs that may already be present alongside their existing customer (Dunning and Lundan, 2008: 70).

Efficiency-seeking FDI is usually engaged in by MNCs that break up their production process geographically, using location advantages of different regions to divide up the process (Hou and Zhang, 2002: 194; Zhang, 2002: 169). Efficiency-seeking investments are motivated by the need for the MNC to increase its global competitiveness in targeting existing markets, thus will be seeking location advantages such as low-cost labour and good infrastructure to facilitate exports (to the existing markets). There is a tendency for efficiency-seeking investments that are mainly taking advantage of low-cost resources (such as labour, land, utilities and so on) to rely on their existing supply chains, thereby creating minimal interaction with the host economy's supply chain (if a relevant one exists). Furthermore, this lack of integration to the host economy means that the enterprise is not such a 'tied in' investment as, say, a market-seeking operation and therefore presents potential issues of job security and investment permanence if economic hardship hits the region – an issue that we shall explore in this dissertation.

Alongside the characteristic of FDI motivation that can affect the experiences of workers within FIEs, we must consider the labour- or capital-intensity of the investments. Efficiency-seeking investments that are taking advantage of a regions low-cost labour force may cover a wide range of investment-intensities, with some operations being very labour-intensive in nature (such as textiles) and some being relatively capital-intensive (such as more skilled production line assembly work relating to electronic products). It could be argued that a labour-intensive operation will offer less training and development opportunities to employees than a more capital-intensive operation that requires skilled, trained staff. The characteristic of labour- or capital-intensity of investments has crossover with the idea of investment motivation: efficiency-seeking FDI is *more likely* to be labour-intensive in nature, whereas market-seeking investments are *likely* to invest more time and money in developing a local operation. For the purposes of this dissertation, it is more practical to use statistical data to analyse the level of capital-intensity of investments in Qingdao and from this, draw conclusions about the implications of such capital-intensity for the experiences of the workers within the FIEs.

When considering FDI characteristics that can affect employees' experiences within an FIE, evidence suggests that we must also consider the nature of the investment vehicle and the impact that this can have on technology and skills transfers within an FIE, which can subsequently affect the training and development of employees. FIEs in China can generally be thought of as fitting in to two main categories of investment vehicle: joint ventures (whether co-operative or equity joint ventures, CJVs and EJVs respectively); or wholly foreign-owned investments (WFOEs). From a theoretical perspective, alongside the potential transfer of hard technology *within* a JV or WFOE, there is the potential for the transfer of soft skills and knowledge *within* the enterprise, which we can think of as being either technical soft skills (for example, training in the use of high-tech, skilled machinery) or non-technical soft skills (for example, management techniques or accounting skills).[24] Theoretically, within a WFOE there is the positive factor that the foreign investor will not be struggling against an established corporate culture and working environment norms that, say, a JV with a State-owned enterprise (SOE) partner may entail. However, one could counter this by theorising that the level of managerial dominance in the higher echelons of a WFOE, potentially still strongly wired in to its parent MNC's marketing and sales networks, will be initially dominated by non-natives, thus limiting the opportunities for the transfer of

[24] Clearly it is much more difficult to quantify and assess the transfer of soft skills than of hard technology within an FIE, one issue being that of perceptions. For example, the idea of what constitutes modern business practices is subjective: a person's expectation of what is an efficient working environment will vary according to their personal experience. Tang and Ward highlight that the Taiwanese business culture shares certain similarities to the Chinese in terms of their business preference for using *guanxi* (关系) and the reduced level of significance placed on the legally binding nature of contracts (2003: 207), meaning that an FIE employee may find operating in a Taiwanese FIE more familiar than in an FIE that uses a more Anglo-American style of business. (A note on the word *guanxi*: this well-known term, loosely translates as 'relationship' or 'connection'. If someone has good *guanxi* it implies that they have good business or social 'connections' and will have more success because of their relationships, perhaps instead of relying on skills alone; the Western equivalent idea being "it's not what you know, but who you know".)

higher level management skills such as market strategising and so forth. Within the JV environment, where two business cultures meet head on, there *could* be greater potentials for cross-culture skills assimilation and knowledge transfer, or it *could* be an 'unhappy marriage', an environment not conducive to knowledge sharing.

Providing us with some insight as to the levels of technology transfers, skills transfers and training that occurs within JVs, significant work conducted in the early 1990s by John Child reported that foreign JV partners not only installed their latest technologies but also committed resources to the training of local staff (1994: 250, 265-5). However, Child then went on to say that regarding the potential to transfer technology, share information and assimilate knowledge within a JV, amongst the considerable variation of JV partner relationships, there was only one scenario of the four general scenarios that he identified in which it could be said that knowledge and technology was shared optimally, and this was the hardest to achieve of the four possible scenarios (1994: 277-9). Slightly later research by Tang and Ward details examples of foreign and domestic partners withholding strategic information from each other so that they are much better able to maximise their own chances of success when they acquire enough skills or knowledge to abandon the awkward JV "charade" (2003: 196). There is certainly no shortage of examples of foreign investors coming in to conflict with their JV partners, a high-profile, long-running example being the recent experience of Danone with their Chinese JV partner Wahaha (BBC, 2007; China Law Blog, 2008; China Daily, 2009), although we must acknowledge that these high profile cases may not be the norm.[25] More recent work by Buckley, Clegg and Wang (2007: 154) paints a more optimistic picture of co-operation, reporting that the JV appears to be an effective way to transfer modern business practices to China, especially in the high-tech sector.[26]

[25] Another recent example that highlights the fear of contract or IP violations not only by JV partners by also by Chinese customer firms is found in a recent article in the *Wall Street Journal*. It reports one of the possible reasons behind the July 2011 crash of two high speed bullet trains outside Wuhan in China – that left 40 dead – could in part be down to the lack of integration of foreign technology into the Chinese safety signals system. In brief, the article explains that Hitachi (of Japan) manufactured a high-tech, tailor-made specialist part for one of the Chinese firms constructing the railway system, but in order to prevent reverse engineering Hitachi provided the part as a "black box" design, with all the inner workings masked. Although this prevents the copying of the technology, it also prevents the Chinese firm from fully understanding how the equipment works and thus presents problems when being integrated in to their (Chinese) signalling systems (*Wall Street Journal*, 2011). Also, Tim Clissold authored an interesting book entitled *Mr.China* that describes numerous cases, perhaps extreme examples, of foreign and Chinese partners encountering difficulties with each other throughout the mid- to late-1990s (Clissold, 2002).

[26] A host nation can of course attempt to force the transfer of technology and skills to domestics enterprise, for example by enforcing domestic content requirements in the FIE exports as a method to force the FIE to improve the domestic supply industry, or by insisting that the JV is the only investment vehicle allowed in a certain sector or industry and that technology must be transferred. Moran (2002: 113-6) argues that these types of policies (domestic content requirements and joint-venture mandates) are counter-productive and result in detrimental effects on host-country development prospects, at least for the computer and automobile industries. Moran stresses that particularly for China, fear of the JV partner acquiring the MNCs technology and then 'going it alone' has led to car firms such as Chrysler using technology that is a decade old rather than constructing an up-to-date JV FIE plant for fear of industrial espionage (2002: 114).

From a slightly different perspective, research by scholars such as Child and Yan (2001) and Walsh and Zhu (2007) investigate what type of business and management styles MNCs employ in their JVs in China. This is relevant to our discussion because the skills and management techniques employed within an enterprise provide a key opportunity for Chinese staff to experience and learn potentially new approaches. Child and Yan (2001) conducted over two hundred interviews in the mid-1990s with management staff in sixty-seven manufacturing JVs in China, from a range of nationality of investors. They were examining whether it could be said that there were a range of "business and management cultures" in the JVs that correspond to the MNC's parent nation or whether there was a convergence of corporate strategies and practices in the JVs (the 'national' versus 'transnational' effects respectively); they found that practices were similar across all the JVs except those of Hong Kong origin. By contrast, Walsh and Zhu (2007) found more mixed evidence when researching as to whether or not the human resource management (HRM) techniques in a small sample of JVs in Beijing and Shanghai could be seen to vary in line with nationality of parent MNC.

Alongside the specific evidence examining the skills and technology transfer within JVs in China, there is a smaller body of literature that examines the range of technology and skills transferred more generally *within* FIEs in China, which shows similarly mixed results. For example, focusing on Guangdong in Southern China, Lan reports that two-thirds of all manufacturing firms in existence at the end of 1995 had allegedly improved their production capabilities with new technology and skills brought in by foreign investors (1999: 212). This contrasts to Luo, who reports that at a similar time in other regions of China there is evidence of limited importing of technology to the FIEs themselves – sometimes second hand machines of limited technological level are imported rather than the latest technology – and there is limited evidence for the transfer of technology (accidental or otherwise) to local enterprise (1999: 205). More recently, Choi (2008) conducted a very simple analysis of the influences behind levels of labour disputes in Hong Kong, South Korean, Japanese and Taiwanese FIEs in five cities across China – one of which was Qingdao. The results of Choi's research show, amongst other things, that there is a range of management styles across the different nationalities of FIEs (Choi, 2008: 1954),[27] from which we can infer that there are a range of operational environments, some of which will be more conducive to skills and knowledge transfer than others.

The literature reviewed above that either directly or indirectly examines the degree of technology and skills transfers within FIEs in China highlights that there is no clear answer as

[27] It is not within the remit of our research to analyse the different approaches to management techniques across FIEs. However, it is interesting to note that Choi's (2008) results, which seem to show variety in management techniques across FIEs of different nationalities, contrasts to that of Child and Yan (2001) and Walsh and Zhu (2007), which show less variety in management techniques. This could be for a number of reasons, including: the later studies are solely JV-focused; the time period of research is different; and the method of measuring "management techniques" are very different and so there are measurement validity issues in a comparison.

to the degree of transfer we can expect within JVs or WFOEs at a general level in China. Data limitations arising from the methodological approach utilised for this dissertation means that a detailed analysis of the relationships within the FIEs in Qingdao – in order to gain greater insight as to the levels of technology and skills transfer – is impractical. However, we can utilise detailed statistical data that breaks down investment vehicle by certain nationalities of investor, which in combination with our examination of investor characteristics as revealed by capital-intensity and sector preferences may facilitate us drawing loose conclusions about the levels of technology and skills transfer within the JVs and WFOEs in Qingdao.

Along with the importance of the investment vehicle and any correlations in nationalities of investor, one final point to highlight from the above review is that the sector of preference should be identified, if possible. Buckley, Clegg and Wang (2007: 154) – cited above – report that the sector of investment is a relevant factor to note when examining potential for skills transfers. Theoretically, joining a management development programme of an international hotel chain, for example, will perhaps present a worker with more chances for development than if they were to work in a managerial programme (if such exists) in a labour-intensive, low-tech enterprise. Therefore, as far as possible within our research we will pay attention to the sector preferences amongst the various investment vehicles in order that we may best understand the environment for Chinese FIE employees in Qingdao.

Although the focus of our research is the experiences of employees within FIEs, a brief review of some of the literature that addresses the impact of FDI beyond the invested firm – the linkages and spillovers literature – provides us further justification for the importance of considering the nationality of investor, more specifically the characteristics this encapsulates, in our analysis. There is much literature directed towards searching for and assessing the strength of spillover and linkage effects: the evidence in mixed.[28] For China, while most scholars have tended to note that there does seem to be a positive correlation between FDI and spillover effects observed, there has been no consensus on how big the effect actually is and there has also been evidence reported highlighting negative spillover effects (Luo, 1999: 205; Lim, 2001: 4, 10; Demurger, Sachs, Woo, Bao and Chang, 2002: 447; Hu and Jefferson, 2002: 1075; Wei and Liu, 2006; Buckley, Clegg and Wang, 2007, 2007a; Tuan and Ng, 2007: 350). According to Buckley, Clegg and Wang (2007: 143), neglecting to account for the nation of origin of investment – more specifically the investment characteristics that this encompasses – has led to conflicting results in the spillover research focused upon the transfer of skills and technology to host economies. As they explain, although the origin nation of FDI is always given consideration within IB literature when theorising about the motivations behind the decisions of MNCs to engage in FDI, the literature that focuses on the effects of the FDI on a host economy does not seem to consider the investor nation to the same extent (Buckley, Clegg and Wang, 2007a: 448). In

[28] Dunning and Lundan provide a comprehensive and informative review of the 'FDI linkages' literature (2008: 559-578) and the 'FDI spillover' literature (2008: 361, 579-593).

relation to China, when the investor nation is discussed, it has been noted that up to the mid-1990s the transfer of skills and technology to China was not as high as it could have potentially been because China's main source of FDI has been Hong Kong and Taiwan, which were seeking efficiency savings on the cost of labour and which were predominantly transferring low-tech or standardised technology (Chen, Chang and Zhang, 1995, 700-2).

Coupled to the confusion in these results generated by a lack of focus on the investor nation characteristics, further lack of clarity in the results of research looking for spillover effect in China has arisen due to the lack of consideration given to the characteristics of the domestic firms in which the spillover effect is being sought, this is despite the prevailing view in IB research that more spillover should occur when technology gaps are smaller and should occur to a greater extent in hi-tech industries (Buckley *et al.*, 2007:145). For example, an SOE may have a superior technological capability due to having much softer budgetary constraints than a private firm, but it is unlikely to possess the same flexibility in terms of being able to make an agile and swift response to capitalise on a profit making opportunity, all of which will affect the absorptive capabilities of the enterprise (Buckley *at al.*, 2007, 147). The implications of this are that if one is looking for spillover in an industry that is predominantly SOE firms, the results of skills and technology transfer may well be different to those if the industry competitors were predominantly private enterprise.

Recent research has been able to take advantage of breakdowns within Chinese statistical data splitting investments coming from Hong Kong, Macau and Taiwan (HMT) versus those coming from elsewhere and use it in combination with data detailing the nature of ownership of target firms to explicate the extra detail that can be seen when all these factors are considered in the investigation of spillover effects (Buckley, Clegg and Wang, 2007, 2007a). The research highlights that the categorisation of investors available in the Chinese national statistics broadly delineate investors with differing *ownership*[29] advantages: HMT investors tend to have non-technological ownership advantages such as organisational or marketing skills that lend themselves well for succeeding in standardised goods production, and their investments tend to be smaller and more labour-intensive; non-HMT investors (referred to in the research as the "rest of world" category) tend to have more technological or knowledge-based ownership advantages that allow for the production of differentiated goods, utilising state-of-the-art technology resulting from significant research and development spend (Buckley, Clegg and Wang, 2007a: 449).

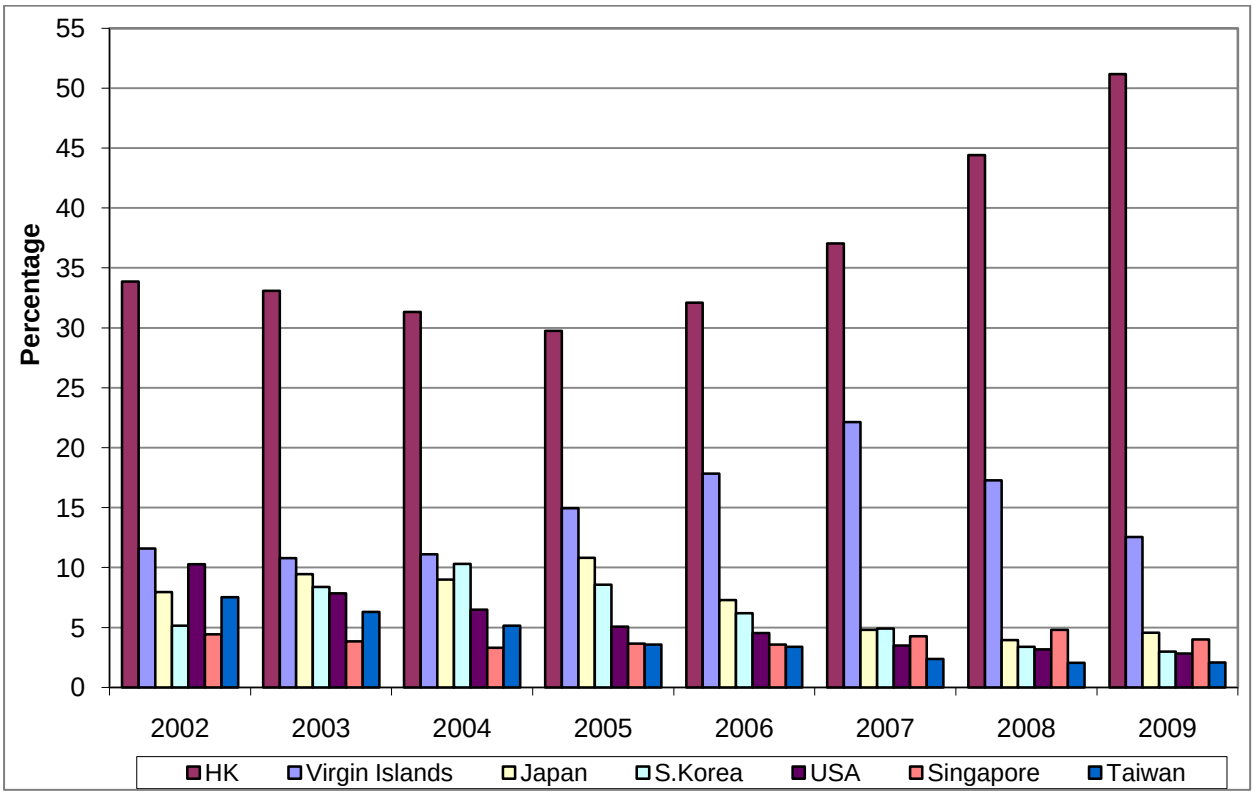
[29] Ownership advantages refer to John Dunning's *OLI paradigm*. Briefly speaking, the OLI paradigm states that for an MNC to be motivated to engage in FDI it must possess a specific *Ownership* advantage (for example, a unique piece of technology) and that it must be more beneficial for the MNC to *Internalise* this advantage and use it within the structure of the MNC as opposed to license or sell the technology. The *Location* aspect dictates that the eventual region chosen for investment is done so as it has some key advantageous input factor – for example, cheap resources (labour or materials), tax breaks and so on – that are unavailable within the existing nations that the MNC operates in. See Dunning (1979, 1980, 1988, 1998) for more details.

As stated, our research is focused upon the experiences of Chinese employees within FIEs and therefore we are not exploring spillover effects. However, what we must take from the literature reviewed above is that we should note the investor nations that comprise Qingdao's FIEs because it is clear that certain nations encapsulate certain characteristics of investment and can thus be used as a general proxy for those characteristics. Scholars that focus on globalisation and labour studies point out that from their perspective the effects of FDI are clearly influenced by factors relating to the investor nations' characteristics, such as business culture, and that in China certain nationalities of investor seem to concentrate in the more labour-intensive sectors, which in turn receive the most allegations concerning poor working conditions (Elliott and Freeman, 2003: 43, 135; Gallagher, 2005: 2, 122). An interview conducted in February 2011 with Chang-Hee Lee – the Senior Specialist on IR and Social Dialogue based in the International Labour Organisation's (ILO) Beijing office – confirmed that currently in China the employment relations within FIEs varies significantly, with Hong Kong, Taiwanese and South Korean investors operating much more authoritarian workplaces in general. He noted that "mother country" experience is very important in regards to the human resources management within the FIE, describing how one can see noticeable differences in the approach to employment relations by, for example, a car manufacturer from Germany versus a car manufacturer from South Korea. He did go on to stress that we must resist one of the pitfalls of research, which is that we must not generalise too much, giving an example of a large South Korean electronics MNC that has an approach to HRM much more similar to that of EU firms (Int-1, Conducted 2011).

For our research, the Qingdao FDI data will be deconstructed along the lines of individual investor nations where possible to facilitate a greater understanding of the characteristics of FIE that exist in Qingdao and hence add to our conclusions on the experiences of Chinese workers with Qingdao's FIEs; we will resist the temptation to generalise, but rather use the data to highlight the *range* of possible experiences that certain FDI characteristics can imply for the workers in Qingdao's FIEs.

As we have seen that the investor nations can potentially have implications for the experiences of FIE employees, we should briefly review the composition of nations that comprise China's FDI inflows overall – Shandong and Qingdao will be reviewed in more depth at a later stage. We have already seen from Chapter One how the inflows of FDI to China sit in relation to global flows. **Figure C** details the percentage contribution of certain nations and regions that contribute most to China's inward FDI, the seven listed nations and regions contributing an annual total of seventy-five to eighty percent of China's utilised FDI. As the figure is based on statistics from the *China Statistical Yearbooks* (ZGTJNJ), the utilised FDI values do not include the FDI flowing in to the financial sector – see Chapter One for more details.

Figure C: Percentage Contribution to China's Utilised FDI by Select Nations/Regions Responsible for 75-80% of Total Annual Inflows



Source: ZGTJNJ, 2004: T18-15; 2006: T18-16; 2007: T18-15; 2008: T17-15; 2010: T6-14

As we can see from **figure C**, Hong Kong has been the predominant source of the FDI that flows in to China in the eight year period from 2002 to 2009 inclusive. As we have noted from Chapter One using UNCTAD (2011) statistics, also confirmed by Chinese statistics (ZGTJNJ, 2010: T6-13), the utilised FDI recorded for China in 2009 showed a slight decline on 2008 values; the increase in Hong Kong's share of utilised FDI indicated in **figure C** is not simply a result of a relative increase in percentage as overall levels decline. As a source of capital, Hong Kong was one of a few locations that actually increased their investments in China in 2009 versus 2008, other locations of note being Japan and Germany (ZGTJNJ, 2010: T6-14).

The significant proportion of investment attributed to Hong Kong brings our attention to another factor that we must take into consideration when considering FDI statistics for China, which is the case of 'round-tripping' capital. This is capital that is actually of domestic Chinese origin but that is invested through an offshore tax haven (such as the Virgin Islands) or through a 'shell' company (easily acquired by, for example, purchasing a poorly performing company on the Hong Kong stock exchange) so as to *disguise* the domestic capital as 'foreign' investment, thus acquire the benefits and protection that foreign firms have historically received on their investments over domestic firms (Lardy, 1995: 1067; Dunning and Lundan, 2008: 33).

Evidence of round-tripping via Hong Kong during the 1990s can be seen by the strong correlation between Chinese outward direct investment *in to* Hong Kong and the inflow of FDI to China *from* Hong Kong (Wei, 2005: 723). In that period, the number of Chinese firms investing in Hong Kong increased from 400 firms (in 1991) to around 2000 firms (in 1994), with cumulative investment of over USD 20 billion by 1993 thus meaning that China overtook Japan as the number one investor in to Hong Kong (Huang, 1998: 56). Hong Kong brokers estimated that as of 1994, around USD 30 billion had been invested in the PRC *by* the PRC through Hong Kong institutions (Goodman and Feng, 1994: 199). One study estimated that within the FDI for the year 1992, the percentage that was round-tripping capital was as high as 25% (Lardy, 1996: 105); the World Bank (2002: 41) believe that the figure may have actually been higher throughout the 1990s. Some scholars have suggested that the percentage of capital disguised as FDI in to China could even be as high as fifty percent (Xiao, 2004: 23); acknowledging that calculating the *exact* level of round-tripping is very difficult to do because of the very nature of it being something that companies wish to hide, to suggest that 50% of the capital is round-tripping capital seems inconsistent with the visible level of foreign presence in China.

With China's accession to the WTO (World Trade Organisation) in 2001 and with new regulations being passed that aim to level the playing field for foreign and domestic firms, for example legislation promulgated in early 2007 that sought to remove special taxation treatment for foreign firms, the need for Chinese capital to round-trip and enter China as *pseudo-FDI* has been reportedly reduced (*Financial Times*, 2007; Dunning and Lundan, 2008: 27). [30]

As well as Chinese firms using Hong Kong as potential channel to invest in mainland China, recent policy changes may have created incentives that encourage other nationalities of investor to behave similarly. In order to encourage and facilitate the closer integration of the mainland economy with those in Hong Kong and Macau, special allowances are made under the Closer Economic Partnership Arrangement (CEPA) meaning that extra investment opportunities are open to investors from Hong Kong and Macau. For example, it was reported that although wholly foreign-owned entities were prohibited in the mainland China's hospitals sector, as of the 1st January 2011 trials were being run where service

[30] Equalisation of the taxation environment is ongoing. For example, the global law firm *Squire Sanders*, which advises and represents many large MNCs, reports in its frequent updates on the legal environment in China that in 2009, the new corporate income tax essentially abolished tax incentives based purely on being a foreign entity and instead sought to encourage investment in certain industries by tax breaks (meaning foreign and domestic firms can receive tax breaks for investing in certain industries); they also reported that in late 2010 the State Council announced that as of the 1st Dec 2010 foreign corporations will be liable for city maintenance and construction tax as well as for taxes supporting local education, all of which were previously only levied on domestic corporations (Squire Sanders, 2009: 8; Squire Sanders, 2011: 7). A word of caution on using these legal updates: for factual information, they are highly reliable as incorrect data or erroneous advice would have severe implications for their clients operating in mainland China. However, when we are seeking to assess the impact of legal updates upon the business environment, we must be aware of any potential pro-business slant that may present laws that uphold workers' rights versus an employer as being more negative than positive for the Chinese economy.

providers from Hong Kong and Macau were allowed to invest (Squire Sanders, 2011: 5). Strict criteria were placed upon those service providers that were permitted to invest, criteria that suggested the mainland authorities wished to prevent foreign investors from other locations channelling investments through holding corporations based in either Hong Kong or Macau.[31, 32]

In summary, when investigating the nationality of investors it is necessary to keep in mind that some of the capital being invested in China may be from a different nation than reported, be that round-tripping Chinese capital or disguised investments from other nations. When we are conducting our analysis of the capital flowing in to Qingdao and are making assumptions on the experiences of employees based investor nationality, we need to be mindful of any limitations in the data.

As well as taking note of the FDI characteristics in terms of levels of investment-intensity, investment vehicle, sector of investment and nationality of the investor, one final FDI characteristics that we should mention is that of the attitude of the MNC towards corporate social responsibility (CSR) and Human Resources Management (HRM). There is a body of literature that seeks to investigate whether or not developed nation MNCs export their labour practices to their foreign affiliates based in *developed* nations.[33] For example, several studies researched the propensity of US MNCs to 'export' their labour and management styles to European affiliates and showed that whist there is generally evidence to suggest management styles are exported, labour practices are not (Almond and Ferner, 2006; Bloom, Kretschmer and Van Reenen and, 2009). It could potentially be that the US MNCs really do only export management styles and not labour practices, or it could be that labour practices are not exported owing to the fact that the foreign affiliates investigated are located in developed nations that have embedded labour practices and institutions to uphold them (OECD-ILO, 2008: 14). The situation could therefore be quite different for MNCs of other nations and/or for developing economy host nations instead of developed host nations. Whilst there is little work investigating the propensity of MNCs to export working practices to their foreign affiliates in developing nations, there is a section of literature that looks at the effects of codes of conducts on MNC supplier firms in developing nations.

[31] Other policy changes that may affect the level of disguised investment that occurs is the passing of the Economic Co-operation Framework Agreement (ECFA) with Taiwan in 2010, which will dramatically alter direct trade and communications between mainland China and Taiwan (Squire Sanders, 2011a: 6-7). Historically, it has been argued that a significant amount of Taiwanese investment was routed through Hong Kong in response to political and economic tensions between the mainland China and Taiwan that was said to be limiting the business opportunities available to Taiwanese investors (Wei, 2004: 11).

[32] The significant contributions of capital arriving in China via the Virgin Islands and the Cayman Islands shown in **figure C** are also of interest because these locations are renowned tax havens that can be used to disguise the source of the invested capital.

[33] This literature exhibits some crossover with the literature we have previously reviewed by scholars such as Child and Yan (2001) and Walsh and Zhu (2007) that focused upon *developing* nations.

The power of branding is a double edged sword for a large MNC; on the one hand, it is a label that allows products to be sold at prices considerably higher than a similar, unbranded product, but as Moran (2002: 86) points out it can also be a company's Achilles heel, something that labour activist movements can target when highlighting worker abuse in the global labour markets. Consumer pressure and fears over brand image have led to some MNCs coming up with codes of conduct – which vary widely in content – that they then seek to enforce not just on their own operations abroad (if any) but on their supplier firms, too (Elliott and Freeman, 2003: 58).[34] There is some interesting recent research that explores the effect of codes of conduct on the employment conditions within the backward linkages (supplier firms) to the MNC, some of these supplier firms being other nationalities of FIE, and being located in a variety of developing nations including China. In general, the studies show that the presence of a code of conduct itself has rather limited effects, but that if the MNC engages and works with the suppliers, working towards improving their productivity and working conditions rather than policing the compliance, results are not only shown to be more successful but also more durable (Frenkel and Scott, 2002: 44; ETI, 2006; Locke, Qin and Brause, 2007: 3). However, there is fierce debate about the true effectiveness of codes of conduct, some seeing them rather more cynically as just PR initiatives.

Evidence for the lack of code compliance is plain to see when a firm such as Foxconn – a supplier to the international giant Apple, which has a code of conduct (www.apple.com/supplierresponsibility) – appears in the media with stories of workers committing suicide allegedly due to work pressures (BBC, 2010a, 2010b). Apple in particular – one of the few firms that audits its supplier firms itself – has been accused of not showing enough teeth in tackling issues exposed in audits in recent years, although growing child labour issues in its China suppliers through 2010 seems to have prompted more aggressive responses (*The Daily Telegraph*, 2011). When asked his opinion on codes of conducts in general, Chang-Hee Lee – the ILO's Senior Specialist on IR and Social Dialogue based in Beijing – said that he believes they are better than nothing, but that he is sceptical of their effectiveness, citing the recent Foxconn example as evidence of the limited reach of the codes (Int-1, Conducted 2011). This hesitancy towards such codes is echoed by Dimitri Kessler, the Hong Kong-based China specialist for the Ethical Trading Initiative (ETI).[35] When interviewed, he said that he believes codes of conduct do have some effect on the lives of workers within supplier firms but that we shouldn't be naïve about them. Interestingly, he said that perhaps one of the effects of having codes is that it seems to allow China-based NGOs to get more done and be more vocal as they are under the 'protection' of an MNC,

[34] Ramasamy and Yeung (2009) report an interesting exploratory study, albeit very limited in its external validity, that investigates growing awareness of CSR in Shanghai and the differences in opinion as to what Chinese consumers see as CSR and some Western nation consumer see as CSR. See paper for more details.
[35] The Ethical Trading Initiative arose from a proposal of the UK government in 1998. It is a tripartite organisation with representation from business, trade unions and voluntary organisations (NGOs). See www.ethicaltrade.org for more details.

rather than conducting efforts on their own behalf and then being accused of merely stirring trouble (Int-3, Conducted 2011).

One central issue concerning how effective codes of conduct are at managing to improve the lives of workers within supplier firms – both private- and foreign-funded firms – is that of monitoring compliance. The ETI conducted a detailed survey in 2004 to investigate whether or not they believed their code of conduct, to which member business must agree to adhere to in order to join the initiative, was making a difference across the globe, and whether compliance monitoring could be extended successfully to cover suppliers in China (ETI, 2006). The China feasibility analysis revealed that aside from issues such as double book-keeping, which makes the task of assessing simple factors such as overtime payments more difficult, a further issue to contend with is the complex value chain in China that makes significant use of large agents, two of the largest being the Hong Kong-based 'Li & Fung'[36] and 'W.C.Connors'. When MNCs use agents such as these to source their products, it is the agents that have the power over the supplier, not the MNC. Individual MNCs do not hold much sway over the agents, although the ETI study does report that for 2004, the combined trade of the ETI's member firms using these two agents in particular could be used to exert pressure (ETI, 2006: 9 [China Section]).

If a firm is able to conduct audits directly on the supplier firm, more issues arise concerning who conducts the audits. Kimberly Elliott and Richard Freeman report that MNCs are responsible for paying for the auditing of their suppliers and tend to use firms that they know have the capacity to conduct such audits, for example PWC or Ernst & Young (2003: 66). The problem here is that large MNCs tend to already have established relations with these accountancy and auditing firms, thus generating conflicts of interest that *may* hamper compliance inspections (*ibid.*). Furthermore, factory bosses in China's labour-intensive industries are reportedly very creative at 'getting around' certification requirements (such as the SA8000 certification), meaning that it is extremely difficult to say for certain that a supplier is at the required standard of code compliance (Elliott and Freeman, 2003: 62). Anecdotal evidence from Keith Jones - a freelance auditor from Comply World with extensive experience auditing in South East Asia – confirms that not only do some businesses just want the audit inspection 'badge' so as to win more business by then being able to supply large multinationals, but also that rather worryingly some Hong Kong-based auditors facilitate this pseudo-compliance (Int-11, Conducted 2011). It turns out that some auditors are far from perfect: some Hong Kong FIEs operating in Shenzhen and manufacturing plastic toys reported that in 2009 they were essentially blackmailed by auditors from Bureau Vertias – one of the world's largest auditing companies – who were conducting code of conduct audits on behalf of MNCs party to International Council of Toy

[36] Some China business analysts are highlighting that the current business model run by Li & Fung, and more generally by large agents in China, is running out of steam and that the firm needs to evolve or risk bankruptcy. See the following article penned by Richard Brubaker on his blog: http://www.allroadsleadtochina.com/2011/10/10/is-the-china-outsourcing-model-in-trouble/ [12th Oct 2011].

Industries' "CARE Process" code of conduct (China Labor Watch, 2009; Guangdong Toy Association, 2010; ICTI, 2010).[37]

The issues facing auditing suppliers in China is perhaps a contributing factor that has led to the ETI choosing a different approach, focusing on a much smaller scale, targeting three factories in China on a voluntary compliance approach (the "Decent Work Programme"); the programme itself grew out of an earlier initiative that sought to solely focus and build on occupational health and safety rather than force issues that are more contentious – such as freedom of association and collective bargaining – to the fore (Int-2, Conducted 2011; Int-11, Conducted 2011).

Codes of conduct and an MNC's attitude towards CSR are very complex factors to assess. There are two dimensions under which we can consider codes of conduct to be a characteristic of the FDI, hence encapsulated in the FIE and affecting workers within those FIEs. First, those FIEs in Qingdao that are part of an MNC with a code of conduct will of course be expected to operate within its rules; second, those FIE firms in Qingdao that are existing suppliers to MNCs may potentially have to factor in code of conduct compliance as part of their business model to retain contracts. To successfully investigate the impact that code of conduct compliance may have on workers within FIEs in Qingdao would require rich, firm-level data, for example noting which MNC(s) a certain FIE is supplying, and whether or not the FIE established a presence in Qingdao as an existing supplier to MNCs with codes of conduct, or was already located in Qingdao and then pitched for new contracts where 'code of conduct' compliance was required. Therefore, we are unable to pursue this angle within the current piece of research.

In summary, section 2.1 has highlighted several characteristics of inward FDI that we should attempt to analyse in order to elucidate the experiences of Chinese workers in Qingdao's FIEs. We have seen how we must consider the capital-intensity of the FIEs, the investment vehicle that has been chosen, the sector of investment and the nationality of investor. We have highlighted that in addition to the possible pitfalls with statistical data discussed in Chapter One, there is also the issue of round-tripping and disguised capital to contend with when analysing FDI figures. We also stressed that an MNC's CSR and HRM policies will no doubt influence the experiences of the workers within the FIEs but explained that investigations of that nature are not possible within this current piece of research. The above elements are all characteristics of the FDI invested; host nation factors such as laws, regulations and institutions can also shape how the FIE interacts with its workforce and will be addressed next in section 2.2.

[37] Regarding the "CARE Process", David Krueger (2008) argues that one of the reasons for the emergence of this industry-wide code – and similar ones for the textiles and electronics sectors – was the growing pressures on suppliers to meet a multitude of different criteria and inspection requirements. Clearly, the solution of having one, industry-wide standard is not without problems either.

2.2 Host Nation Factors Affecting Worker Experiences

Within Chapter One, we justified our focus on a narrow region of China. We saw how in legal terms, laws can be significantly altered to reflect local conditions (Chan and Wang, 2004: 644; Ints-5 and 6, Fieldwork 2010; Pringle, 2011: 98), and we reported that within transition economies – especially China – there has been shown to be great variation in the rate of 'evolution' of local economies (Li, 2004: 156; Ma and Delios, 2007: 208). These elements combine to mean that generalisations concerning the effects of FDI on the lives of employees across China are likely prone to error. Therefore, in our analysis of FDI at the macro-level, across Qingdao, we shall attempt to break down the information to the most specific, local level that the data allows in order that we may arrive at the best conclusions surrounding the nature of FDI present in each location and therefore the assumptions we draw about the experiences of FIE employees at a non-individual level.

Alongside the need to target our research at the most specific location possible, there are two other elements that are China-specific and that will affect how FDI interacts with employees and therefore warrant special focus: the amendments to the labour laws made through 2008; and the evolution of the All-China Federation of Trade Unions (ACFTU). Although we could argue that rules and regulations pertaining to the first of these two elements should be universal at such a localised level of inspection such as Qingdao, it is still worth briefly setting the background of how this factor has been argued to shape the interaction of an FIE - and all enterprises in general – with its workforce. The second factor, as we shall see, is already the subject of much attention.

Labour Regulations

The changes to labour regulations within China throughout the late 2000s have been the subject of much academic focus, but have also understandably grabbed the attentions of current and potential foreign investors. On paper, the Chinese Labour Law that was promulgated in 1994 (effective 1995) was a tough regulation that if followed to the letter of the law would have provided necessary protection to workers within China – barring freedom of association (Elliott and Freeman, 2003: 121; Pringle, 2011: 48, 98). However, as many scholars have reported, private-sector employers – foreign and domestic – flouted the regulations that were put in place to protect employees, with violations of health and safety or not paying overtime wages being familiar complaints (Chan, 2001; Elliott and Freeman, 2003: 121; Lee, 2007: chapter five). An update of regulations was called for by both the ACFTU and the Ministry of Labour and Social Security (MLSS)[38] in order to tackle what they saw as the watering down of the law via local implementation regulations that were supposed to be there to allow for the adaption of national laws to local conditions but

[38]On the 31st March 2008 the Ministry of Labour and Social Security (MLSS) (中国劳动和社会保障部) merged with Ministry of Personnel (中国人事政务部) to become the Ministry of Human Resources and Social Security Bureau (MHRSS) (中国人力资源和社会保障部) (Baker and McKenzie, 2008).

instead can sometimes serve to neutralise the original intent of the national law (Chan and Wang, 2004: 644; Pringle, 2011: 98). Several new laws were passed throughout 2008 to improve the regulatory environment that governs employer-employee relationships. Of those, the Labour Contract Law (LCL) (中华人民共和国劳动合同法) is much discussed.

The LCL was effective as of the 1st January 2008,[39] with the implementation regulations finally promulgated at a national level on the 18th September 2008 (中华人民共和国劳动合同法实施条例) (Baker and McKenzie, 2008a).[40] Although the previous Labour Law (of 1994) did have a general section on labour contracts, leaving it up to local regulations to flesh out the details, this new law stipulates in more detail the requirements of a labour contract between an employee and employer (Squire Sanders, 2007: 2). The law has eight chapters and ninety-eight articles, the following eleven articles providing the reader with a flavour of the overall law:

- **Article Two:** Specifies the law applies to ALL enterprises in China.
- **Article Nine:** States that employers are not allowed to confiscate workers' ID cards, papers or property.
- **Article Fourteen:** States that an employee MUST have an open-ended contract if the employee completes two fixed-term contracts for the employer or has worked at least ten, consecutive years at the enterprise.
- **Article Seventeen:** States that the labour contract MUST state (amongst other things) the working conditions.
- **Articles Nineteen** and **Twenty:** Stipulates strict limitations on the time and wages payable during probationary periods.
- **Article Thirty-two:** States that it is not a breach of contract for an employee to refuse to do dangerous tasks and that the workers have a right to report dangerous working conditions to the authorities.
- **Article Forty-one:** States that employees must be consulted in advance of any large-scale lay-offs.
- **Article Eighty-eight:** States that violence, intimidation, illegal searches, corporal punishment, or any poor quality working environment that may contribute to the ill health of employees is illegal, and will be pursued as criminal liability in necessary.
- **Article Ninety-five:** States that Labour Administration Department officials or of other related departments will be held accountable if they do not fulfil their duties in upholding this law.

[39] The law was approved by the 28th Conference of the 10th Session of the National People's Congress Standing Committee on the 29th June 2007, to be effective as of the 1st January 2008 (Russell, 2007).
[40] Similar to *Squire Sanders*, *Baker and McKenzie* is another global law firm that has a strong advisory presence in China for foreign MNCs. The same cautionary approach is required for these sources as explained in footnote thirty above for *Squire Sanders*.

- **Article Ninety-seven:** Stipulates that employers have thirty days from when the law is effective (1st Jan 2008) to sign contracts with their employees if they have not already done so.

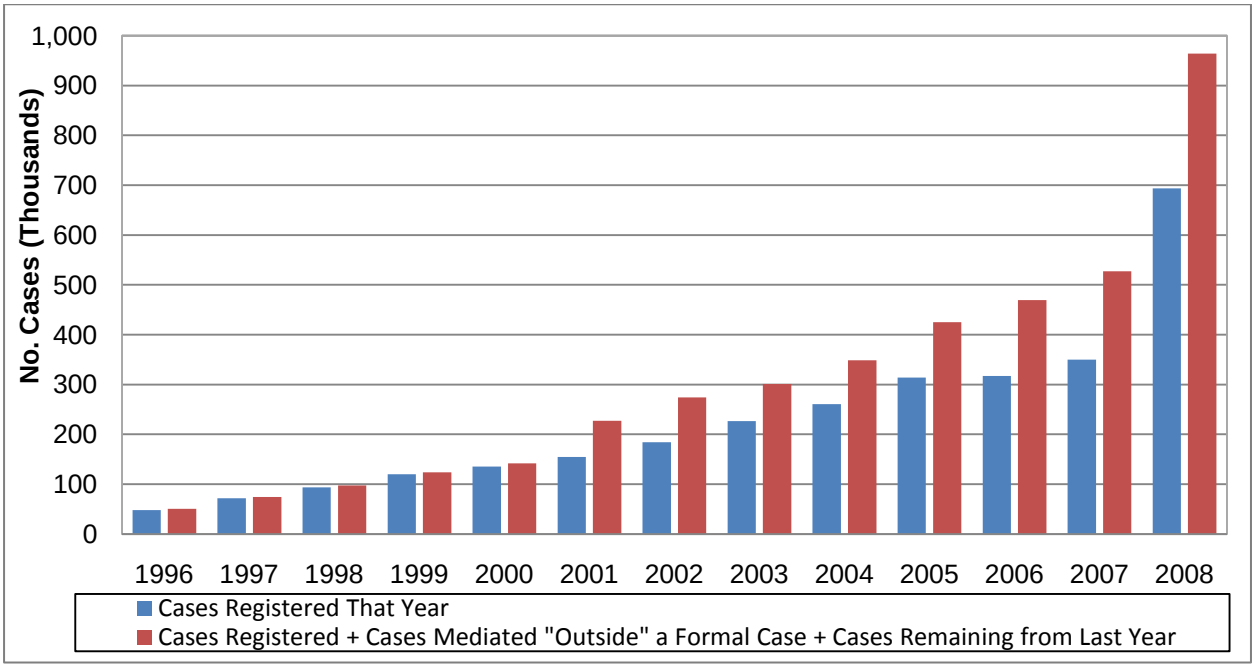
The articles listed above, summarised from Ashley Russell's translation (Russell, 2007), mostly centre on requirement surrounding the rights of workers to be employed safely, without being subject to abuse or bullying by the employer, to which no sensible company would openly object. However, some of the articles were of interest to MNCs and lawyers representing investors for fears that they would dramatically alter the labour market within China in favour of the employee. Writing in *China International Business* after the law's details had been confirmed, Steven Dickinson – a lawyer from the US firm Harris and Moure and co-author of the informative www.chinalawblog.com – focuses on elements such as the restrictions on probationary periods, the end of the repeated use of fixed-term contracts, and the limitations on non-competition agreements amongst other things to stress that the law is very much loaded in employees' favour (Dickinson, 2007).

During the drafting of the LCL, there were periods when foreign and domestic parties were able to provide comments and feedback on earlier drafts before the final law was approved. Halegua (2007) argues that despite the demonization of US corporations and elements of the American Chamber of Commerce within the media for providing feedback on earlier LCL drafts that were interpreted as being anti-employee, they should actually be seen as positively contributing to the democratic formation of laws, pointing out issues that were going to affect the investment environment. Halegua argues that US corporations in particular were sensible to give feedback and to lobby in alter the law in their favour because "U.S. firms are not free to simply ignore labor regulations as are their Chinese counterparts", stating that the main form of pressure to comply comes from domestic (US) sources (Halegua, 2007). Although this sounds somewhat like making excuses to avoid compliance requirements that protect workers at the expense of business needs, the hype surrounding the promulgation of the new LCL certainly illustrates that MNCs and lawyers that represent MNCs were aware of the differences that the law could make to labour market interactions, especially given the lengths to which the profile of the new law was raised in front of workers as confirmed from a number of sources during fieldwork ('Central Arbitration Court Employee' Source, Fieldwork 2010; Int-5, Fieldwork 2010).

When assessing as to whether or not the LCL has actually had an impact on the workforce in general, a cursory glance at the levels of registered labour disputes provides some evidence that workers are more able and/or willing to defend their rights. In early 2008, the Ministry of Human Resources and Social Security (MHRSS) reported huge increases in the numbers of labour disputes registered across each province, Guangdong reportedly recording case levels in the first two months of 2008 triple what they were for the same period in 2007, and Shanghai also recording a vast increase in case numbers in early 2008 (Baker and McKenzie, 2008, 2008b). Graphical illustrations of the labour dispute statistics at the

national level reveal a near doubling in volume of new cases registered in 2008 compared to 2007, as depicted in **figure D**:

Figure D: Labour Dispute Statistics for All China, 1996-2008[41]



Source: ZGLDTJNJ, 2009: 469-470

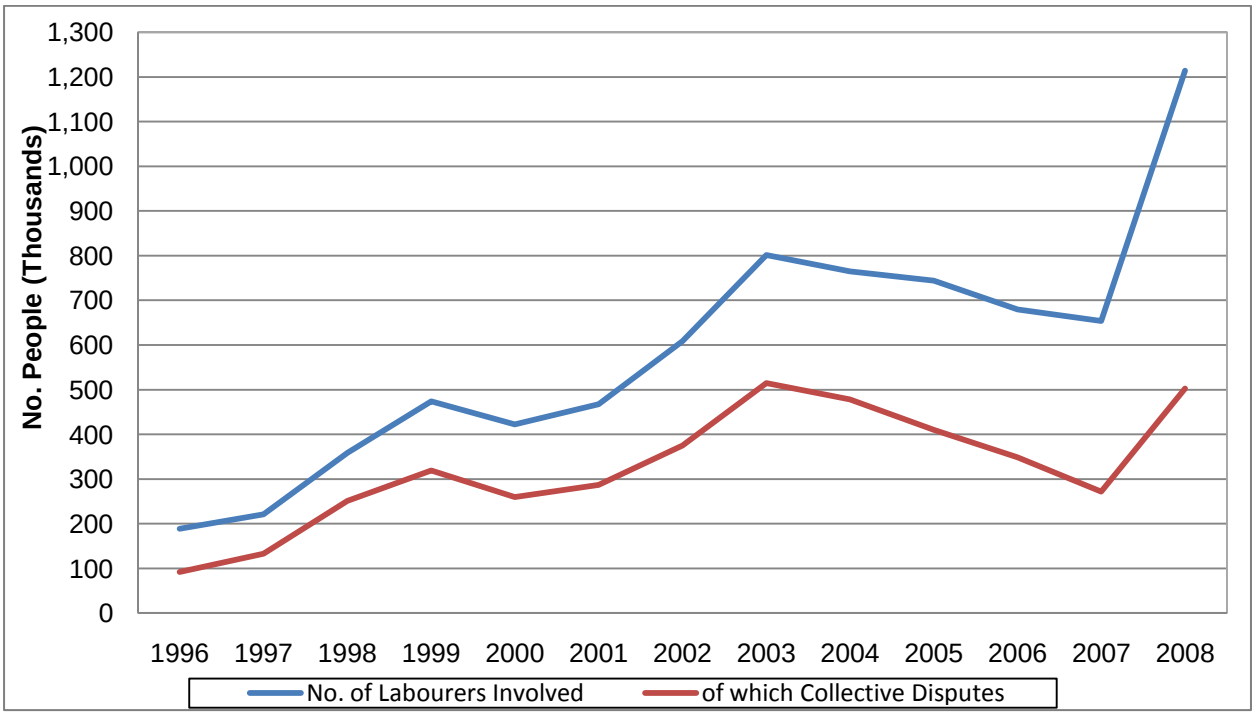
The second figure, **figure E**,[42] highlights that behind the sharp increase in case volumes is a sharp increase in labour disputes registered on an individual basis: the number of workers

[41] An article in a magazine published by the Ministry of Human Resources and Social Security reports statistics for "cases registered that year" near identical to those illustrated for 2007 and 2008 in this figure – 350,000 and 694,000 cases respectively. However, total dispute levels for 2007 and 2008 are stated as being 502,000 and 964,000 cases respectively, from which we can deduce that the MHRSS considers the true levels of cases to be those registered that year added to those cases unresolved from the previous year and those cases that, according to the *China Labour Statistical Yearbook*, were "mediated outside the case" (案外调解案件数) (ZGLDTJNJ, 2009: 469-470; Qiu, 2010). During fieldwork, the author was unable to clarify why cases mediated 'outside' are not registered within "cases registered that year", or what is required for such a case to be recorded, but Lee (2007: 177) provides some insight as to a possible explanation. Dispute levels reported in academic work (for example, Pringle, 2011: 99) tend to focus on cases registered that year – the lower of these two volumes of dispute; from 2001 onwards there is a significant discrepancy between the two volumes and so we should be aware of both sets of data.

[42] In the period from 2003 until 2007, there was a fall in the total number of labourers involved in newly registered labour disputes recorded each year of around 150,000 workers, coupled with a decrease in the number of those who were involved in collective labour disputes (defined as more than three workers involved) of around 240,000 workers. This implies an increase in those registering as individual cases of around 90,000 workers. Pringle (2011: 101) states that some arbitration courts have been known to pressure workers who wish to submit a collective case to instead submit individual cases in order to increase case fees and alter statistics. Effective from the 1st May 2008, the new Labour Mediation and Arbitration Law (劳动争议调解仲裁法) – approved by the National People's Congress Standing Committee on the 29th December 2007 – abolished fees for arbitration cases, amongst other things (Baker and McKenzie, 2008b; Pringle, 2011: 49). This should remove the financial incentive to 'split' cases.

involved in collective labour dispute cases – defined as being three or more workers (Pringle, 2011: 99) – increased by around 231,000 workers in 2008 compared to 2007, but the total number of workers involved in all newly registered labour disputes rose by around 561,000 workers in 2008 over 2007, implying an increase of approximately 330,000 workers submitting individual cases in the same period. The corresponding of the LCL with the dramatic and noticeable increase in case numbers registered in 2008 suggests that the LCL at the very least altered the balance of power within the labour markets, with employees feeling much more able to challenge their employment situation if they wish to do so.

Figure E: Number of Labourers Involved in Registered Labour Dispute Cases for All China, 1996-2008



Source: ZGLDTJNJ, 2009: 469-470

Gordon (2008) – a journalist writing extensively on business and economics in China – attributed the declining interest by manufacturers in Guangdong province and the decision of some manufacturers to leave China altogether to the combined effects of decreasing migrant flows and the LCL, claiming that the some business in the province argue that the LCL has "increased production costs by as much as 25%". We may expect businesses to focus on the impacts that the new law will have on their production costs – however exaggerated – but even the authorities are beginning to struggle under the strain of rising dispute levels as in evidenced by the recent efforts made towards potentially establishing Labour Dispute Mediation Committees within all enterprises that would facilitate mediation and thus quell rising case numbers (Baker and McKenzie, 2009, 2011), and the issuance of a third set of interpretations by the Supreme People's Court on 13th September 2010 in reaction to the spiralling numbers of labour disputes that are reaching the legal court

system as opposed to being registered and/or resolved in the Labour Dispute Arbitration Courts system (Squire Sanders, 2010: 3).

As stated above, one of the potential needs for the LCL was to tackle the implementation regulations at local levels that had potentially distorted elements of earlier labour regulations. However, the LCL has been in effective since 1st January 2008 and already there are reports of significant varieties in the application of the law at the local level. One such example centres on amendments to company rules, where article four of the LCL states that when company rules are being formed or amended on "matters that have a direct bearing on the immediate interests" of the employees, then they should be consulted (Russell, 2007). This brings in to question situations where rules were in existence prior to the effective date of the LCL (1st Jan 2008) that did not go through a consultation process. In mid-2008, Guangdong authorities issued guidelines saying that such rules are valid as long as the rules had been publicised to the employees and were not illegal (Baker and McKenzie, 2008c), with a district court in Beijing going further and ruling (towards the end of 2008) that an employee could be fired for breach of rules that were in existence prior to the 1st Jan 2008 even if they were not negotiated with the employees (Baker and McKenzie, 2008d). This contrasts to a ruling made by a court in Ningbo city, Zhejiang province, in mid-2008 where they decided that a company could not use its rules to terminate an employee's contract as they had not gone through the correct employee consultation practice defined in the LCL, despite the rules being issues well before the LCL was passed (Baker and McKenzie, 2008e). The strictness with which some courts appear to adhere to this particular article occasionally seems to be rather pedantic. In December 2009 it was reported that the Number One People's Court in Beijing forced a company to re-instate an employee whom they had dismissed as he would not sign amendments made to the company rules, amendments that he successfully claimed were unilaterally imposed on the workforce and that were not negotiated with employees despite having a direct impact on workers' interests: the amendments were the concerning the disciplinary actions to be taken against employees found sleeping at work (Baker and McKenzie, 2009a).

A second, far more controversial area surrounds article fourteen, which states an employee's right to an open-ended contract under certain conditions. Dickinson (2007) warned current and potential investors of the potential implications of this clause, stating that with the maximum of two fixed-term contracts being allowed before an employee is legally entitled to an open-ended contract, and with an employer only able to terminate an open-ended contract in limited circumstances, there is the potential for a much more permanent workforce than an employer may wish for. The real sticking point concerns what happens at the end of the second, fixed-term contract. If the employer and the employee both wish the employment relationship to continue, then the employee is entitled to an open-ended contract (although presumably can agree to a fixed-term contract if they so wish). However, if at the end of the second fixed-term contract the employee wishes to continue the relationship but the employer does not, does the employer have to offer an

open-ended contract anyway? In other words, is the only time an employer can 'easily' decide to not continue an employment relationship at the end of the first, fixed-term contract (because only a breach of contract will entitle the employer to terminate the contract from then on)? As was apparent in fieldwork interviews with lawyers from both international and Chinese law firms, this is still a hotly contested point will little clarity (Ints-5, 6 & 7, Fieldwork 2010). Reports of differing rulings being made in Shanghai and Chengdu reflect the confusion that surrounds this particular article as late as July 2010, with rulings both for and against employers having the right to decide *not* to renew the employment relationship at the end of the second, fixed-term contract (Squire Sanders, 2010a: 7; Baker and McKenzie, 2009b, 2010).

Another element of article fourteen focuses on the right of an employee to an open-ended contract if they have more than ten years of continuous employment at a particular firm, which was viewed by some employees as being such a serious limitation to their employee flexibility that it led then to engage in highly evasive tactics. In order to break long periods of continuous employment and thus 'reset' the clock, large companies – both foreign and domestic – engaged in large scale laying-off programmes where staff were offered financial incentives to quit for a period of time and then be rehired. Two large companies caught out trying to operate such a programme were the MNC Wal-Mart – perhaps not surprising given its attitude towards worker representation within its stores in China[43] – and the Shenzhen-based Huawei (Jiang, 2007; Becker and Elfstrom, 2010: 4).

As already alluded to, the LCL was not the only regulation passed in 2008 that had implications for the employer-employee relationship within all enterprises – both foreign and domestic. Other relevant regulations that became effective in 2008 were the Labour Mediation and Arbitration Law (LMAL) (劳动争议调解仲裁法) – approved by the National People's Congress Standing Committee on the 29th December 2007 and effective as of the 1st May 2008 (Baker and McKenzie, 2008b, 2008f; Pringle, 2011: 49) – and Enterprise Employee Paid Annual Leave Law (企业职工带薪年休假法) – effective as of the 1st January 2008 and having implementation regulations passed at a national level on the same day as the LCL national implementation regulations were issued, the 18th September 2008 (Baker and McKenzie, 2008a, 2008b). The former of these two other laws issued, the LMAL, notably altered the regulations surrounding arbitration cases in favour of employees by abolished arbitration fees, extended the time limit within which the case must be filled from sixty days from the original date of the dispute to one year, decreased the time limit for a decision from ninety days to forty-five days, and prevented an employer from appealing in certain situations (typically lower cost issues such as claims for unpaid wages that do not exceed the value of twelve months of local minimum wages) (Baker and McKenzie, 2008b, 2008f; Pringle, 2011: 49). The later of the two laws saw regulations defining employee paid annual

[43] For example, see Chan (2006) and Pringle (2011: 111) on Wal-Mart's hostility towards and then eventual efforts to undermine union representation in their stores in China.

leave entitlement: employees with over one year but less than ten years continuous employment are entitled to five days paid annual leave *per annum*, between ten and twenty years service entitles an employee to at least ten days worth, and those with more than twenty years of service are entitled to a minimum of fifteen days. The law also stipulated strict conditions on being able to carry holiday days over to the next calendar year, and how much an employer must compensate an employee if they are not allowed to take their annual leave (Baker and McKenzie, 2008a, 2008b).[44] In total, these laws have a combined, and complex, effect on labour market interactions. In relation to the LCL and the LMAL, Pringle highlights:

> "The combination of the LCL – making it harder for employers to lay off workers – and the LMAL – making it easier and cheaper for workers to pursue claims – and the global financial crisis are already having a dramatic impact on the [labour dispute] statistics" (Pringle, 2011: 100)

In summary, fascinating though the area of Chinese legal regulations surrounding labour is, we will not be covering the areas of legal regulations more than we have done so above within this dissertation. First, to deduce accurately the impact of labour regulations on Chinese workers would require a detailed examination of the impact across all forms of enterprise rather than just foreign-invested firms as it is likely that the impact will vary according to how vigorously each sector is targeted for compliance by the authorities. This is beyond the scope of this dissertation. Second, owing to the young life of these newer labour regulations and the frequency and extent to which they are evolving monthly, it would be best to either wait a few years before conducting research in to the true effects of the laws on workplace relationships, or conduct a longitudinal study, both of which are not possible for this dissertation. Third, we can assume that despite the variance of regulations nationally, at such a narrow scope of focus as Qingdao the laws and regulations should be fairly uniform and will apply equally to all enterprises – foreign and domestic[45] – within Qingdao.

As well as the host nation-specific factor of 'legal regulations' that influences employee experiences within FIEs, we must also briefly review the literature focused upon the ACFTU and its contribution to the employer-employee interactions.

[44] As with seemingly most Chinese laws passed, further clarifications are always needed and conflicting regulations are easy to find. The MHRSS clarified paid annual leave rules in April 2009, stating that if an employee has at least twelve months of continuous service at a previous employer and then moves to a new employer without taking a break in their employment history then they will be entitled to paid annual leave at the new firm. This seems to conflict with provincial regulations issues by Guangdong authorities in January 2009 (Baker and McKenzie, 2009c).

[45] Whether all firms stick to the rules equally is another research question entirely, an interesting focus for future research.

The All-China Federation of Trade Unions

Pringle (2011: 1) highlights that throughout the 1990s and early-2000s, mainstream attitudes and opinions towards the ACFTU have been largely negative in developed countries, one key criticism being that it does not conform to the International Labour Organisation's (ILO) definition of an independent union owing to its constitutional acceptance of Chinese Communist Party leadership. Despite the criticisms of the ACFTU being a monolithic structure with little representative powers, scholars such as Chan (2006), Chen (2007) and Pringle (2011) are beginning to report a more nuanced picture where the union represents workers as and when it can, struggling between dual identities of being part of the State apparatus but also being a legitimate representative of the workers.

In response to fears over China's growing image of poor worker welfare and declining membership within SOEs, in the mid-2000s the ACFTU decided to make strong efforts to pursue membership in foreign firms (Chan, 2006). The ACFTU began to make strong efforts to target the Fortune 500 companies operating in China, setting a target of eighty percent unionisation in the branches and sub-branches of Fortune 500 firms by the end of September 2008, a target which they then claimed to have achieved leading them to demand one-hundred percent union presence by the end of 2009 (Baker and McKenzie, 2008a, 2008c). Large MNCs such as Wal-Mart were targeted as example firms, with those that refused to co-operate pressured by phone calls, visits and, in the case of Wal-Mart, grassroots action to organise a union branch (Chan, 2006; Baker and McKenzie, 2008c).

The attitude of foreign firms towards the ACFTU will surely vary, but what is interesting is the guidance from some international law firms as to how FIEs should approach unions, seemingly suggesting it is reasonable and indeed sensible to attempt to control or influence the union branch within their firms:

> "Most company unions are set up following negotiations between the local ACFTU and management, in which case management has the opportunity to select management-friendly employees to sit on the union committee" (Baker and McKenzie, 2009a)

> "In China, the staff has the right to form a trade union but not to strike. They can however, elect a representative that you will need to deal with. It is wise to attempt to control the union's budget and influence its expenditure." (Dezan Shira and Associates, 2009: 6)

With guidance such as this from some legal firms providing counsel for MNCs in China, maybe it is not surprising that the ACFTU has taken a more firm stance towards foreign corporations.

Alongside this new demonstration of strength towards foreign firms in particular, moves have been made by the ACFTU to bolster the independence of unions within firms. The

ACFTU authorities issued rules in 2008 that prohibited senior company administrators (such as HR managers), business partners and their close friends, and foreign nationals from standing as the union chairperson of the enterprise branch (Baker and McKenzie, 2008c; Pringle, 2011: 162). More recently, the ACFTU are seeking to reform the way a union chairman receives their salary, suggesting that the funds should come from the ACFTU itself rather than the company within which the chairman works; related, plans are under consideration for union fees to be paid by all enterprises regardless of whether they have a union branch, and for those fees to go in to a local tax bureau deposit and then to the union branches to avoid financial control and pressure on the union by an enterprise (Baker and McKenzie, 2010).[46]

As well as drives for reform originating from within the ACTFU, occasionally local authorities see fit to revitalise the role and powers of their local ACFTU branches. In Shenzhen, for example, implementation regulations passed for the national Labour Union Law (工会法) that Shenzhen put in to effect as of the 1st August 2008 used the term "collective bargaining" (集体谈判) as oppose to the less confrontational term used in the national law of "collective consultation" (集体协商), which implies the authorities in Shenzhen wish to see the union take a more firm stance in negotiations with employers, as does the removal of the requirement made under the Labour Union Law for the union to assist management to get workers to resume work when there is industrial action taking place (Baker and McKenzie, 2008c). The ACFTU has recently being pushing the idea of collective bargaining at the central level (Baker and McKenzie, 2010); we shall return to this specific topic in more detail in Chapter Five.

There is much research focused on the ACFTU in China and its ability to represent the workers within employment disputes, and some of the most promising research to date has involved detailed case studies of union branches at a local level to monitor how they interact with employees and employers, for example Tim Pringle's (2011) latest book: *Trade Unions in China*. Accordingly, issues surrounding the ACFTU will not be addressed within this dissertation, although it is noted that it may be an interesting area to follow up – the presence and strength of the ACFTU within FIEs in Qingdao.

Within section 2.2 we have reviewed several China-specific factors that may influence the experiences of workers within FIEs in Qingdao. First, we reiterated that in order to get the most accurate picture, we must use data from the most localised level possible, hence justifying our Qingdao focus and the use of any sub-Qingdao level data that may be available to analyse. Second, we reviewed how the changing labour regulations

[46] Chan and Wang (2004) show, amongst other things, the difference that independent union finances can have; they partly attribute the difference in management approach in Taiwanese FIEs in Vietnam compared to China to the reduced pressure that can be placed on a firm's union chairperson when their salary comes from outside the company in which they work.

environment has had an effect on workers in all enterprises, to varying degrees. We justified the exclusion of this particular area from our current research on practical grounds before moving on to the third element in question, the ACFTU. We saw how the ACFTU is in itself an exciting new area of research, and how there is much academic attention already on this area, closely watching as the ACFTU evolves alongside the changes in the labour markets. Within the next two sections, 2.3 and 2.4, we shall review the existing literature that addresses the issue of the experiences of FIE employees at the macro- and micro-level respectively.

2.3 Experiences of All FIE Employees (Macro-level)

As well as the IB literature reviewed in section 2.1 that looked at how certain characteristics of the FDI itself can influence the interactions that occur with a host economy, there are some elements of the literature that seek to find evidence of the influence of foreign investment in terms of general labour markets, three main areas being: employment levels, skill levels of available employment, and wage levels. We shall firstly review the evidence relating to the effects of FDI on employment in terms of both quantity of jobs available and skill-levels of the available jobs, then assess the relationship between FDI and wages according to the literature, before finally justifying the exclusion of these topics from our research. As with section 2.1, although our focuses in the experiences of employees within FIEs, in order to gain a complete understanding of the affects of FDI on employment and wages it is necessary to review some of the spillover literature, too. This will allow for more China-focused literature to be addressed.

FDI and Employment

Curiously, despite the general pro-FDI stance adopted by many developing nations, there is a lack of research and as yet no definitive study as to the effect of FDI on a developing host nation's employment levels and employment composition (Dunning and Lundan, 2008: 443; Karlsson, Lundin, Sjoholm and He, 2009: 178). One of the trickiest matters to contend with in such an analysis is the difficulty of addressing the counter factual stance, that is to say what employment levels and composition would have been like had the foreign investment not gone ahead (Dunning and Lundan, 2008: 437).[47] Owing to such a difficulty, what research that does exist tends to analyse the impact of FDI on employment in a host nation by using methods such as comparisons of employment growth rates in both foreign and domestic firms, or – if the data is rich enough – comparing the workforce composition in an enterprise pre- and post-acquisition by a foreign firm. We shall briefly review the theory as to how FDI can affect employment, before moving on to review the evidence that is available to date.

[47] One could argue here that China being a near continental-sized nation would facilitate an approach of comparing regions that had and had not received FDI. However, one is then left to consider why the comparison region has not received inward FDI, which implies some large difference in the local economy (either policy-based or otherwise). In any regard, the counter factual stance is a difficult notion to tackle.

The most obvious way that foreign direct investments can affect employment in terms of number of jobs available and skill levels of employment opportunities is by the direct creation of employment opportunities in the new FIE itself (Karlsson *et al.*, 2009: 179). If the FDI is a green-field investment then there will clearly be new employment opportunities available locally, more so with labour-intensive firms than capital-intensive firms at the initial inception of the project (OECD-ILO, 2008: 11). Of course, this is not necessarily a property inherent to FDI as a green-field domestic investment has the same potential to create employment. However, the level of investment-intensity may be different in a new project funded by an MNC as opposed to a domestic, developing economy investor – the investment-intensity clearly having relation to the skill level of employment opportunities generated. If the FDI is focused towards the creation of a joint-venture, or perhaps takes the form of a cross-border M&A (merger and acquisition), there is still the potential to affect employment levels within the new FIE in terms of employment generation, but – as the literature will show – this may also be accompanied by workforce re-organisation that could disproportionately affect certain segments of the workforce. In terms of direct effects on employment then, FDI can obviously effect employment.

As well as within the FIE, FDI can theoretically generate spillover effects within the broader labour market. Karlsson *et al*. (2009: 180) describe a number of ways in which FDI can have such an effect. Via direct relationships with domestic supplier firms, the FIE can support the firm in improving its productivity so it may better serve the FIE's needs, thus as a secondary effect potentially increasing the competitiveness of the domestic supplier and therefore potentially leading to employment creation (*ibid.*). If the FIE provides/licenses/assists the supplier in the upgrading of the technology of its output – say for example, the FIE wishes to have a higher standard of a particular product – then the FIE may even be said to contribute to the altering of skill-levels of employment available within the supplier. The indirect diffusion of FIE know-how in to the wider market place beyond supplier-relationships (i.e. beyond the linkages) may also contribute to the increase in productivity of domestic firms, either competitor or non-competitor firms (*ibid.*).[48] Of course, one must not forget the potential negative impacts, where the entry of a more efficient FIE with higher productivity in to the host economy forces domestic competitors out of business (Buckley, Clegg, Zheng, Siler and Girogioni, 2007: 714), thus reducing the absolute numbers of jobs available in the short-run.[49] Furthermore, theoretically it could be argued that an FIE that is more capital-intensive will generate less employment opportunities than a labour-intensive investment, although this may only be in the short-run as in the long-run a capital-intensive FIE with

[48] There are numerous potential channels for this to occur, such as via a domestic firm hiring ex-FIE staff, a domestic firm observing and imitating an FIEs business model, a domestic firm reverse engineering an FIE's products to acquire new knowledge, a domestic competitor firm taking advantage of a potentially improved supply chain (i.e. 'crowding in') and so on.

[49] In the longer run, in a perfectly competitive labour market we could argue that unemployment levels rising would then cause labour market wage levels to decrease meaning that those who lost their jobs would then find employment elsewhere (for a detailed discussion on unemployment, see Borjas, 2008: 486-526). However, in the immediate term, the FDI could potentially be responsible for a reduction in employment levels.

higher profit lines may be able to grow more organically and expand to a greater extent than a labour-intensive firm – a point which the evidence reviewed below seems to support.

All of these theoretical interactions are further affected as to what extent (if at all) they occur by the factors that we considered in sections 2.1 and 2.2 above. If one were to look for an effect of 'foreign investment' in a nation, the conclusions would only be valid and reliable if all the investments were similar in nature and all areas of the nation were subject to identical policy and economic factors – two things for which China certainly does not hold true. This further justifies our research focus on a narrow region in China because detail is key if we are to elucidate the true effect of FDI on the experiences of employees.

We can see, therefore, that there is a broad range of possible interactions that an FIE can have with a host economy that will effect employment markets in terms of quantity and skill-levels of available jobs. Unfortunately, despite the importance of this towards a host nation's development, the area is lacking in research focused on developing nations. One area of the literature attempts to analyse the alterations in workforce composition that occur post-acquisition by foreign firms but, as Karlsson *et al.* (2009: 181) correctly identify, this is predominantly focused on developed nations as the host economies, probably owing to the difficulties in collecting rich, accurate data on workforce compositions in developing nations. However, some literature is focused on developing nations. Lipsey and Sjoholm (2003: 15), for example, attempt to detail the impact of FDI on workforce composition in factories in Indonesia. Using broad, enterprise-level data for the period of 1975 to 1999 they conclude that foreign acquisition of Indonesian factories leads to increases in the number of blue-collar workers employed but a decrease in the number of white-collar employees in the firm, which illustrates that research must look beyond *overall* changes in employment levels as they may mask critical details on trends in the demand for more- or less-skilled employees.

Whilst the Lipsey and Sjoholm (2003) paper is focused on employment composition changes within FIEs, there are a number of papers that compare growth rates between foreign and domestic firms, from which we can sometimes draw information as the effect of the FDI on employment within the FIE. For example, Alvarez and Gorg (2007) focus on Chile and use enterprise-level data for manufacturing firms to compare employment growth rates in MNCs versus domestic enterprises during the 1990 to 2000 period, looking for a difference in reaction to the economic slowdown that Chile experienced during that time. The authors report that even after they adjusted for any potential bias introduced in the results for only having selected 'surviving' firms and controlled for other variables (such as export activity), there is no real difference in employment growth in the two types of enterprise during this period, which suggests that FIEs are no different in terms of employment generation than domestic firms. Gong, Gorg and Maioli (2006) offer a China perspective by comparing the employment growth within State-owned enterprises (SOEs) that were either privatised or acquired by a foreign firm, using data spanning the period from 1999 to 2003. The authors

show that the employment growth rate slightly decreases if the SOE is privatised compared to remaining an SOE and that foreign acquisition slightly improves the employment growth rate within the target firm compared to if it had remained an SOE; this seems to contrast to the evidence for Chile reported above. As the authors acknowledge, there are several issues with a study such as this, for example the selectivity bias that arises from the more productive SOEs being selected for acquisition, and the complexity of disentangling the effects of market deregulation from privatisation. Overall, the evidence from this paper can be said to be rather weak, especially given the insignificant coefficients that emerge in some of the regression analyses.

Despite the wealth of literature on spillover effects, the affect of FDI on employment growth in domestic enterprises in a host nation has been little studied – Karlsson *et al.* (2009) present one of the first papers that attempts to clarify the indirect effect of FIE presence on employment growth within domestic firms. The paper uses data provided by the Chinese statistical authorities and covers the 1998 to 2004 period, deriving from a census of large- and medium-sized firms but with a representative sample of small-sized firms also: the data set covers a substantial segment of Chinese industry. The authors break down the enterprises in to four categories: private domestic firms; non-private domestic firms; foreign firms (including JVs); and other. Initially exploring employment growth in the 1998-2001 and 2001-2004 periods, they show that after controlling for industry[50] and capital-intensity the private firms (both foreign and domestic) experience positive employment growth in both periods but the non-private domestic firms experience a decline. Interestingly their data showed that those foreign firms with high capital-intensity (as calculated by total fixed assets per employee) showed strong employment growth (Karlsson *et al.*, 2009: 188). Recalling our discussions earlier that centred on employment generated in the short-run and long-run by varying capital-intensities of FIE, we suggested that although the initial levels of employment generation may be higher for labour-intensive FIEs than for capital-intensive FIEs, the above evidence seems to support the idea that in the long run the higher profit lines of a capital-intensive FIE allow the firm to grow more organically and progressively, thus generating consistent streams of employment growth. The authors put forward that FIEs also provide more stable employment as they have more survivability (2009: 198).

Finally, whilst not an FDI-employment specific paper, Kim and Zhang (2008) present one of the very few papers that address FDI in Qingdao. They seek to explore the effect the presence of FIEs on the development of the local electronics industry, and report that there

[50] Controlling for industry is not necessarily a straight forward matter. One can choose to use broad, two-digit industrial classifications or more precise, four-digit industrial classifications. Simple sector classifications such as “electronics sector” should be avoided as they can imply different things in different nations. For example, microprocessor research may fall in to this classification in one country, but in another the assembly of compute mother boards in a semi-labour-intensive production line may also be in the same category – this implies that foreign investment entering a nation under this one category could disguise a wide range of actual investment.

are positive effects on domestic firms owing to the FIE presence, the FIEs passing technology and know-how through linkages to domestic firms. They argue that the FIEs have had such a positive effect owing to their "bridging position", acting as both suppliers to large, domestic electronics giants (such as Haier and Hisense) and as buyers from smaller, local firms. Whilst they do not report on levels of employment specifically and our focus is on the experiences of employees *within* FIEs, we can reasonably assume that if FDI has assisted in the growth of the local electronics industry (in the particular electronics cluster studied in their paper), then the FDI can be said to have had contributed to the growth in employment in the cluster, and potentially to have contributed to the increasing of employee human capital in the local area.

As previously highlighted, the more promising research to date is focused on developed host nation economies when exploring the effect of FDI on employment levels and skills demand, possibly owing to the richness in data that is available in more developed nations such as those within the OECD. Given that such detailed data for China will be difficult to obtain, this dissertation will instead contribute to this debate by examining the type of FDI that is present within Qingdao to the most accurate level possible in order to elucidate the effect of FDI presence within Qingdao on those employees that work *within* FIEs. We shall examine overall FIE employment levels and how they compare to total employment levels, and examine the types of FIE employment opportunities available, thus drawing conclusions as to the nature of FIE employment across the 1996 to 2009 period in Qingdao.

FDI and Wages

As stated at the start of section 2.3, there is also a segment of the literature that explores the interaction of FDI and wages, literature that is significantly more developed than that which explores FDI and employment, but that unfortunately does not yet provide clear results (OECD-ILO, 2008: 13). Similarly to the FDI employment literature, data limitations confine the most promising research to developed nations. As we shall see, these data limitations justify the exclusion of this particular area of research from this dissertation.

When wage effects of foreign investment are addressed, it is essential that any comparison wage used is clearly identified and justified. For example, one can compare the wages of FIE employees to a similar domestic competitor, in which case care must be taken in matching capital-intensity and productivity, or comparison can be made to an average localised wage in the overall industry, or comparisons can be made pre- and post-acquisition if the FDI is in the form of M&A: there are many factors to clarify and disentangle before one can state with certainty the effect of FDI on wages.

Controlling for factors such as capital-intensity and productivity – which is not straightforward to measure – are essential as one could easily arrive at erroneous results otherwise. For example, from a theoretical perspective we can argue that a new FIE may be more productive than a domestic competitor either by possessing more advanced

technology, having better access to international markets via its parent corporation, or perhaps just having more efficient operating techniques and know-how. This higher level of productivity and/or technology will require more efficient/skilled workers, which may then drive the FIE to offer higher salaries to its (potential) employees (Dunning and Lundan, 2008: 438). In this example, the higher salary is not deriving from the fact that the firm is foreign but instead is related to the firm's productivity (assuming that the company pays employees the value of their marginal productivity and is not intent on exploitation or discrimination). Finding a firm of equal productivity in a developing nation as to the FIE may be difficult depending on the stage of the host economy's development, in which case one can theoretically state that although the higher wage is arising from factors relating to productivity, the domestic economy cannot yet provide employment within such a firm and so the FIE is providing higher wage opportunities, at least until the host nation's economy develops further.

Alongside factors relating to an FIE's potentially higher productivity that may result in higher wages being paid within FIEs, in theory an FIE may also need to pay higher wage premiums in order to protect its competitive advantage and maintain dominance in the host economy. An FIE will most likely wish to prevent its technological prowess and efficient operating know-how from bleeding in to the local market and flowing to competitors; one method to prevent this is to retain staff, which can be achieved by paying higher wages[51] than local competitor firms. A decreased staff turnover not only reduces overheads such as recruitment and training, but also helps prevent the flow of sensitive knowledge in to the local market and thus preserves the FIE's market dominance (OECD, 2008b: 273). Offering higher wages will also theoretically attract a 'better' pool of applicants to the FIE from which it can recruit, and may even be required to overcome apprehensions and compensate for certain aspects of the employment that are seen as negative, for example seeing the FIE as a footloose investment with low job security[52] (OECD, 2008b: 272).

[51] In a perfectly competitive labour market there would be no reason for one firm to pay higher wages than another with like-for-like jobs. However, efficiency wage theory argues that certain market failures create situations were firms *choose* to pay higher wages in order to elicit more effort from employees, reduce shirking, and to reduce turnover costs of which knowledge transfer to competitors is one (Borjas, 2008: 473-476; OECD-ILO, 2008: 12). Briefly, a range of different theoretical models have been proposed to try and explain why the 'effort' of an employee may vary with wage. Four articles that have informed the debate from an early stage are: Shapiro and Stiglitz (1984), suggesting that paying higher wages will reduce an employee's incentive to 'shirk'; Salop (1979), advancing the idea some firms pay higher wages to reduce turnover; Weiss (1980), suggesting that higher salaries are offered by industries that are more sensitive to labour quality as a way to encourage a higher standard of applicants and discourage lower quality workers; and Akerlof (1984), theorising on 'fair pay' and its relation to effort.

[52] Anecdotal evidence in Qingdao from speaking with Chinese friends – students, teachers and government employees – suggests that there is a preferred order of foreign firms to work in. One senior government employee said that the perception of prestige attached to working in FIEs only holds with certain nationality of investors, with South Korean FIEs being viewed rather more negatively. If the efficiency wage theory held true, we may expect that South Korean firms would therefore have to be among some of the highest paying FIEs to overcome this negative image (in terms of like-for-like jobs). However, as we shall see in later chapters, South Korean FIEs are predominantly focused in labour-intensive manufacturing sectors and with low-cost labour in

Before reviewing the literature that investigates whether or not there is a wage premium associated with working within FIEs in general, we must stress that care must be taken when attempting to review the literature owing to an occasional over eagerness to stress the positives of FDI in line with the Washington Consensus of pro-trade and pro-FDI. For example, Brown, Deardorff and Stern (2003) published a paper entitled "The Effect of Multination Production on Wages and Working Conditions in Developing Countries" to contribute to the debate concerning whether or not multi-national corporations are exploiting workers in the developing world in terms of pay and working conditions. In their review, which Dunning and Lundan refer to as being an "excellent review" of the effects of FDI on wages (2008: 441), they are perhaps too keen to promote the positives and overlook that one of the sources that they devote significant space to (Calzini *et al.*, 1997, quoted in Brown, Deardorff and Stern, 2003: 42) is the subject of immense controversy that calls in to question its academic reliability (see for example, Boje, 1999, and Landrum and Boje, 2008). The Brown *et al.* (2003: 1) paper reports that "multinational firms routinely provide higher wages and better working conditions than their local counterparts, and they are typically not attracted preferentially to countries with weak labor standards". The lack of qualification behind this statement, the seeming implication that FDI is generally 'good', and the fact that one particular source used to aid their general arguments is extremely questionable raises doubts as to the objectivity of the analysis, and further reinforces the point that there is clearly a need to more research in order to clarify the effects of FDI on wages in developing nations.

Until fairly recently, the consensus in the literature was that foreign firms tended to pay more than local firms (OECD, 2008b: 276). One of the earliest papers to look at this subject provides evidence to support this consensus: Aitken, Harrison and Lipsey (1996). The paper investigated foreign firms in Mexico and Venezuela and showed that after controlling for skills, location, firm size and capital-intensity, foreign firms pay higher than the domestic firms (Aikten *et al*., 1996: 369). In a similar vein, Lipsey and Sjoholm (2001; 2003; 2004) have made some detailed studies of the effects of foreign investments in another developing economy, that of Indonesia. Using enterprise-level industrial manufacturing census data for the period of 1975-1999 covering firms with over twenty employees, they demonstrate that *average* wages of workers in foreign firms are higher than in domestic firms, matching for industry at the two-digit[53] ISIC level (2003: 23; 2004: 323). To control for any selectivity bias – the idea that foreign firms may target more productive domestic firms for investment that may therefore generate a spurious correlation between FDI and wages – Lipsey and Sjoholm's 2003 paper takes advantage of enterprise identification codes to construct a

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plentiful supply, labour market supply/demand factors will likely operate to keep wages down for the shop floor workers. With white-collar management, which may be in less supply, the efficiency wage ideas may be more dominant. These ideas can only be explored effectively with rich employee data, which unfortunately we are currently unable to obtain.

[53] As we have previously stated, level of industrial analysis is a key variable as a more narrow focus of industry, i.e. using four-digit or five-digit industry classification, may lead to different results.

panel series of data (2003: 3). They show that takeover by a foreign firm as oppose to a domestic firm is a strong factor in increasing employee wages, and that regardless of minority- or majority-ownership by the foreign investor the FIEs still pay higher wages than domestic private enterprise in the same two-digit industry (2003: 9-11). One key limitation to their analysis, which they themselves acknowledge, is that fact that the data centres on average wages within the enterprise; average wages can be altered by a range of factors, such as a loss of lower paid employees, or a substitution of higher skilled employees with less-skilled employees (2003: 15-16). Their 2001 paper also uses enterprise-level data, attempting to find the major determinants of the average blue collar and white collar wages in each firm by regressing the dependant variable of natural log wage (separately for blue and white collar) against independent variables such as level of education for workers (overall by blue and white collar) and dummies variables to control for province, industry, ownership type and a vector encompassing plant characteristics (size, percentage female employees and inputs) (2001: 7). Their regressions show that the higher salaries paid in foreign firms appear not to be simply a reflection of the worker 'quality' as proxied by education level, neither can they be fully explained by enterprise and industry characteristics, leading them to conclude that foreign firms seem to pay higher salaries than domestic firms regardless (2001: 11). Again this paper suffers from a similar problem in that it uses average wage data.

Research conducted by the OECD in 2008 highlights that they, too, clearly see the need for more attention, clarification and research surrounding FDI and wages in host nation economies as is evidenced in recent publications: chapter five of the OECD's *Employment Outlook 2008* was entitled "Do Multinationals Promote Better Pay and Working Conditions?" (2008b: 263-318) and a joint conference held with the ILO[54] in 2008 further addressed the issue (OECD-ILO, 2008). Their research highlights some interesting results.

The chapter published in the *Employment Outlook 2008* reported on research that analysed the effect of FDI on wages in three developed and two developing economies (UK, Portugal, Germany, Brazil and Indonesia) (OECD, 2008b: 265). The research first uses enterprise-level data to assess the direct impact of FDI on wages, which seems to provide general support for the literature to date, that is to say that econometric analysis shows that foreign presence improves the wages of workers *within* the FIEs (OECD, 2008b: 265). The enterprise-level data appears to show large improvements in the wages of employees in firms that received foreign takeover, with workers in developing nations receiving larger premiums that those in developed nations (*ibid.*). However, the research then goes on to use worker-level data, which reveals a more complex picture. First, worker-level data shows that employees that move from domestic enterprise in to an FIE receive an increase in pay

[54] One could argue that research conducted by organisations such as the OECD and the ILO may be prone to bias, the organisations themselves having their own agenda. However, as long as when using such sources we are aware of the potential for bias and we remember to clearly separate opinions from analysis, they should still provide us with useful sources of accurate data and information.

ranging from 6% (in the UK) to 21% (in Brazil), which is consistent with the literature as far as wage premium being more significant in developing nations (OECD, 2008b: 266). Second, when worker-level data is used it reveals that the wage premium associated with being in an FIE is greatly reduced, and it is shown that a large part of the enterprise-level 'gain' in average wages actually arises from higher wages being offered to new hires rather than to current employees, in the short-term at least. The study does argue that in the long run, large within-firm wage differentials would be difficult to maintain and so any salary benefit that new hires receive will eventually trickle down to other employees, which if true then introduces a time element to the consideration of FDI-wage effects: does the foreign investment benefit workers in the FIE in the short and/or long run? The researchers were further able to separately analyse the effect of working in an FIE for three broad categories of skill level, showing that different skill sets receive different impacts. For the emerging economies: Brazilians who were unskilled or semiskilled saw a positive effect on their wages, whereas the skilled workers saw a negative salary effect; Indonesians saw a large positive impact if they were skilled and a positive impact if they were unskilled. As the OECD rightly point out, the firm-level data analyses have strongly contributed to the perception that foreign firms pay higher salaries than domestic firms, and that this effect is larger in developing nations (OECD, 2008b: 278). Worker-level data clearly shows that more detailed attention is needed in this area in order to clarify this generalised perception.

Alongside issues centring on being able to use enterprise- or worker-level data to analyse the effects of FDI on wages, we must also be aware that we cannot simply state that results which hold true for some developing economies – for example, Brazil, Indonesia, Mexico and Venezuela reported above – will necessarily hold for China. Zhao (2001) contributes to the literature on FDI-wage interactions by investigating the effect of foreign investment on wages for a small sample of households located across a wide area of China: a household survey conducted in 1996 covering almost 4,800 households across six provinces. Building upon the conventional wisdom that FDI can raise the relative wages of skilled workers by bringing in skill-biased technology, Zhao postulates that foreign investment can still increase the relative wages of skilled workers even without SBTC (skill-biased technological change)[55] occurring *if* the host nation has a strongly segmented labour market with high labour mobility costs (2001: 40). Using an OLS regression and controlling for differences in skill-biased technology, Zhao compares the wages of skilled and unskilled workers in State-owned enterprises versus those in foreign affiliate enterprises in China finding that *less educated* workers earn significantly less in the foreign firms than in the SOEs, but *more educated* workers earn more in the foreign firm that in SOEs (2001: 56). Aside from the caveats concerning the categorisation of 'skilled' or 'unskilled' employees, the results seem to indicate that, in the regions studied at least, there is evidence that foreign investment

[55] For some reviews on how SBTC is said to be influencing earnings inequality across (hence income inequality) across both developed and developing nations, see Feenstra and Hanson (1997), Machin and Van Reenen (1998), Berman and Machin (2000) and Borjas (2008: 306-208).

brings higher returns to education that would be expected from skill-biased technology alone, which Zhao argues arises owing to China's labour market being highly segmented. Zhao reasons that foreign firms have to pay much higher wages for skilled workers owing to high mobility costs, but that they need not for unskilled workers and hence the foreign firms are contributing to an increasing wage gap (*ibid.*). This paper is based upon evidence from 1996 when the labour market was considerably different to today – anecdotal evidence from Qingdao suggests that for skilled workers, there are not the barriers to labour mobility that Zhao suggests were in existence in 1996. However, the paper is one of the few that attempts to explore the FDI-wage relationship in China and highlights the difficulty in getting recent, detailed information to analyse.

As well as the few papers that explore the FDI-wage relationship within developing nations, for China we have a plethora of anecdotal literature that attempts to highlight some of the negative factors that are associated with working in FIEs in China: Anita Chan (1998; 2000; 2001; 2003; 2006; 2007) has published extensively on the topic of labour relations in China, a large section of which is focused on experiences of migrant workers in foreign-invested firms. In Chan's work, which will be explored in more detail shortly, one issue that is frequently raise centres on wages in FIEs; she cites many examples of employees in certain FIEs being subject to unfair treatment relating to pay, by methods including unfairly docking pay (fines for lights being left on, for untidy dormitories, lateness and so on), ignoring legal requirements such as overtime pay, and even withholding pay altogether (2001: 6, 11-12). She argues that the generalisation that workers in foreign-funded enterprises earn higher wages than those in domestic firms is false because it fails to take in to account the different sources of investment: Asian or Western (2001: 11). Similarly to the recent work by Buckley *et al*. (2007) that stresses a focus on the characteristics of the investor in order to understand the true impacts on a host economy, Chan's fieldwork reveals that Western investors, *normally* more capital-intensive in nature, usually pay comparatively higher wages to production line workers and do not have the same reputation for mistreating workers in China that East Asian investors have (particularly South Korean, Taiwanese and Hong Kong investors) (2001: 11). Her research reports that one of the major sources of labour disputes in the mid- to late-1990s concerned the withholding of wages by FIEs, mostly owed to migrant workers by East Asian investor FIEs (Chan, 2001: 11). Whilst care must be taken to allow for any ideological agenda in mainland media reports that may, for example, give more focus to a Taiwanese factory mistreating workers than a Western firm, the anecdotal evidence further highlights that it is simply foolish to claim that FIEs pay more or less than domestic firms because there are a huge number of factors that will influence the situation, two important factors being the capital-intensity of the investment and the nationality of the investor.

The FDI-wage literature has a considerable section devoted to investigating positive and negative externalities – spillovers – generated by FIE presence on wages across local labour markets. There are many ways in which FIE presence can theoretically affect labour market

wages, for example the presence of FIEs requiring higher skilled employees will influence the supply/demand situation in the local labour markets, thus effecting wages[56,57] (Dunning and Lundan, 2008: 438; OECD-ILO, 2008: 15; OECD, 2008b: 289). Furthermore, in a similar way as was expounded when discussing FDI and employment, domestic firms may be able to improve productivity by acquisition of foreign know-how (Karlsson *et al.*, 2009: 180), or conversely extreme competition could affect domestic firms negatively and in extreme cases lead to unemployment (Buckley *et al.*, 2007: 714-715); both scenarios can influence wages paid in the wider labour market. However, as stressed previously, we are concerned with the experiences of FIE employees rather than the experiences of employees in the wider labour markets, therefore it is not necessary to review the literature here: briefly, there is as yet no consensus as to whether FIE presence has any effect on wages in the local labour market.[58]

[56] Some research has attempted to clarify the effect of FIEs on the labour supply/demand and any corresponding effect on wages. Feenstra and Hanson (1997), for example, show a positive indirect effect of FDI on domestic skilled workers' wages, which they put down to the increased demand for skilled labour owing to skilled-biased technology brought in by the FIEs. The authors took advantage of the concentrated inflow of FDI in to Mexico in the 1980s (most of the investment was heavily concentrated on US border regions) to see if FDI presence correlated with the increasing wage inequality recorded throughout the late 1980s. Using the fairly rough tool of percentage of skilled wages in total wages in the region, the authors show that the growth in demand for skilled labour is positively correlated with FDI growth, and that in areas with high concentrations of FIE presence, its presence explains over fifty percent of the increase in skilled labour wage share that occurred in the late 1980s (1997: 371).

[57] The increased demand for skilled workers will force all companies that wish to hire or retain skilled workers to pay higher salaries in the short term. In the long term, assuming that the labour supply of skilled workers is elastic with respect to wages, more skilled workers should eventually enter the market thus forcing the wage back down to the equilibrium wage (Borjas, 2008: 196-199). Equally possible, the presence of capital-intensive FIEs may reduce the demand for labour in the *local* markets, which may then lead to the reduction of wages in the short-term.

[58] As well as the results relating to the direct effects of FDI on workers within FIEs reported already, the recent OECD (2008b: 278) research attempted to find evidence of foreign presence affecting the wages of workers in domestic enterprises: the resulting evidence was weak. Using Indonesian firm-level data for the 1997 to 2005 period, the study assessed the impact of foreign presence on wages in domestic manufacturing plants in the same region and industry (OECD, 2008b: 290). The regression sought to clarify if domestic wages are affected by foreign presence and to explore if this effect is largely through domestic productivity increases or through labour market interactions (*ibid*.). Fairly consistent with the Aitken *et al*. (1996: 345) evidence for Venezuela and Mexico (which found no evidence of foreign presence causing an increase in wages of workers in domestic enterprises), the evidence is weak concerning FIE presence affecting wages of employees in domestic enterprises. However, it does indicate that any wage increase that does occur owing to foreign presence is most likely due to the FIE competing for labour rather than being productivity-driven (OECD, 2008b: 296). The debate is not settled, with evidence to the contrary also being in the literature. Slightly earlier work on Indonesia reports, contrary to some literature (Aitken *at al*. 1996; OECD, 2008b), significant correlations between foreign presence and domestic wages (Lipsey and Sjoholm, 2001: 11-12; 2004: 329-330). Using Indonesian manufacturing census data, Lipsey and Sjoholm show that at various levels of industry identification (two-, three- and five-digit ISIC coding) there is a positive effect of foreign presence on domestic wages, with the effect being greater using the two-digit industry codes for comparisons (*ibid*.). Targeting the focus on provincial data, thus assuming more realistic provincial rather than national labour markets, shows the same evidence with white collar workers gaining slightly than blue collar workers with increased provincial foreign penetration (*ibid*.). Lipsey and Sjoholm show more evidence in an earlier paper (2001: 11-12) for indirect impacts of foreign presence on domestic wages, by regressing the plant-level wages for blue collar and white collar workers in domestic firms against variables that include foreign presence (proxied by foreign

From the above review we can see how the most promising research relating to the impact of FDI on wages requires a rich level of data. The differences that emerge across the results when analysing enterprise-level or worker-level data show that, whilst enterprise-level analysis can still contribute to the literature if care is taken to control for as many relevant factors as possible, worker-level data is best. Although the literature has yet to draw firm conclusions concerning the affects of FDI on wages in developing host nations, data limitations prevent us from positively contributing to this debate.

FDI, Employment and Wages: Research Contributions

As we have seen, there is a growing body of literature addressing FDI-employment and FDI-wage issues, but there are still many unanswered questions surrounding the true effect of FDI on a host economy's workforce. Although data limitations prevent us from positively contributing to the FDI-wage debate, this dissertation will make useful contributions to the debate concerning FDI and employment. By performing a detailed analysis of all the statistical data relating to the volume and nature of FDI present in Qingdao, as well as comparing FIE and total employment levels, we will be able to draw reliable conclusions as to how FDI has contributed to the employment markets in Qingdao in terms of the nature of employment opportunities – capital- or labour-intensive – and the volume of employment opportunities generated in the 1996 to 2009 period.

2.4 Experiences of Individual FIE Employees (Micro-level)

The final area we shall address in our literature review concerns the experiences of individual FIE employees that emerges through more qualitative research. Scholars such as Theodore Moran (2002; 2003; Moran *et al.* 2005), Kimberly Elliott and Richard Freeman (Elliott and Freeman, 2003) research and report on the wider impact of globalisation on labour standards in general, and others such as Anita Chan (1998; 2000; 2001; 2003; 2006; 2007), Ching Kwan Lee (2007), Mary Gallagher (2005) and Tim Pringle (2011) engage in more China-focused research, covering in extensive detail the experiences of employees in FIEs and labour relations issues. First we shall review the literature focused more generally on the effects of globalisation on individual workers before then moving on to the China-focused literature.

In the early 2000s, in an attempt to add clarity to the debate concerning foreign investments in developing nations and the 'sweatshop' image, Moran (2002) published a book that took a wide-ranging and in-depth look at the effects of globalisation on workers in developing nations that has arisen due to FDI. The book occasionally gives the impression that the positives of FDI are given more weight than the negatives, but it still provides us with a useful picture of how individuals are affected by FDI across the globe. Moran (2002:

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plants' share of value added for a particular industry at a national and provincial level). The evidence pointed to a significant influence of foreign presence on domestic wages (2001: 12). This illustrates that there is still as yet no definitive answer on the indirect effect that foreign investment can have on domestic workers' wages.

11-12) acknowledges that whilst some employees in developing nations face extremely arduous working conditions when working for FIEs or sub-contractors of FIEs that manufacture labour-intensive goods, detailing a long list of physically and psychologically damaging punishments that have been known to occur, conditions do vary across enterprises – presumably suggesting that we should put such reports in perspective and not assume that all labour-intensive investments will enforce poor labour standards. He argues that FDI invested in developing nations in 1997 (and stock totals until 1997) overwhelmingly favoured more advanced industrial sectors, even allowing for a doubling of the capital flowing in to textiles, garments and footwear industries to allow for sub-contracting 'investment' (Moran, 2002: 6-7) – although this does seem to neglect that fact that the cost of a labour-intensive footwear factory will be many times less than that of an electronics assembly line. Moran (2002) details many examples where foreign investment in nations such as Mauritius, Madagascar, the Philippines, the Dominican Republic, and Costa Rica have led to the development of the local workforce.

One element that he focuses upon is the "empowerment" of female employees in Asia and Latin America; surveys of female factory workers reportedly show that employment offers them autonomy, status and self-respect (2002: 15).[59] Higher female participation in the workforce has been shown not only to affect the individual female, but have broader impacts of family life as an increasing percentage of national income is then directed towards health and nutrition (Moran, 2002: 15).

Moran uses evidence from a variety of nations to show that there are clear benefits to individuals working in FIEs, arguing that as the level of FDI sophistication advances in a nation such as the Philippines, it has been shown that conditions for all workers – including those in the lowest-skilled FIE roles – improve (Moran, 2002: 32, 43).

When discussing methods to protect and safeguard individual employees from potentially damaging working conditions, he argues against the idea of using institutions such as the WTO to enforce minimum working condition standards (2002: 66-76), and argues – rather one sidedly – that a minimum/living wage is not a sensible addition to core labour standards as it will be impossible to manage and will result in unemployment in developing nations (2002: 51-57).

[59] This echoes evidence found in earlier research by Ching Kwan Lee (1998). Lee spent time with migrant factory workers in China to find out what motivates them to endure the arduous conditions on offer in some labour-intensive FIEs. She discovered that for the young migrant women in particular, earning an independent salary was not only offered a better way to help their family back in their rural home town, but also provided them with freedom and economic liberation that was previously undreamt of for women in their home towns. Life in their home town meant a life of pre-determined destiny in terms of marriage and so on, as well as being dominated by their fathers and brothers. They see the 'unbearable' working conditions as a path to liberalisation. To these workers, the foreign investment that creates these factories and jobs is a chance to develop and enhance their lives.

His work seems to suggest that where there are situations of extreme working conditions, they should be tackled as best as can be but that they are most likely just a phase and that matters will improve as the technological level of the FDI increases. Moran's work reminds us that there is of course a range of labour standards across FIEs and that one should not make blanket assumptions about the experiences of workers in FIEs in a nation – either positively or negatively. As we have shown previously in this chapter, factors relating to both the nature of the investment and to the host nations will influence how an FIE operates. This does not mean that we have to study at an enterprise level in order to get the best picture of worker experiences within FIEs, but it does mean that we should look at FDI presence in the most detailed and localised light possible when addressing our target city of Qingdao, as well as gain worker insight where possible.

Writing on the subject of globalisation's influence on labour standards, Kimberly Elliott and Richard Freeman frequently contribute to the debate, one insightful example being their joint book entitled *Can Labor Standards Improve Under Globalization?* (Elliott and Freeman, 2003). They explore both sides of the argument – those who argue trade and investment are key tools in alleviating poverty in developing nations versus those who do not – and report that there are many examples of perils faced by employees in the more labour-intensive operations (2003: 135), and many difficulties in attempting to tackle them so as to improve the lives of individual FIE employees. As the authors point out, a majority of the global workforce is Chinese, therefore worker standards in China (across all enterprises – not just FIEs) are important globally (2003: 119). As referred to previously in this chapter, the authors discuss the issues surrounding monitoring labour standards within private and foreign enterprises in China (2003: 62). Their work highlights the controversy surrounding labour standards in FIEs in developing nations making specific references to China, which further justifies this dissertation's focus that seeks to explore the experiences of FIE employees in Qingdao.

As for China-specific literature, one channel that has exposed some of the perilous working conditions within private enterprises and FIEs in China is via reports in the media, bearing in mind of course that these will tend to be the more extreme examples.[60] As Anita Chan notes (2001: 6), the first of these articles began to emerge in the Chinese media around 1991. In the insightful book entitled *China's Workers Under Assault*, Chan (2001) provides detailed and graphic accounts of the situations faced by employees in both foreign and domestic private firms throughout the 1990s. Chan (2001: 21-106) cites many examples of Taiwanese, South Korean and Hong Kong JV investors operating enterprises with extreme disregard for pay and working conditions, such as pay being withheld, no health and safety precautions

[60] The research reviewed below is based on extensive fieldwork interviews supplemented by qualitative data such as media reports; relying solely on media reports to gauge the experiences of those Chinese employed by FIEs may lead to erroneous conclusions owing to potential reporting bias in the media – singling out particular nationalities of foreign investors for political or ideological reasons, and only reporting extreme cases. Work such as has been done by Anita Chan reminds us that we must take a holistic approach to build up an accurate picture of the experiences of FIE employees.

despite the presence of toxic chemicals, corporal punishment, ritual humiliation and, in one case, an employee being placed in a cage with guard dogs. These, of course, represent the extreme examples throughout the 1990s, but the fact that such examples happened at all – to whatever extent – is cause for alarm. It is also necessary to state that, as Chan (2001:7) clearly highlights, the main victims of labour rights violations according to her research are migrant workers. Her fieldwork throughout the 1990s showed that employees within JVs that were formed by the partnership of SOEs and foreign investors tended to be more aware of their rights than migrant workers were, and were not open to exploitation based on their residency status (2001: 43). In a similar vein as to that which we have previously noted regarding the differing effects of FDI depending on nationality of investor, Chan's Beijing-based fieldwork of the mid-1990s clearly illustrates that the wellbeing of employees within JVs correlates with whether the foreign investor is of Asian (excluding Japanese) or non-Asian origin (Chan, 2000). Using Chinese government statistics she argues that as a majority of the foreign investment flowing in to China in the mid-1990s was of overseas Chinese origin – such as Taiwan or Hong Kong – rather than from Western nations such as the USA, Germany or the UK, therefore most of the employees in JVs will be in overseas Chinese-partnered JVs (2000: 45); she reveals that the most common worker-management relationship she found in the mid-nineties was for FIEs to operate what she calls the *Asian Authoritarian Pattern* (*ibid.*). She reports that worker wellbeing in such firms was rather poor, giving examples where working conditions are extreme, such as: long shifts, few (or no) toilet breaks, low pay, high rates of accident and injury, dull and repetitive work with pressure for high speed performance (2000: 45). She particularly highlights extreme conditions found in South Korean- and Taiwanese-invested enterprises, and to a lesser extent those from Hong Kong (2000: 46; 2001: 10-12).[61] Chan (2001: 15) also notes that whilst some bureaus and agencies within the state apparatus are pro-labour (or at least neutral), some departments have been known to work with local businesses and simply disregard reported exploitations of the labour force. Similar to later work conducted by Gallagher (2005: 64) that shows evidence of a "significant lack of will on the part of the developmentalist local governments [to enforce labour standards]", Chan's research shows evidence of local governments in some areas being overtly sympathetic to the needs of local business, it being a major source of revenue, and that competition to attract foreign investment can be argued to have contributed to a lack of will to rigidly enforce regulations concerning, for example, overtime (Chan, 2001: 15). Furthermore, in cases where the local

[61] Her work (2000: 43-44) on JVs in the mid-1990s shows some interesting parallels with the work of John Child (1994) reviewed earlier in this chapter. Chan states that the Chinese partners – at the time most likely SOEs – would strive for control of the personnel department with the JV, and this would be beneficial for the employees as the domestic partner would then push for regular provisions that former SOE workers were entitled to as well as ensure all labour laws are adhered to (2000: 43-44). In some cases, as both sides wished for JV success, the foreign investor would give a little and the Chinese partner side would not see to exploit the foreign partner, leading to a co-operative style of operation – she notes that this type of co-operation was rare (2000: 44). Recalling the work of John Child (1994: 277-279), we noted earlier that he also identified that out of the four possible scenarios for partner relationships he found within the JVs of the early- to mid-1990s, a fully co-operative style was the hardest scenario to achieve.

government is the JV partner, or in JVs where the majority of the staff are not local constituents (i.e. are migrants) then local governments have been shown to be more likely to side with management in disputes (*ibid.*).

The research above is focused on the 1990s; literature focused on labour disputes in China provides us with another angle to assess working conditions within FIEs in more recent years. Ching Kwan Lee's (2007) book entitled *Against the Law: Labor Protests in China's Rustbelt and Sunbelt* gives us, amongst other things, a picture of FIE employee experiences throughout the late-1990s and early-2000s. Perhaps again focusing on the more extreme scenarios – as one would when reviewing labour disputes – she paints a familiar picture of the exploitative conditions, sometimes physically and psychologically damaging[62] conditions, that individuals have reported as having faced in employment within FIEs (2007: 157-203).[63] Lee shows us that the experiences of migrant workers, some of whom are employed within FIEs, are similar in the early-2000s as they were during Chan's fieldwork reported above. Her work also reflects similar patterns concerning more exploitative scenarios being reported in particular nationalities of investor that are focused on more labour-intensive industries. In our analysis of the experiences of workers in Qingdao's FIEs during the 1996 to 2009 period, we can use the research of Chan (2001) and Lee (2007) amongst others to assist us in identifying the range of experiences that employees may face. Clearly it would be erroneous to conclude that if, for example, FDI in Qingdao was predominantly labour-intensive investment from overseas Chinese investors then all the employees would face such extreme conditions as depicted in the above research, but it does provide us with a range of potential experiences that employees could have faced in the earlier period of analysis.

During the late-1990s to early-2000s Mary Gallagher (2005) was also conducting fieldwork, which sought to compare the experiences of workers in SOEs versus FIEs through qualitative research. She highlights the dangers of generalising when referring FDI, the term 'foreign' encapsulating so many different nations – with their accompanying different business cultures – and levels of sophistication of investment (2005: 2). During the author's fieldwork, from 1997 to 2003, she reports that a majority of the production workers in FIEs were female migrants (2005: 15); examples were also given of FIEs drawing the more skilled

[62] Examples include employees receiving humiliating corporal punishments in a Taiwanese FIE, South Korean FIE employees facing full body searches and Hong Kong FIE employees not receiving salaries (2007: 166-169). We must of course remember that when such stories are sourced from the media they are likely to be the extremes, and ulterior motives may influence which nationality of foreign investor are subject to such penetrating reports in the media; Lee's work relies not just on media analysis but also on substantial numbers of interviews.

[63] Whereas Chan's (2001) work depicts migrant workers in the 1990s in a very much helpless and exploited position, and Lee's (2007: 12, 202) work on a slightly later period depicts migrants as being similarly exploited although becoming slightly more empowered by their increasing grasp of how to best use collective action without incurring repercussions and when to use the law – despite their reservations about its effectiveness, Pringle (2011: 114-132) gives us one example from 2003 where migrant workers were very much in the stronger position with respect to the employers, their "sophisticated labour militancy in a tight labour market" (2011: 132) forcing local unions to explore the ideas of collective bargaining contracts. These migrants were not in FIEs, but the case study of Xinhe 'woollen sweater' town is an interesting comparison.

workers away from the “more egalitarian” state sector in order that they may benefit from their skills/knowledge (2005: 3, 15). This reminds us that different layers of the FIE workforce may comprise different segments of Chinese society, and therefore this may have a bearing on their workplace experiences. Gallagher argues (2005: 64) that the wide range of reported workplace environments within FIEs – from sweatshops in Southern regions to FIEs with highly evolved HRM practices around Shanghai – are an indication as to the enormous impact that enterprise management can have on the FIE’s internal labour practices; the lack of pressure or influence from unions or local authority (at the time of her research) meant that the management were the chief designers of the FIE’s labour practices. For the purposes of our research, this highlights a potential limitation which is that despite aiming to detail FIE presence at the most precise level possible (in terms of investment characteristics), we should bear in mind that there is still scope for variation even amongst narrow categories of FIEs owing to personal agency of the management. One factor that should mitigate the implications of this limitation is that the pressures on enterprise management from local authorities and union branches has changed considerably since Gallagher’s fieldwork – as we have seen earlier in this chapter – and so we can expect individual management characteristics to have less room for expression within the working environment.

Gallagher’s (2005: 79) work highlights several areas where individual FIE employees could be subject to unfair treatment during the mid- to late-1990s, which we can see from the legal developments detailed in section 2.2 were obviously of enough concern to the Central authorities to eventually warrant the further development (and enforcement) of new legislation.

Firstly, during the time of her fieldwork she reports that FIEs would regularly make use of short term contracts, one or two years in length, as a way to maintain their labour flexibility and deny employees job security (2005: 79). She provides evidence of some Japanese and Taiwanese FIEs forcing employees to agree to a pre-contract ‘apprenticeship’ period, during which the employee has no guarantee to a contract at the end of the period and also has no wage or insurance benefits, only a living allowance; such ‘apprenticeships’ clearly provide a potential avenue for FIEs to exploit employees (*ibid.*).

In addition, she reports that it was not uncommon at the time for employers to demand deposits from employees, and in some cases the employer would demand migrant workers hand in their ID cards and documentation for temporary residence in the locale, making it impossible for the employee to change employer (*ibid.*).

As stated in the work of Anita Chan (2001), Gallagher (2005: 111) confirms that attention became focused on labour conditions within FIEs in China dramatically throughout the 1990s, with both domestic media and human rights groups based in Hong Kong highlighting the conditions faced by employees at a time when a majority of the FDI was of Asian-investor origin and flowing in to labour-intensive industries. She highlights that during her

fieldwork, labour relations seemed to be worse between managers and workers in Taiwanese WFOEs, where managers made "no attempts to disguise their loathing of workforce" (2005: 94).

Her work highlights several issues: first, that alongside the more positive pictures of FIE employment painted by those scholars writing in favour of globalisation and its effects on labour standards, for China there is clear evidence of a variety of standards that individual FIE workers may face; second, there are undoubtedly a range of FIE labour practices and to generalise across 'foreign' firms, even at a city level, will leave us with meaningless conclusions – we should use the most detailed levels of information available and attempt to isolate not only the nationalities of investors in Qingdao, but sectors they are investing in and the capital-intensity of their investments so as to reveal a clear picture of experiences faced by FIE employees in Qingdao.

Academic research has strongly contributed to our understanding of the experiences of FIE employees in China and across the globe. It has shown us that there is rightly concern over the variety of experiences faced by FIE employees in China, from working environments and discrimination to worker-management relationships and opportunities for employee development. However, one of the limitations of academic research is that there is sometimes a significant delay between a fieldwork being conducted and the results and analysis entering the relevant bodies of literature. For China, we can augment our academic research analysis with information made available through several NGOs, institutions and websites that are tasked with providing a range of current reports detailing the experiences of individual FIE employees.[64]

Obviously one must always bear in mind any agenda that an organisation may have when reviewing the information that they provide; some of these websites provide greater levels of opinion and interpretation than others. For example, the *China Labor News Translations* website – which until September 2011 was edited by Anita Chan – provides straight forward English translations of Chinese articles relating to labour relations that have appeared in Chinese media,[65] whereas articles published on Han Dongfang's *China Labour Bulletin* sometimes have a more passionate overlay in their reports to better transmit the human side of the story.

[64] For example: the *China Labor News Translations* (www.clntranslations.org [Nov 2011]), a useful service that translates Chinese media articles relating to labour exploitation and disputes; *China Labor Watch* (www.chinalaborwatch.org [Nov 2011]), a Shenzhen and New York based NGO; *China Labour Bulletin* (www.china-labour.org.hk [Nov 2011]), a Hong Kong-based NGO founded in 1994 by Han Dongfang, who rose to international prominence after founding the *Beijing Autonomous Workers' Federation* during the 1989 Tiananmen protests; and a more globally focused organisation set up to promote CSR in the supply chain, WethicA (www.wethica.com [Nov 2011]), providing pictures and reports from supply chains in several countries.

[65] Of course, the translations may be free from opinion but the original article source may have injected its own bias, for example if the article is from a Chinese state media organisation such as *Xinhua*.

Sources such as these, as well as more regular information sources such as news channels, show us that the phenomenon of some individual FIE employees facing exploitative and extreme working environments persists and needs to be better understood as it continues to evolve. For example, the recent cases of the Foxconn suicides referred to above (BBC, 2010a, 2010b), or the reports of the bold actions of employees in 2010 at Japanese FIE factories – those of Honda and Toyota – walking out in protest at their treatment (BBC, 2010c; Pringle, 2011: 112).

One final point to note about the China-focused literature reviewed above is that it covers a range of time periods and locations, and that it predominantly focuses on the experiences of the migrant workers that comprise a majority of the FIE workforce. As stated in Chapter One, methodological implications for the qualitative research conducted during this project meant that the majority of the FIE employees were not shop floor workers; whilst this does not preclude them from being migrants – one interviewee stating clearly he was from a different province – we should bear in mind that different segments of the workforce may very well experience different working environments even within the same FIE.

To summarise, the literature we have reviewed relating to the individual experiences of FIE employees across the globe and more specifically China informs us of several things. First, it is clear that broad brush generalisations about whether FIEs provide a better or worse working experience for employees are generally bias and erroneous. We have seen that there are reports of both positive and negative experiences, which again further justifies our research aim of looking in the most detail possible before drawing conclusions. Second, when scholars have begun to delve in more detail as to the experiences of FIE employees in China, a certain pattern seems to emerge: those investors of South Korean, Hong Kong or Taiwanese capital that are focused in labour-intensive industries have a higher propensity to be the source of negative reports relating to labour relations. We must stress, in line with point number one, that this does not mean that ALL investors of those nations and in those industries will treat employees in an extremely exploitative manner. However, we can use such academic conclusions to inform our own research; if a large proportion of Qingdao's FIEs at certain time periods in our analysis are of this nature, we can draw inferences as to the likely experiences of FIE employees in those firms at that time. Finally, this section has shown us that negative conditions within China's FIEs are still reported, meaning that the issue is still a contemporary research topic that needs more attention in order to better understand how individuals experience their FIE employment.

2.5 Research Questions

The above four sections have reviewed each section of our research framework depicted in **figure B**. Through this analysis we have drawn out several key areas that must be addressed in this dissertation examining the experiences of FIE employees in Qingdao.

Section 2.1 focused on characteristics of the FDI and clarified that the capital-intensity of investment, the nature of investment vehicle, the sector of entry and the nationality of investor – and the characteristics this encapsulates – are all relevant factors that can influence and shape an FIE employee's experience. The section also addressed additional pitfalls of statistical data relating to FDI that we should be aware of (round-tripping), as well as stressed that whilst elements such as an MNC's CSR and HRM practices are of interest, they are beyond the current remit of this dissertation.

Section 2.2 reviewed China-specific factors that could influence the experiences of workers within Qingdao's FIEs: we saw further justification for assessing data at the most localised level possible; we saw how labour regulations have affected all enterprise workers to varying degrees; and we reported on the exciting new areas of research relating to the development of the ACFTU – an area that has already attracted detailed academic attention.

Section 2.3 highlighted that the FDI-employment and FDI-wage debates are still hotly contested, with the more promising research focusing on using worker-level data to reveal the true impacts of FDI. We stated that although data limitations prevent us from positively contributing to the FDI-wage debate, in the quantitative segment of this dissertation we will be able to make useful contributions: by performing a detailed analysis of all the statistical data relating to the volume and nature of FDI present in Qingdao, we will be able to draw reliable conclusions as to how FDI has contributed to the employment markets in Qingdao in terms of the nature of employment opportunities – capital- or labour-intensive – and the volume of employment opportunities generated in the 1996 to 2009 period.

Section 2.4 focused on the literature and sources that detail the experiences of individual employees within FIEs. We saw how there was a range of experiences reported and in China, whilst noting the risks of generalising at too much of an aggregate level, there seems to be a higher propensity for certain nationalities of investors in certain industries to be more 'aggressive' towards their workforce. Combining the above analysis with the aims of this dissertation as explicated in the title of the project, we arrive at the following three research questions to investigate:

Research Question One

At the most localised level possible to analyse, what have been the trends and patterns in Qingdao's utilised FDI across the 1996 to 2009 period in terms of: the sectors of investment; the nations investing; the investment vehicles preferred; the capital-intensity of investments; and FIE employment levels?

Research Question Two

What range of experiences do current (or recent ex-) FIE employees report in Qingdao, including (but not limited to): their attitudes towards FIEs; their opportunities for training and development; their perceptions of worker-management relations; and their experiences (if any) of discrimination?

Research Question Three

Based on the evidence and conclusions from research questions one and two, what can we reasonably argue about the experiences of FIE employees in Qingdao in the 1996 to 2009 period?

The next three chapters will describe and analyse the information and results gathered during the fieldwork stages in order to address these research questions. Chapter Three will briefly introduce the city of Qingdao and the wider province within which it is located, Shandong. Chapter Four will predominantly report the results of the statistical data, where as Chapter Five will be focused more on the qualitative evidence including the majority of the interview and questionnaire data. Chapter Six will combine all the results and analysis in order to revisit, and answer, the research questions.

Chapter Three: A Brief Introduction to Qingdao

We are not investigating why Shandong in general and Qingdao in particular are attractive for FDI, but it is necessary to briefly explore some of the factors that may be acting to positively channel foreign investments in order to build our understanding of the types of FIEs that may be present in Qingdao; we shall use motivations to engage in FDI as detailed in the literature reviewed in section 2.1 of Chapter Two to inform our approach. We will also note how Qingdao's FDI inflows lie in comparison to Shandong province's FDI, thus helping us understand why any particular type of FDI inflow dominates, if at all, in Qingdao. This introduction will also clearly justify why it is important that academic focus should be directed towards Shandong and Qingdao.

3.1 Shandong: A Location for Efficiency-, Resource- and Market-Seeking FDI

Shandong province has a favourable geographic position in China: it is situated at the mouth of the Yellow River (*Huang He*) and has over 3,100 kilometres of coastline (SDTJNJ, 2010: T12-1), which comprises around one sixth of China's total coastline (USCBC, 2003: 152). The province has a temperate climate and mostly consists of low-lying land, approximately sixty-five percent; the remaining territory is mountainous or hilly (UNESCAP, 2011). **Figure F** below depicts Shandong's location:

Figure F: Shandong Province

Source: National Geographic (2008)

As can be seen from the above map, peninsular Shandong lies in close proximity to South Korea. In fact, bar unlikely transit through North Korea, the Shandong peninsular is

geographically the closest investment opportunity in mainland China available to South Koreans. This geographical proximity suggests that we may see a dominance of South Korean investment within Shandong's and Qingdao's inward FDI. Theoretically, the close proximity of Shandong province to South Korea may facilitate the building of small communities of South Koreans within Shandong that would, in turn, facilitate the development of informal networks of business contacts.[66] Research has shown that one method used by smaller enterprises from Newly-Industrialised Economies (NIEs) – such as South Korea – employed to militate against and overcome the substantial risks involved in engaging in FDI, risks that may otherwise act as a barrier for small enterprises, is to utilise informal networks of contacts (Filatochev, Strange, Piesse and Lien, 2007: 558).

As well as relying on the presence of informal networks to reduce risk, some of the earliest work to look at the balance of factors that MNCs consider when weighing up whether or not to engage in FDI shows that cultural affinity is relevant. *Internalisation Theory*, pioneered by Buckley and Casson (2002 [1976]), explores the cost/benefit factors that govern an MNC's decision whether or not to engage in FDI, whether to *internalise* a market rather than license/sell the technology or export the finished product to the market. The theory describes how the balance and interaction of four elements are key to the MNCs decision: firm-specific factors (professionalism and proficiency of the firm's management, i.e. if they can 'handle' the internalised market); industry-specific factors (nature of products, structure of the external markets); region-specific factors (geographical AND social distances, i.e. CULTURAL AFFINITY); and nation-specific factors (political and fiscal aspects) (2002 [1976): 44-45). It can be argued therefore that the geographic proximity AND cultural affinity shared by China and South Korea may facilitate a higher-than-average presence of Korean FDI amongst the inward FDI of Shandong and Qingdao.

Further evidence for an expected higher-than-average presence of Korean FDI can be found with a cursory glance at the *Qingdao Statistical Yearbooks* (QDTJNJ): the yearbooks are tri-language, the statistics being annotated in Mandarin, English and Korean.

The geographical dominance of coastline presents Shandong with a clear potential infrastructure advantage, one that Qingdao has fully taken advantage of: ports. Research conducted by Li (2004: 154) highlights that infrastructure is one of the more salient factors considered by multi-national corporations when selecting potential FDI locations in transition economies, such as China. Convenient, modern port facilities are essential if an MNC wishes to engage in activities such as export processing, or if they wish to target a growing domestic market using imported products. Qingdao is one of the most important ports in China with facilities to handle container, ore, petroleum and coal shipping (USCBC,

[66] An historical account of the evolution of Qingdao from the late-1970s through to the mid-1990s (Chung, 1999) states that in the 1990s, the majority of overseas Chinese in South Korea were of Shandong decent. This may provide further explanation as to the close business links between South Korea and Shandong province.

2003: 157-158); in 2000 the port dealt with over 86 million tons of cargo, rising to just over 323 million tons by 2009 (SDTJNJ, 2010: T16-4).

Along with being favourably positioned, Shandong is also a naturally well-endowed province in terms of resources. It is the site of China's largest gold, sulphur and plaster reserves, it holds the second largest reserves for oil, diamond and granite, and it is amongst the top ten provinces in terms of reserves of coal, natural gas, iron and cement production (USCBC, 2003: 152; UNESCAP, 2011). This could potentially mean that we see resource-seeking FDI well represented in the inward investment data for Shandong overall.[67]

Alongside the geographical and natural resource-based advantages that Shandong and Qingdao possess, the presence of cheap, skilled, productive labour is also a key factor in terms of attracting FDI. Shandong is one of China's most populous provinces, the population in 2009 standing at 94.7 million people, placing it third in terms of provincial populations (SDTJNJ, 2010: Appendix T1-5). The number of formally employed people has risen steadily over the last decade from 53 million in 1999 to just shy of 63 million in 2009 (SDTJNJ, 2010: T4-2). Qingdao[68] also has an increasing registered working population, growing from just under 4 million people in 1999 to five and a quarter million employed in 2009 (QDTJNJ, 2010: T3-1).

This growing workforce is also competitively priced in terms of salaries. Although accurate details on wages are difficult to come by for China, Shandong statistics show that even as recent as 2006, the average wage of "staff and workers" in "foreign funded units" in Shandong was still only 25th highest out of China's 31 provinces (SDTJNJ, 2007: 700); for that year, the average "manufacturing" wage for Qingdao (across foreign AND domestic enterprises) places Qingdao 4th out of the 17 administrative city regions in Shandong (SDTJNJ, 2007: 102). For 2006, Qingdao's average wage for "manufacturing" enterprises compares favourably to the average for China overall: for Qingdao, the average was 17,848 yuan *per annum* whereas China's average was 18,225 yuan *p/a* for employees in manufacturing units in urban areas (SDTJNJ, 2007: 102; ZGTJNJ, 2007: T5-20). Although these statistics are not meant to be concrete statistics of salaries – an 'average' wage for China is, after all, rather a meaningless statistic – it does provide an *indication* that Shandong and Qingdao have competitively priced labour. Once again, there is reason to assume that South Korean investment will be seeking out Shandong and Qingdao as

[67] Although it should be noted that sectors that are economically important to China have strict controls in terms of permitted foreign investment – a topic we shall return to shortly.

[68] Unless specifically stated otherwise, use of the word "Qingdao" should be taken to imply the whole of the Qingdao city administrative region, not just the seven districts making up Qingdao city. The seven districts of Qingdao city proper are: Shibei district (市北区), Shinan district (市南区), Sifang district (四方区), Licang district (李沧区), Laoshan district (崂山区), Huangdao district (黄岛区) and Chengyang district (城阳区). The five satellite cities, know as county-level cities each of which is further sub-divided in to administrative districts and villages of their own, are: Jiaozhou city (胶州市), Jimo city (即墨市), Pingdu city (平度市), Jiaonan city (胶南市) and Laixi city (莱西市). It has not been possible to find an English language map that illustrates this, but a Chinese language map has been annotated and included in the **appendix**.

investment locations because, as research has shown, historically one of the main driving factors behind Korean FDI is the rising domestic labour costs (Kang and Lee, 2007:442).[69]

As well as having a growing, low-cost workforce, Qingdao also has growing numbers enrolled in and graduating from higher education, and growing numbers of R&D specialists, all of which imply an increasing availability of skilled employees. 1999 saw a little under 34,000 students enrolled (in total) in higher education institutes across Qingdao, with 7,200 graduates entering the employment market that year; by 2009, this had risen to over 275,000 students enrolled in higher education and 69,000 graduates potentially entering the job market (QDTJNJ, 2010: T17-2, T17-3). In terms of "scientific and technical personnel" employed in enterprises "above a designated size",[70] as a province Shandong has seen numbers grow from just under 179,000 people in 2000 to over 273,000 people by 2008, with those specifically dedicated to R&D rising from 63,000 to 141,000 across the same period (SDTJNJ, 2010: T18-11). Of these numbers, Qingdao had over 40,000 scientific and technical personnel in 2008, around 20,500 of which were employed as R&D specialists (*ibid.*). The increasing numbers of skilled, technical labour within Shandong and Qingdao bodes well for the province as confidence levels of large MNCs in China's promising but low-cost scientists increases: around 2002, Intel and Microsoft both reportedly began setting up research labs in China specifically to take advantage of the cheap and bright R&D personnel (Buckley, Clegg and Wang, 2002: 639).

Favourable geography, well-developed infrastructure, and the increasingly skilled but low-cost labour force, factors that could potentially contribute to attracting efficiency-seeking FDI, are not the only positive appeal of Shandong and Qingdao; the growing domestic market and increasing consumption power of the Shandong citizenry could attract foreign investors with a more China-focused strategy, the so-called market-seeking FDI.[71]

Table C shows calculations based upon the data for indices of household consumption (with 1978 = 100), measured at constant prices so as to militate against the potential bias effect of inflation inherent in a time series comparison using current prices. This data can provide us with a proxy to indicate the growing demand of households to consume within Shandong province. As can be seen, there is real growth in household consumption as of the 1990s, growing at over 11% for almost two decades. Although there was a clear disparity in growth rates comparing urban and rural households in the 1990s, this seems to have equalised somewhat in the recent decade. These figures show that there is a healthy level of

[69] This surface level comparison of wages does not take in to account differences in labour productivity: it is not within the remit of this dissertation to explore differences in labour productivity. We are simply using these statistics to provide indications of comparative differences.

[70] Literally: 规模以上工业企业, meaning those industries above a certain scale of size and operation, as designated by the statistical authorities.

[71] Diverging from the core FDI literature that seeks to explain why foreign investments are attracted to certain locations, we can find parallels concerning the importance of market-related factors – such as market size and forces of agglomeration – in Krugman's work on economic geography. See, for example, Krugman (1995: chapter two; 1998; 1999: section three).

consumption demand across Shandong province, thus implying potential appeal to investors seeking to target China's domestic markets.

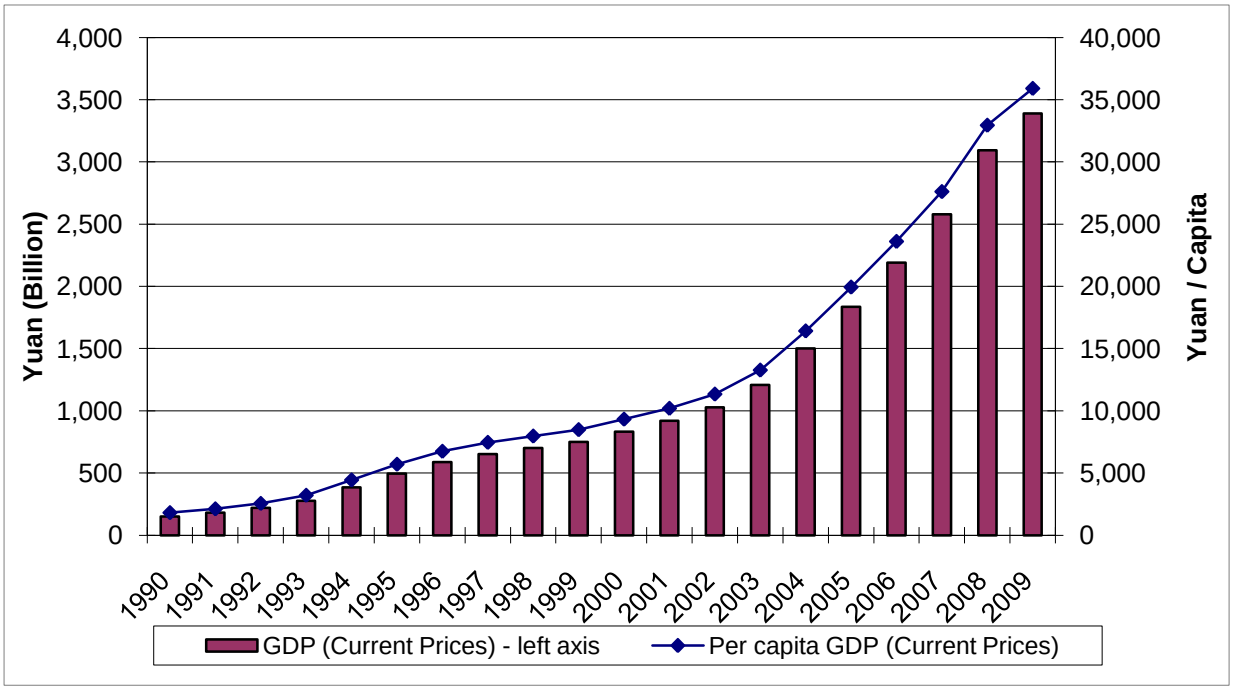
Table C: Average Annual Percentage Growth Rate of Household Consumption (Constant Prices), 1980-2009

	ALL H/H	RURAL H/H	URBAN H/H
1980-1989	4.2	5.9	2.2
1990-1999	11.3	7.9	12.3
2000-2009	11.7	9.4	10.9

Source: Author's calculations based on SDTJNJ, 2010: T2-8

A more common way to estimate market potentials is to use data to measure the size of the local economy, either by GDP or GDP per capita. In theory, the higher the GDP per capita, the higher the probability for households in that economy to have disposable income and thus to act as potential consumers. **Figure G** depicts GDP and GDP per capita for Shandong:

Figure G: GDP and GDP per Capita for Shandong (Current Prices), 1990-2009[72]

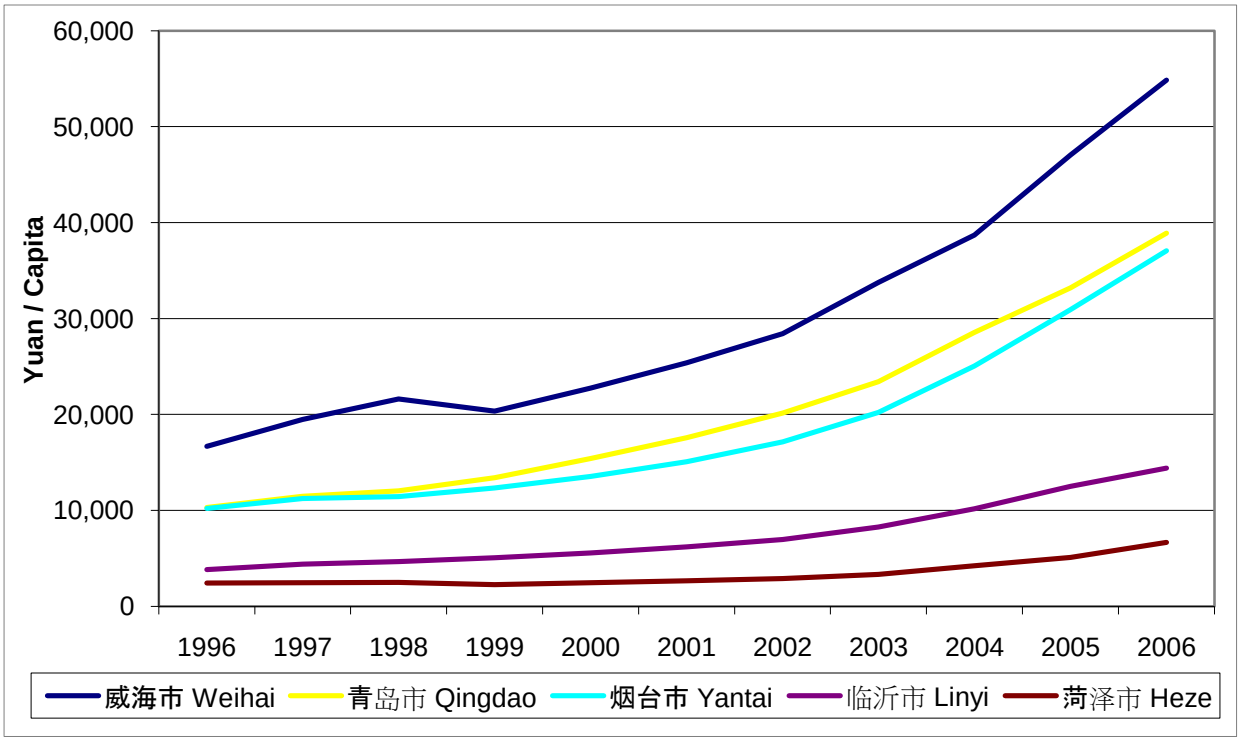


Source: SDTJNJ, 2010: T2-1

[72] Statistical limitations mean that the data in this graph are current prices rather than constant prices. The SDTJNJ does contain constant price *indices* (for example, SDTJNJ, 2010: T2-4), but the indices are on a year-on-year rolling basis rather than from a fixed year, which meant it was more straight-forward to take advantage of the readily accessible data at current prices. Although this subjects the graph to possible inflationary distortions, the general trends should remain unchanged and it is the general trends that we are interested in for this chapter rather than exact figures.

The graph clearly shows that from the early 2000s onwards there has been a significant increase in not only the size of the economy in Shandong overall, but also the per capita GDP and, therefore, by proxy the potential for the populace of Shandong to act as potential consumers. If we conduct a similar analysis at a city level, we see that Qingdao is one of the stronger performing cities: **figure H** illustrates the GDP per capita for five regions in Shandong that had the three highest[73] and two lowest GDP per capita values in 2006:

Figure H: GDP per Capita for a Selection of Cities in Shandong (Current Prices), 1996-2006



Source: Author's calculations based on SDTJNJ, 1997: 22; 1998: 28; 2000: 30; 2002: T2-11; 2003: T2-11; 2006: 46; 2007: 53.

This growing potential market at the provincial and sub-provincial level indicted by the data in **table C** and **figures G** and **H** means that as well as Shandong being a *potential* site for efficiency-seeking and resource-seeking FDI for the reasons identified earlier in this chapter, it also has characteristics that could appeal to market-seeking FDI, too. Owing to the fact that Shandong and Qingdao are appealing places for foreign direct investment, it is essential

[73] Dongying City – which has the highest recorded GDP per capita in Shandong from 2000 to 2006 – has been removed from the analysis. Examination of Dongying's GDP reveals that the basis of its strong performance is oil. In 2001, 73% of its GDP was from 'value-added industry' (工业增加值) (DYTJNJ, 2002: 5); a statistical breakdown of 'value-added industry' is not given, but using 'total output value of industry' (工业总产值) as a proxy we see that in 2001 over 60% of 'total output value of industry' was from the government-owned and controlled *Shengli Oil Field* (DYTJNJ, 2002: 72). With the price of oil rising high over the last few years (*WTRG*, 2011), it will be unsurprising if the contribution of the *Shengli Oil Field* to Dongying's GDP is not even higher in recent years; the author was unable to check later editions of the DYTJNJ. The measure of GDP per capita for Dongying, therefore, is not a good proxy for potential market size.

that we understand the full effects of inward FDI on the local populace to enable the local authorities to better shape the policy environment. The following section will briefly review the FDI that flows in to Shandong, highlighting its significance in terms of China's overall inward FDI, and will further justify why we should look at Qingdao in particular.

3.2 Shandong: Encouragement to Invest

Shandong province is a significant economy within China and up until the recent global financial crisis, absorbed an ever increasing percentage of China's inward FDI. Shandong has been consistently in the top three largest provincial economies from 2000 through to 2009, being second biggest in 2004 and 2006 (SDTJNJ, 2009: Appendix T1-2; 2010: Appendix T1-2). As a province, Shandong absorbed 4.3 percent, 6.9 percent, 7.3 percent and 14.8 percent of China's FDI for the years 1990, 1995, 2000 and 2005 respectively; the absorption level stayed at around 14-15% for the period of 2004-2007 (SDTJNJ, 2010: T6-5; ZGTJNJ, 2008: T17-14).[74]

Shandong has always been one of China's most significant provinces. Three port cities within the province, including Qingdao, were amongst the first 14 coastal cities opened up across China to foreign investment back in 1984, and in 1988 the entire Shandong peninsular was declared an "open economic coastal area" by the State Council (USCBC, 2003: 152).[75] By 2009 there were 8 national-level "Economic Development Zones" across the province, and almost 140 provincial-level ones (SDTJNJ, 2010: T6-31); on top of this, there were also 5 national-level and 16 provincial-level "High and New-tech Development Areas" within the province in 2009 (SDTJNJ, 2010: T6-32).

Organisations and corporations seeking to study, promote or engage in FDI are clearly aware of the current potentials offered by Shandong province in general and Qingdao city more specifically; prior to the global financial crisis, several pieces of research by both the business and academic community highlighted Shandong and Qingdao as presenting highly attractive investment opportunities to potential investors.[76]

A World Bank report published in 2006 singled out Shandong province as holding strong investment prospects, and went on to specifically identify six "golden cities" of outstanding investment choice, one of which was Qingdao (World Bank, 2006: iv). Shandong was also a strong performer within research commissioned by the UK Department of Trade and Industry and conducted jointly by scholars at the Centre for International Business,

[74] As previously mentioned, these percentages are calculated using data from the *China Statistical Yearbook*. For more information, see footnote nine in chapter one.

[75] See Chung (1999) for an interesting historical account of how the city has developed, and some of the significant political figures that contributed towards the city receiving favourable treatment by the central authorities.

[76] As well as offering good investment potential, there is evidence that elements of the US authorities are keen to encourage US exporters to target Qingdao, alongside a selection of other so-called tier-two cities, as they reportedly have the potential to absorb huge amounts of US exports. See US Embassy in China (2006).

University of Leeds (CIBUL) and the China-Britain Business Council (CBBC). The purpose of the research was to identify some of the best investment opportunities available in China's regional cities for a wide range of UK businesses; thirty-five cities were identified[77] as having good investment potential for UK business, one-fifth of which were in Shandong, and a detailed analysis revealed Qingdao to hold some of the best investment potential overall, particularly for "ICT" and "Energy Technology" investments (CBBC-CIBUL, 2008: 8, 12, Qingdao Supplement).

Research division in financial organisations such as MasterCard have also conducted research that highlights Qingdao as a good investment opportunity, their "emerging markets index" placing Qingdao high on a list of desirable investment cities across the globe (MasterCard, 2008: 26).[78]

Research as reviewed above is likely to influence companies that are considering investing in China or expanding operations in China, and we have shown that Shandong and Qingdao are presented well in such research. We are not suggesting here that Shandong province offers a *unique* investment opportunity in China, but it is certainly a province that is attractive as an FDI location. It is therefore critical that we fully understand the nature of the impact of FDI within Shandong province and, as we shall now see, more specifically in the key city of Qingdao.

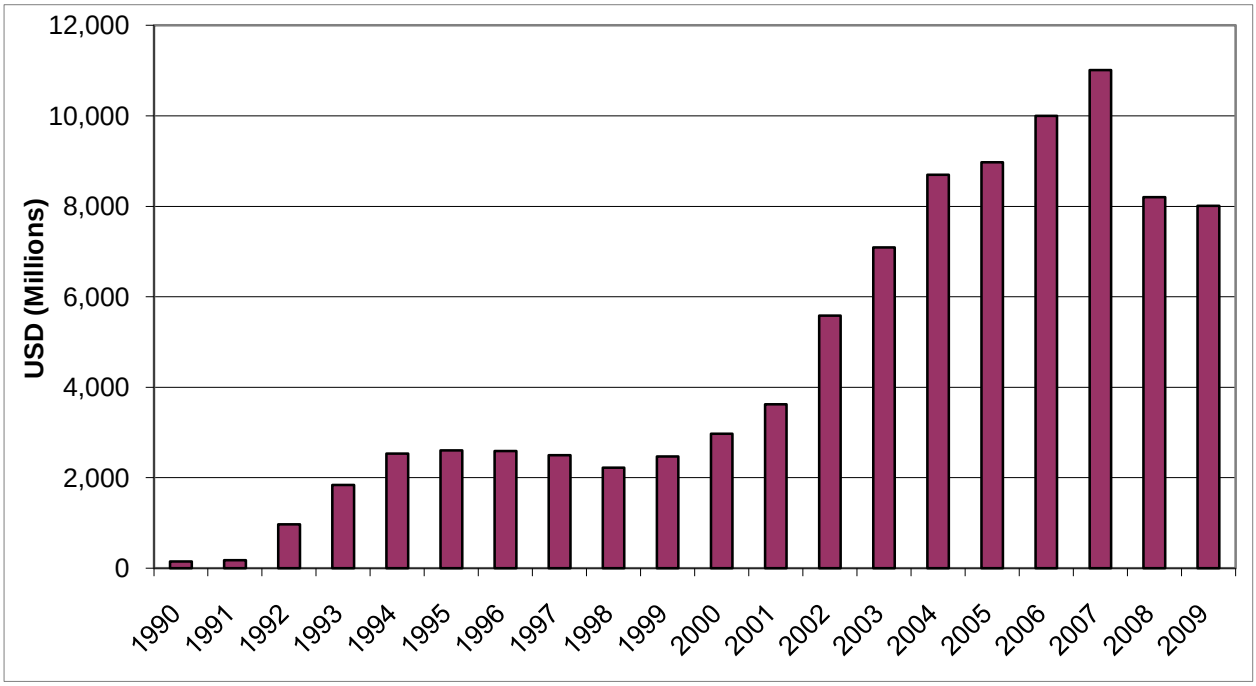
3.3 Shandong: Inward FDI

We shall now briefly detail the overall characteristics of the inward FDI to Shandong in general in order to gain an understanding of the investment environment within which Qingdao sits; the next chapter will review in much more detail the inward FDI specifically to Qingdao alongside its potential impacts on the Chinese workers in Qingdao.

Figure I shows the utilised FDI to Shandong for the period of 1990-2009, a period for which we have already identified that Shandong was taking an increasing share of China's inward FDI (up until 2007). Shandong's utilised FDI is comprised of a range of investment vehicles, from joint ventures (either equity or co-operative) to wholly foreign-owned enterprises (WFOEs); **figure J** illustrates the breakdown of Shandong's utilised FDI by investment vehicle for the period of 1992 to 2009.

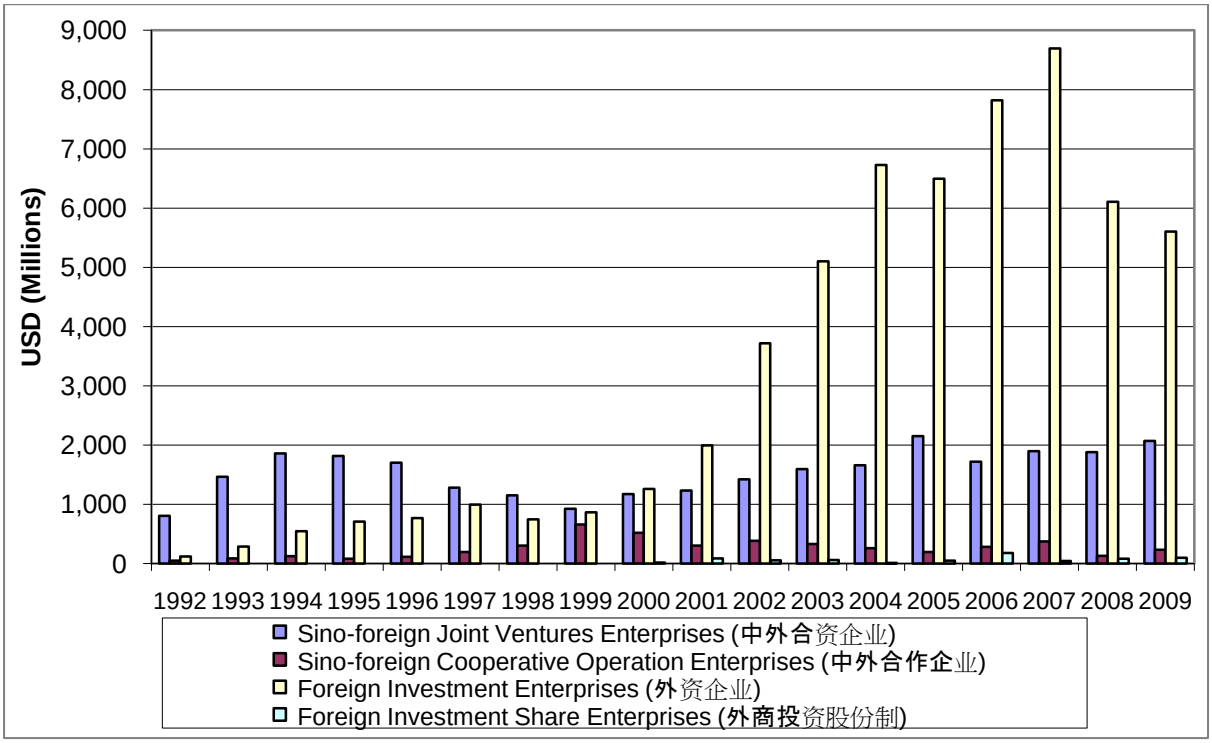
[77] See the full report for how the thirty-five cities were selected from all the 274 cities in China with a population over one million residents, excluding Beijing, Guangzhou, Shenzhen and Chongqing, and for how the detailed analysis was conducted of the business potentials of the thirty-five cities (CBBC-CIBUL, 2008).
[78] For a discussion on issues relating to the academic integrity of such research, see footnote ten in chapter one.

Figure I: Shandong's Utilised FDI, 1990-2009



Source: SDTJNJ, 2010: T6-5

Figure J: Shandong's Utilised FDI by Investment Vehicle, 1992-2009



Source: SDTJNJ, 1991: 456; 1993: 480; 1995: 471; 1997: 411; 1999: 320; 2000: 338; 2002: T16-6; 2003: T16-6; 2004: 405; 2006: 429; 2007: 538-39; 2008: 504; 2009: T16-6; 2010: T6-6

The key in **figure J** uses the terminology from recent editions of the *Shandong Statistical Yearbook* (SDTJNJ). The "sino-foreign joint ventures" correspond to equity joint ventures (EJVs), the "sino-foreign co-operative operation enterprises" correspond to co-operative joint ventures (CJVs), and the "foreign investment enterprises" are the WFOEs. This graph illustrates that the decreasing inward volumes of utilised FDI in to Shandong from 2007 to 2009 are driven by falling investments in the creation of WFOEs; investments in to the formation of EJVs has actually increased in the 2007 to 2009 period. The main information highlighted within this graph, however, is that WFOEs are the dominant investment vehicle for FDI flowing in to Shandong from 2001 onwards, corresponding to China's accession to the WTO and the opening up of more sectors to foreign investment.

The inflow pattern of investment vehicles at the provincial level, EJVs being dominant in the 1990s and then an increasing popularity of WFOEs in the 2000s, is reflective of the overall pattern for China at the national level, which is in part a reflection of policy decisions. From the early 1980s, the Chinese authorities were encouraging investors to enter the Chinese economy in the form of joint ventures, initially with specially selected state-owned enterprises (SOEs) and with enough restrictions to ensure that the Chinese authorities remained in firm control (Child, 1994: 261). The mid-1980s saw a shift in policy that legalised the wholly foreign-owned enterprise, possibly as a way for the Chinese authorities to improve their business image in light of the nation's application to re-join the General Agreement on Tariffs and Trade,[79] but that at the same time saw a strong emphasis, preference and encouragement placed on the formation of equity joint-ventures, which therefore became the dominant investment vehicle for FDI entering China in the 1980s (Kueh, 1992: 647); Naughton (2007: 412) reports that even in the period from 1987 to 1996, over half the inward utilised FDI for China as a whole was still directed in to the creation of EJVs. Pressure on state-owned firms to seek a foreign partner increased throughout the early 1990s as the Government began to reduce their close ties with the state-owned sector, scaling down SOE access to public funds and simultaneously attempting to separate ownership from management, thus hoping to encourage SOEs to restructure and improve efficiency, culminating in the 'grasp the large, let go the small' (抓大放小) SOE reform policy of 1997 (Naughton, 2007: 105).

However, the seemingly advantageous JV pairing of Chinese and Western management, the former who were used to how the domestic business environment and the later who were experts at operating in the global markets, was actually rather a fractious pairing (Jayachandran and Lin, 1999: 5; Tang and Ward, 2003: 177). The tensions and culture differences led many foreign partners to switch to establishing WFOEs instead of JVs, either as the creation of fresh investments or by buying out their JV partner (Jayachandran and Lin, 1999: 5; Tang and Ward, 2003: 180; Naughton, 2007: 412). In the early 1990s, despite the growing pressure on certain Chinese enterprises to seek foreign partners and capital, the

[79] The GATT evolved in to the World Trade Organisation on 1st Jan 1995 (WTO, 2011).

share of inward FDI choosing to establish WFOEs increased faster than that of the both types of joint venture combined (Lan, 1999: 215); in 2004, two thirds of all China's inward FDI was in to creating WFOEs (Naughton, 2007: 413).

Alongside the above analysis of the investment vehicle preference at the wider, provincial level, below we summarise the sector inflow patterns for the province at large in order to more fully understand the environment within which Qingdao is located. In terms of sectors that the investment is flowing in to, there was a brief period of rich data supplied in the *Shandong Statistical Yearbooks* that allowed for detailed analysis of utilised FDI inflows by investment vehicle AND sector. However, there are several limitations to the creation of a time series of data. First, the 2005 edition of the *Shandong Statistical Yearbook* was the last book to provide such detailed breakdown. Second, prior to the 2002 edition, the statistics are listed for *contracted* FDI instead of *utilised* FDI. Despite this, the data available is useful in that it highlights the following:

- In 1995, just over forty-eight percent of Shandong's *contracted* FDI entered as EJVs in to the "Industry" sector[80] and twenty-seven percent of the contracted FDI entered the same sector as WFOEs: a clear preference for the joint-venture (SDTJNJ, 1996: 480).
- By 2001 the pattern has strongly reversed with twenty-two percent of the total *utilised* FDI inflow entering as EJVs in the "Manufacturing" sector (a defined sub-set of "Industry"), compared to over forty-six percent entering "Manufacturing" as WFOEs (SDTJNJ, 2002: T16-9). More specifically, six percent (USD 197 million) of all the total *utilised* FDI for 2001 entered as WFOEs in the "Manufacturing of Electronic and Communication Equipment" category, followed closely by almost four percent entering the "Manufacturing of Textiles" (SDTJNJ, 2002: T16-9). The "Real Estate" sector is also a strong performing category for attracting firms in 2001, taking a little over five percent of all Shandong's utilised FDI inflow, the data unfortunately not recording the investment vehicle within this category (SDTJNJ, 2002: T16-9).
- By 2003, over sixty percent of all the utilised FDI flowing in to Shandong entered as WFOEs in the "Manufacturing" category, whilst a little under sixteen percent of the capital entered the same category as EJVs (SDTJNJ, 2004: 407). The most popular sector for investment shown in the categories listed is for WFOEs in "Manufacturing of Electronic and Communication Equipment", six percent, followed by "Manufacture of General Purpose Machinery", with five percent of total utilised FDI. The "Tertiary Industry" sectors show more absorption by 2003, with eight percent of all utilised FDI entering as WFOEs and five percent as EJVs, the majority of both being in "Real Estate Exploitation Management" (SDTJNJ, 2004: 407).

[80] Statistical interpretation relies upon the availability of distinct category breakdowns, which are not present in the earlier *Shandong Statistical Yearbooks*.

- By 2006, we see that over eighty percent of all utilised FDI entered "Manufacturing", while just over thirteen percent went in to the "Tertiary Industry" sectors (SDTJNJ, 2007: 540). The sub-categories reveal that ten percent (over USD 1 billion) entered Shandong to manufacture communications and electronics equipment, whilst almost seven percent entered in to real estate (*ibid.*). As mentioned, unfortunately the data for 2006 does not allow us to track the changing patterns in entry-mode by sector but **figure J** has already elucidated that WFOEs were the major choice of investment vehicle in 2006.

To summarise the above reported patterns of sector and investment vehicle preferences, the trend is for an increasing percentage of the FDI flowing in to Shandong to enter in to manufacturing sectors, with WFOE as an increasingly popular investment vehicle, and with the manufacture of electronics and communications equipment becoming an increasingly popular sector of manufacturing for the WFOEs to enter. The tertiary sector has remained fairly constant at around 11-15 percent of absorption over the 1995 to 2006 period, with real estate being the dominant sector and WFOEs being the more popular vehicle of FDI there, too.

Similar to the discussion on the affect of policy on investment vehicle, the sector of investment opportunities on offer to MNCs, hence the type of FDI flowing in to China, are obviously influenced by national policies. To influence and control the sector inflows of FDI, in 1995 China's National Development and Reform Commission (NDRC) and the Ministry of Commerce published the "Foreign Investment Catalogue", which categorised potential investment projects in certain sectors of the economy to be either "encouraged", "restricted/limited", or "prohibited"; the catalogue has been revised four times so far, the most recent being October 2007, and in April 2011 there began a process for a proposed fifth update (Dezan Shira & Associates, 2011).[81] The latest proposed revisions include the placing of more environmentally friendly projects in the "encouraged" category, adding incentives for those investing in certain R&D spheres, and prohibiting further investment in the construction and operation of villas (*ibid.*).

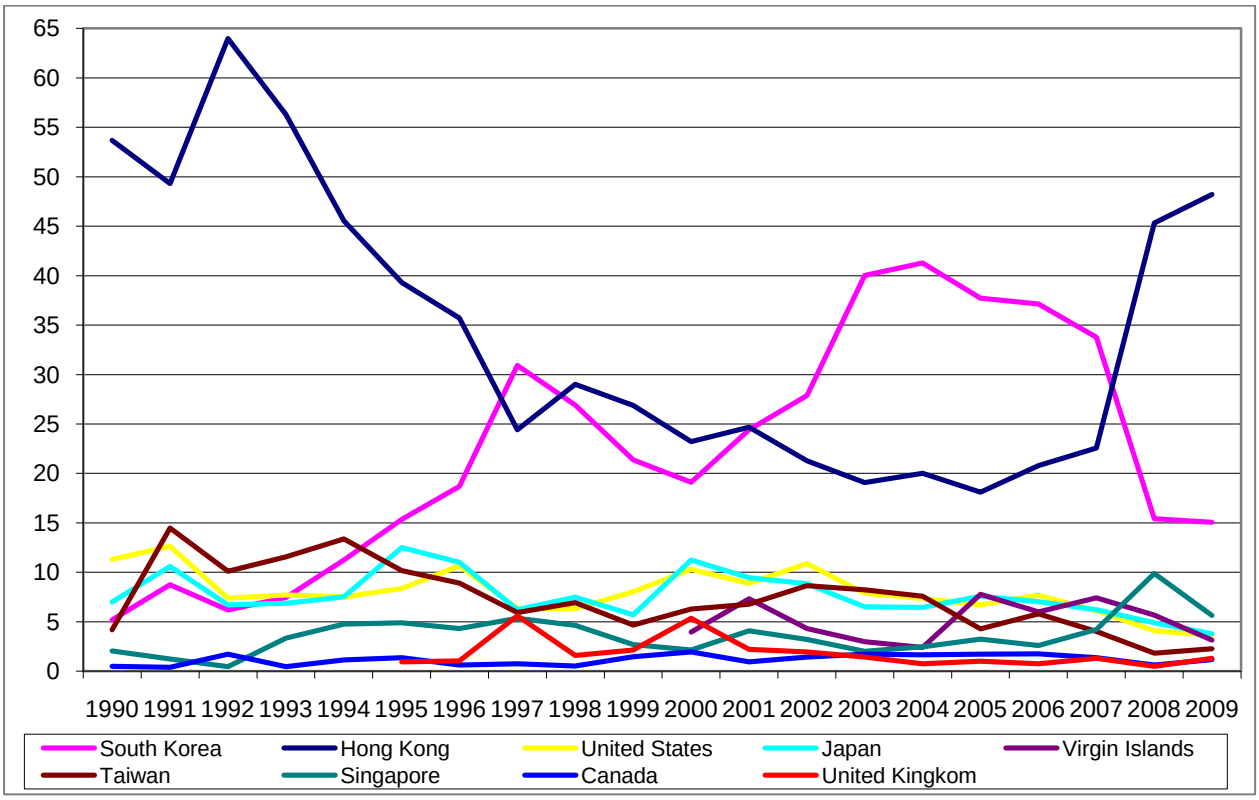
A Chinese lawyer from a large, Shandong-based law firm interviewed during fieldwork reported that in the late 2000s (presumably the 2007 update) investment projects in the real estate sector changed from being permitted investments to being "restricted/limited" in response to government concerns over the stability of the sector (Int-7, Fieldwork 2010). This demonstrates that the government response to foreign investments that may be affecting domestic economic conditions in a harmful way, such as by exacerbating a possible housing market bubble, is not to perform a drastic u-turn but rather to enact a controlled, calculated response, restricting inflows at first and then perhaps prohibiting at a later date.

[81] A fourth category sometimes referred to is "permitted", and is generally everything not stated in the other three categories.

Obviously the level of control over the domestic economy is slightly hindered by global economic and trading commitments; China's pledged commitments in its Protocol of Accession to enter the WTO made stringent and onerous demands not just in terms of tariff reductions, but also in terms of opening domestic sectors up for FDI (Gertler, 2004: 25-26; Hughes, 2005: 99; Poole, 2006). By 2006, for example, China had to allow foreign enterprises operating in the telecommunications sector as well as the insurance and banking industries to have up to 50% ownership within an FIE (Huang, 2003a: 407). The main thrust of this dissertation is not to research the specific factors that have shaped Shandong's inward FDI, but it is nevertheless pertinent to note that policy commitments and factors do shape the inflow of investment; we shall refer back to these ideas in later chapters when discussing how to tackle any identified effects of FDI on the Chinese workers in Qingdao.

Apart from the basic details concerning sector preference inflows and investment vehicle choices, the nationality of investors targeting Shandong is interesting to note in order to describe the wider investment environment around Qingdao. If we break down Shandong's inward FDI in terms of nations investing we see that, as reasoned from our earlier analysis of the possible advantages offered by Shandong as an investment location, South Korea contributes significant amounts to Shandong's inward FDI, particularly from the mid-1990s onwards. **Figure K** illustrates the nations contributing to Shandong's foreign investment inflows.

Figure K: Percentage Contributions of Select Nations/Regions to Shandong's Utilised FDI, 1990-2009



Source: SDTJNJ, 1991: 458; 1993: 482; 1994: 412; 1995: 473; 1996: 479; 1997: 413; 1998: 315; 2000: 339; 2003: T16-7; 2006: 429; 2007: T17-10; 2008: T16-7; 2009: T16-7; 2010: T6-7

The first thing to note from this graph is that for the 14 years period of 1995 to 2009, South Korea and Hong Kong comprised a total of around 50-60% of all inward FDI in to Shandong province. This is significant to note for two reasons.

First, the high percentage presence of South Korean FDI is to be expected as highlighted in our previous discussions. South Korean investment peaks around 41% in 2004, after which it rapidly drops not only in relative terms (down to c.15% in 2009) but in absolute terms, too: in 2004, the South Korean inward FDI stood at USD 3.6 billion, by 2009 this had fallen down to a still significant USD 1.2 billion (SDTJNJ, 2006: 429; SDTJNJ, 2010: T6-7).

Second, as discussed in Chapter Two, research has shown that some of the FDI reportedly from Hong Kong could be capital that is round-tripping from mainland China *back in to* China (Lardy, 1995: 1067; Wei, 2005: 723; Dunning and Lundan, 2008: 33) or could be capital from a third location channelling through Hong Kong. As explained, the motivation for mainland Chinese investors to engage in round-tripping is thought to be less compelling in the recent decade[82] but there may be new factors motivating *other* investors to channel their capital

[82] As previously mentioned, China's accession to the WTO (in December 2001) and the promulgation of new legislations in 2007 concerning, for example, taxation, is said to have equalised the playing field for foreign and

through Hong Kong. We should bear this in mind when considering the significance of investments from Hong Kong in Shandong's inward FDI.

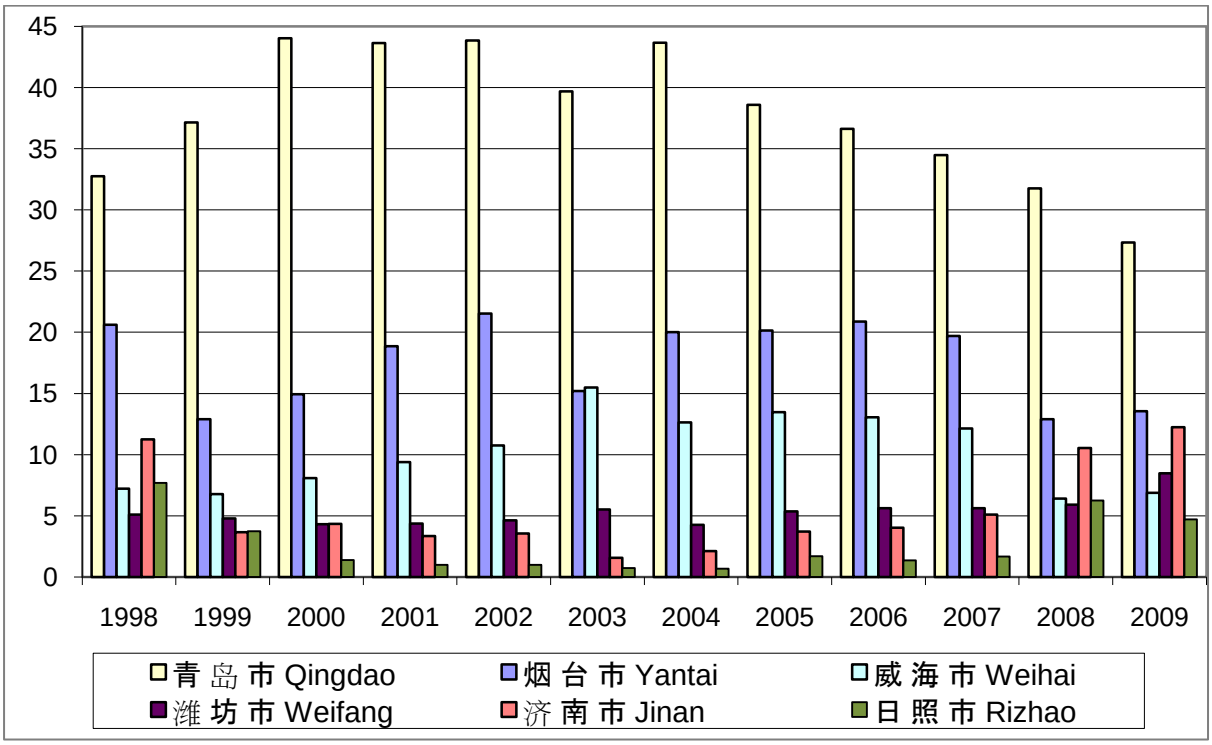
The sharp increase in Hong Kong contributions from 2007 onwards is due to a combination of an overall fall in the total inflows of FDI in to Shandong as well as a sharp increase in the inflow of FDI from Hong Kong, thus leading to a relative and absolute increase in the inward significance of Hong Kong FDI to Shandong; Hong Kong contributed USD 2.49 billion to Shandong's total utilised FDI of USD 11.01 billion in 2007, changing dramatically to USD 3.72 billion of Shandong's total of USD 8.20 billion for 2008 (SDTJNJ, 2008: T16-7; SDTJNJ, 2009: T16-7).

Although we are not seeking to deconstruct and analyse the inflow patterns of Shandong's FDI in great detail, there is one point to raise regarding a pattern in South Korean FDI inflow in **figure K**, and that is the apparent correlations of decreasing inflows of Korean investment with global economic incidents. First, we see there is an observable dip in South Korean investment from the period 1997 to 1999. This period corresponds loosely with the 'Asian Financial Crisis', which research has shown to have heavily affected South Korea (Li and Kwok, 2009). Second, we see that since the onset of the global financial and credit crises in the second half of 2007 (UNCTAD, 2008: xv), there has been a corresponding dip in South Korean investment again. The implications for Chinese workers of investments that are perhaps more prone to fluctuations in global economic conditions will be returned to in detail in later chapters.

As well as noting the national sources of capital to the province within which Qingdao is located, it is pertinent to analyse which areas and regions within Shandong that are responsible for absorbing the inward FDI in order to compare Qingdao to other regions within Shandong. **Figure L** details the regions that are responsible for absorbing around 70 percent of the total annual utilised FDI for Shandong province: this highlights the significance of Qingdao as a destination for FDI within Shandong.

domestic firms (*Financial Times*, 2007; Dunning and Lundan, 2008: 27), thus reducing incentives for round-tripping. See footnote thirty in Chapter Two for more on the evolving taxation environment.

Figure L: Regional Breakdown of Shandong's Utilised FDI by Regions Responsible for c.70% Annual Absorption



Source: Author's calculations based on SDTJNJ, 2000: 345; 2002: T 16-24; 2004: 416; 2006: 440; 2007: 552; 2008: T 16-23; 2009: T 16-23; 2010: T6-23

As can be seen, Qingdao is the most important destination for inward FDI that flows in to Shandong, taking around a third or more of total annual investment inflows from 1998 to 2008. From the period 1998 to 2009, Qingdao has absorbed USD 29.31 billion of the total USD 78.86 billion that has flowed in to Shandong province, more than double that of the USD 14.13 billion for the next highest recipient location, the port city of Yantai (SDTJNJ, various). This clearly elucidates why Qingdao is a critical area for focus in terms of understanding the influences of FDI; it is a city absorbing the lion's share of investment of an important provincial economy within China that we have already shown to be in need of further research.[83]

The above discussion provides a simple introduction and overview of why Shandong is a potential site for investment, how business is being encouraged to focus there, what types

[83] Further proof of the city's importance as an FDI location can be seen by calculating the percentage of FDI in GDP for each of the locations. The author does not have USD GDP values for locations other than Qingdao, but does have the RMB GDP values. Using utilised FDI values in million USD and GDP values in billion yuan (current prices – usual caveats apply) we can obtain a *comparative index* statistic. Calculating this value for the two most popular regions as identified in **figure L** – Qingdao and Yantai – as well as the provincial capital of Jinan, we find further proof of Qingdao's dominance. From 1998 to 2006, Jinan has an annual index of between 0.8 and 3.1, Yantai has an annual index of between 4.0 and 10.8, but Qingdao is higher than both location in every year, with an annual index ranging from 8.2 to 16.7 (SDTJNJ, 2000: 30, 345; 2002: T2-11, T16-24; 2003: T2-11; 2004: 416; 2006: 46, 440; 2007: 53, 552).

of FDI are flowing in to the wider province, and just how significant a part of Shandong that Qingdao is in terms of FDI absorption. Building on this wider, general understanding we will now focus in detail on the nature of the FDI flowing in to Qingdao and, critically, how this is affecting the Chinese workers in Qingdao. Chapter Four will focus on a more macro-level, looking at the inflow patterns and characteristics of Qingdao's inward FDI and what we can tell from the statistical data about possible effects on Chinese workers; Chapter Five will have a more micro-level focus, using qualitative data to illustrate the experiences of some of those with experience of the foreign-invested workplace.

Chapter Four: Macro-level Analysis of Qingdao

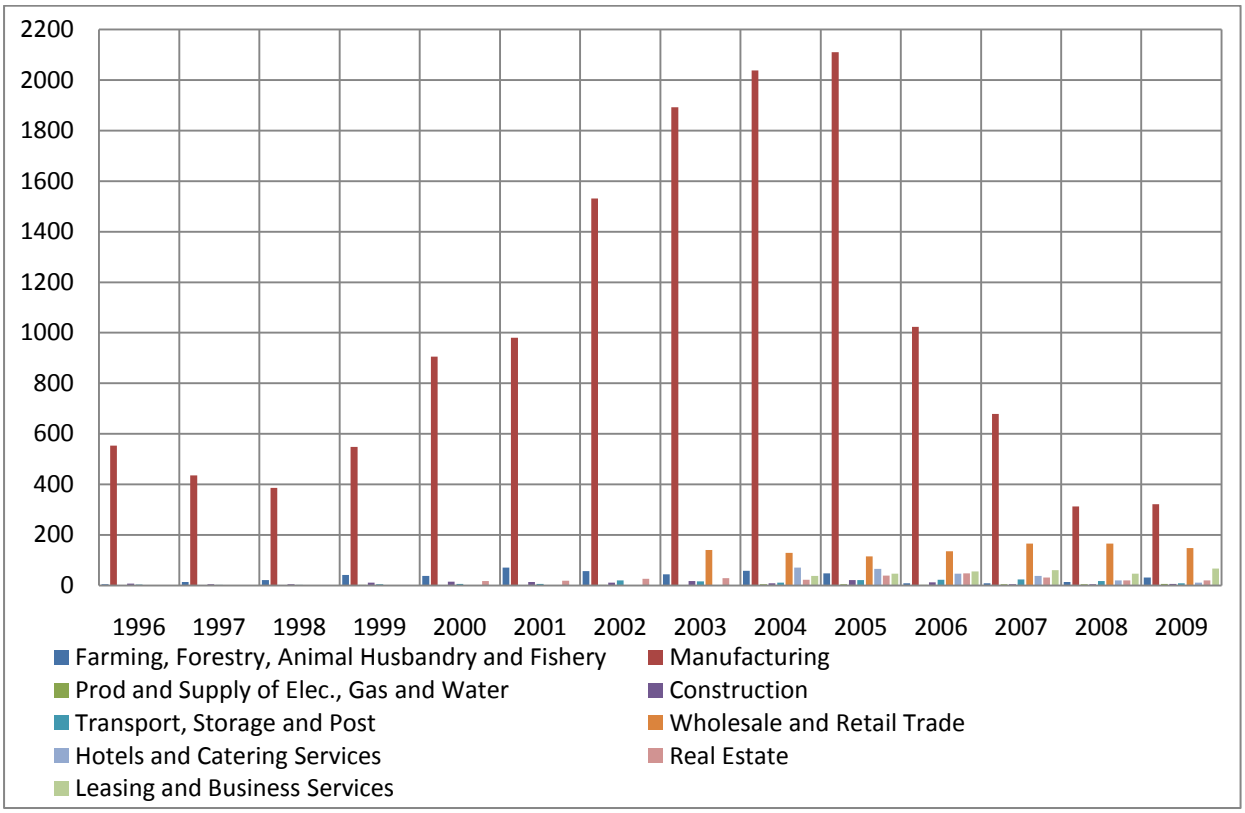
This chapter will be a predominantly quantitative analysis of statistical data detailing Qingdao's inward FDI from the mid-1990s onwards. By examining the characteristics and nature of the inward FDI, we will be able to draw conclusions about the implications and potential impacts of such investments on Chinese employees in Qingdao. As explained in Chapter Two, this chapter will explore the 'FDI Characteristics' element of how FDI can affect the lives of workers. This chapter will have a macro-level focus; Chapter Five will explore the affects of FDI on workers at the micro-, more personal level.

4.1 Qingdao Inward FDI: Sector Analysis

The sector that FDI flows in to has important implications for the types of employment opportunities that will be created in Qingdao, and thus the sector inflow has a strong influence on the potential impacts of the FDI on Chinese employees. **Figure M** illustrates the number of projects approved[84] in Qingdao each year by sector, for the period of 1996 to 2009.

[84] A cautionary word must be said before analysing the following data. As stated, these projects are those that have been approved to go ahead for investment. However, it does not tell us whether or not the projects *actually* went ahead. With the data for FDI capital flows, the statistics provided to us include both contracted (potential) and utilised investment amounts. Unfortunately there is no such distinction made for project numbers. In years where speculative investments are high, we may see a spike in potential projects that for some reason or another do not actually go ahead, thus we may see a warping of the trends in numbers of approved projects that is not actually represented in on-the-ground changes. Data that we shall analyse later in this chapter allows us to calculate the *overall* change in numbers of FIEs in operation year-on-year; whilst this can't tell us how many projects actually went ahead that year – obviously the cumulative change will be the balance of new firms created *and* those that have ceased operation – it can highlight the issue with project numbers versus actual changes in FIE numbers. For example, the number of projects approved for investment in the manufacturing sector across 2003, 2004 and 2005 totals to 6,040 investments approved (**figure M**); the overall change in numbers of FIEs in operation in Qingdao from 2003 to 2006 was an increase of 1711 enterprises (**figure S**). It seems unlikely that over two thirds of operations established fail within the first few years as this would make Qingdao a rather unattractive site for investment, which the later analysis of utilised FDI inflows proves to be untrue. It could be that the projects are delayed a year or two, but over the three year period cited in the example above, one would expect the disparity in numbers to be much lower than it is. More likely is that the discrepancy is down to changes in market circumstances that result in a large number of projects in certain years not going ahead even though they were approved to do so. We must bear this data limitation in mind when looking at the statistics for the number of projects approved; it is still of value to analyse the data as it reveals what types of investment are being attracted to Qingdao and therefore gives us a good indication of the types of projects that *do* go ahead.

Figure M: Number of Projects Approved Annually by Sector, 1996-2009



Source: QDTJNJ, 1997: 229; 1998: 223; 1999: 213; 2000: T15-8; 2001: 291; 2002: 283; 2003: 295; 2004: 405; 2005: 291; 2006: 325; 2007: 349; 2008: 341; 2009: 357; 2010: T5-8

Reviewing **figure M** it is immediately obvious that in terms of projects approved annually for FDI within Qingdao, there is a clearly dominant sector for the potential investments: manufacturing. Given what we know about the province as a whole from the previous chapter – the presence of cheap, well-educated labour and the geographic and historic policy advantages of Qingdao – it is perhaps not surprising that this is the case. Due to the nature of the data being for approved projects rather than concrete numbers of projects that were eventually established, we should treat with caution the overwhelming dominance displayed by the manufacturing sector from 2002 to 2005. What we can logically argue is that this dominance in approved projects was most likely represented as much stronger levels of investment – in terms of numbers of enterprises established – in the manufacturing sector compared to other sectors, although not necessarily to such an extreme degree as indicated by the data in **figure M**.

If one observes closely the period from 2003 onwards in **figure M**, we see that there appears to be two subtle trends in projects approved for investment. Most obvious of the two post-2003 trends is the sudden up-spike in projects approved to invest in the "wholesale and retail trades" sector in 2003. Whilst the quantity of potential projects approved – hence expressions of interest and applications for investing in to that sector – are still well below the expressions of interest shown towards the manufacturing sector,

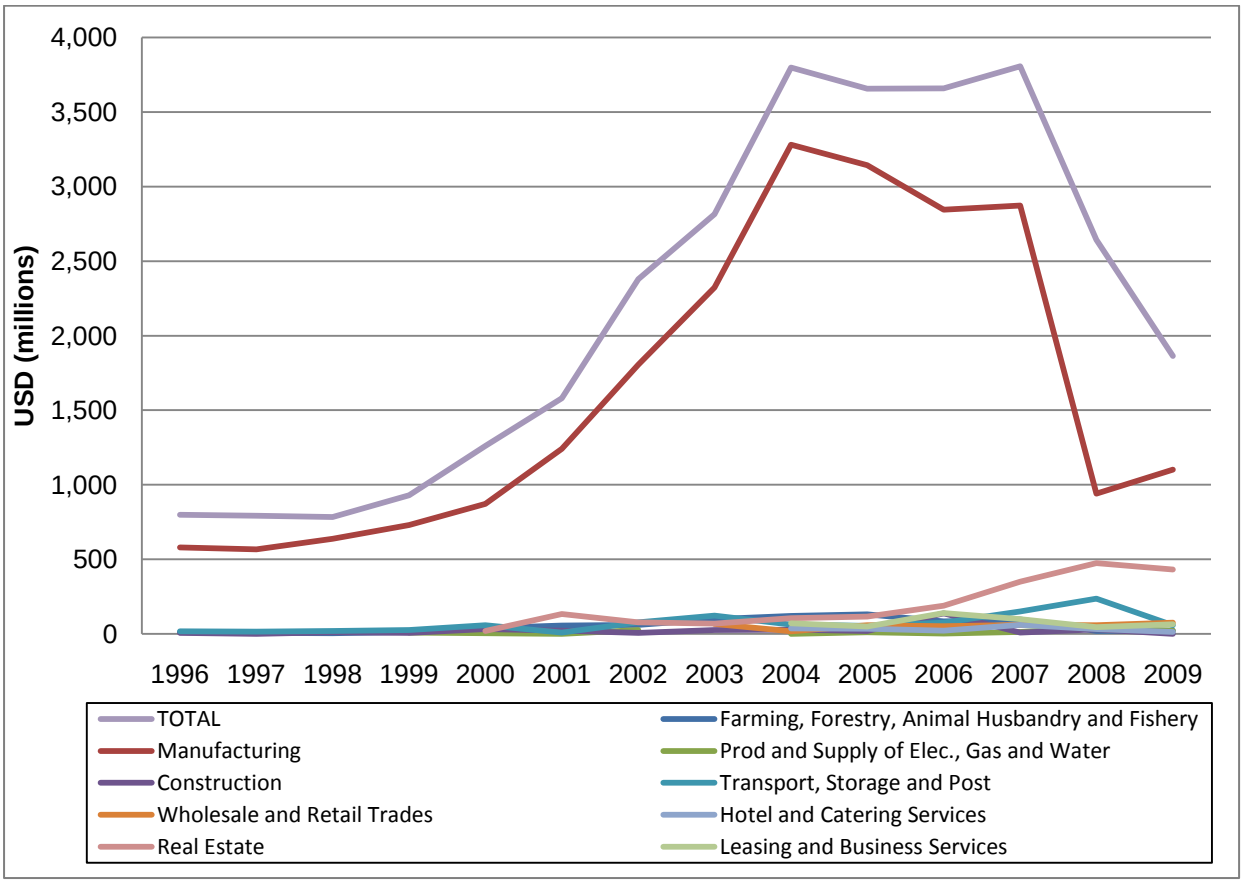
being in the 100 to 200 range instead of the mid- to high-1000s, it is important to note because employment within the foreign retail sector will provide a much different working environment to that of a labour-intensive manufacturing enterprise located in the periphery of one of Qingdao's satellite administrative cities such as on the outskirts of Pingdu city (see **appendix**).

The second, related, post-2003 trend that is easily overlooked amongst the dominance of manufacturing is the subtle increase in projects approved for investment in to the tertiary sectors as a whole: hotels and caterings services, real estate, and leasing and business services all see a small but steady increase in FDI. The range of investment projects approved in terms of sector coverage and, hence, the range of jobs created by foreign direct investment clearly affects the Chinese workers within Qingdao as a broader range of jobs consequently offers a broader range of opportunities, thus a broader range of experiences and skills to be learned.

Unlikely as though it may seem given the depicted dominance of the manufacturing sector as an FDI recipient in terms of the annual number of projects approved, illustrated in **figure M**, it could be the case that the dominance is simply in *quantity* of projects approved and that, actually, analysis of the *capital invested* decomposed by sector will reveal that there is a more balanced sector inflow in financial terms. Whereas statistical limitations mean that the data for projects numbers may have some level of inaccuracy, in terms of capital inflows we have more accurate data that represents the actual level of investment in to each sector annually: utilised FDI by sector.

Figure N breaks down Qingdao's annual utilised FDI by sector. As can be seen, the same pattern clearly holds true in terms of the amount of capital absorbed by manufacturing as for the number of projects approved for potential investment: *manufacturing has been the dominant sector in Qingdao's utilised for the period of 1996 to 2009.*

Figure N: Annual Utilised FDI by Sector, 1996-2009



*Source: See **figure M** above*

As well as illustrating the sector breakdown, **figure N** also depicts the TOTAL inward FDI over the 1996 to 2009 period. On comparing the total FDI inflows in to Qingdao to the quantities flowing to specific sectors, it is apparent that not only does manufacturing dwarf all other sectors in terms of the amount of capital absorbed, but that up until 2004 the vast majority of the growth in Qingdao's inward FDI was as a result of the increased inflows in to the manufacturing sector. From 2004 to 2007, we see that the pattern of manufacturing FDI driving the increases in overall FDI ceases; the quantity of utilised FDI stays rather constant at around USD 3.80 billion in both 2004 and 2007, but the manufacturing FDI figure drops from USD 3.28 billion in 2004 to USD 2.87 billion as of 2007. The increase in investment to the "real estate" and the "transport, storage and post" sectors seems to have cushioned the decreasing inflows of investment in to the manufacturing sector. This highlights that it is important to look below the surface of *total* figures because whilst it may appear on casually observing Qingdao's total utilised FDI figures that the period of 2004 to 2007 was rather steady in terms of investment, a critical examination reveals that actually there were undercurrents of structural change masked in the overall inward investment flows; structural changes in FDI clearly has implications for the Chinese workers in Qingdao as different sectors hold different employment opportunities.

Moving our analysis to the right hand side of **figure N** we note a drastic reduction in inward investment to Qingdao's manufacturing sector in 2008 compared to 2007, falling from USD 2.87 billion to USD 0.94 billion, before we see the beginnings of a mild recovery in 2009, rising to USD 1.10 billion. As the manufacturing sector is such a significant sector for FDI in Qingdao, it is no surprise to see this rapid fall in new investment is strongly reflected in Qingdao's total utilised FDI inflows. However, it should be noted that the increased levels of investment in to the real estate sector again seem to have somewhat cushioned this decline. With the potential changes to the "Foreign Investment Catalogue" discussed in Chapter Three, the idea of certain real estate projects being prohibited to foreign investors as of mid-2011, it will be interesting to see what future sector investment figures for Qingdao reveal.

The FDI sector analysis is important for two reasons. First, we shall be able to compare this data to later statistical data about employment levels and nationality of investors to deduce more about the characteristics of certain types of investment. Second, clearly the selection of employment opportunities available to the workforce in Qingdao will be, in part, governed by the types of investments flowing in to Qingdao. Employment opportunities in, say, the retail sector will present FIE employees with a different workplace experience than if they were employed in a labour-intensive factory located on the outskirts of the urban areas. From looking at these figures, it is clear that a majority of the new FDI capital is flowing in to the manufacturing sector; it would be useful to breakdown further the sub-sectors of manufacturing in order to draw more reasonable conclusions about the type of new employment prospects being generated owing to the creation of foreign-invested enterprises. However, statistical limitations prevent this.

One final point to note on the sector analysis concerns possible explanations for the sudden fall in investment in manufacturing in 2008, as shown on **figure N**. There are three possible factors that may have exacerbated the fall in investment. First, as discussed in Chapter Two, the Labour Contract Law came in to effect on the 1st January 2008. As was noted previously, the law dictated that a clear, defined and strong contractual relationship must exist between an employer and his or her employees. This may have led to some potential investors in the manufacturing sector, those that rely on having a flexible labour force available (sometimes to the detriment of the employees), to think twice before opening a new operation within China. Other policy changes such as the equalisation of taxation laws for foreign and domestic operations may have also contributed here, although not specifically to the 2008 drop over 2007. Second, the triggering of the global financial crisis in 2007 and its development throughout 2008 (UNCTAD, 2008: xv). The global financial crisis clearly had implications for investors in 2008, perhaps causing some of them to think twice before engaging in a new operation owing to difficulties on obtaining supplies of capital. Third, as we shall now see on the nation breakdown analysis of the inflow of FDI, one particular nation – South Korea – strongly correlates with decreasing investment trend in to manufacturing in Qingdao, so word-of-mouth amongst a tight-knit investment community

may have also played a part.[85] We shall now proceed to analyse the nationality composition for FDI in to Qingdao.

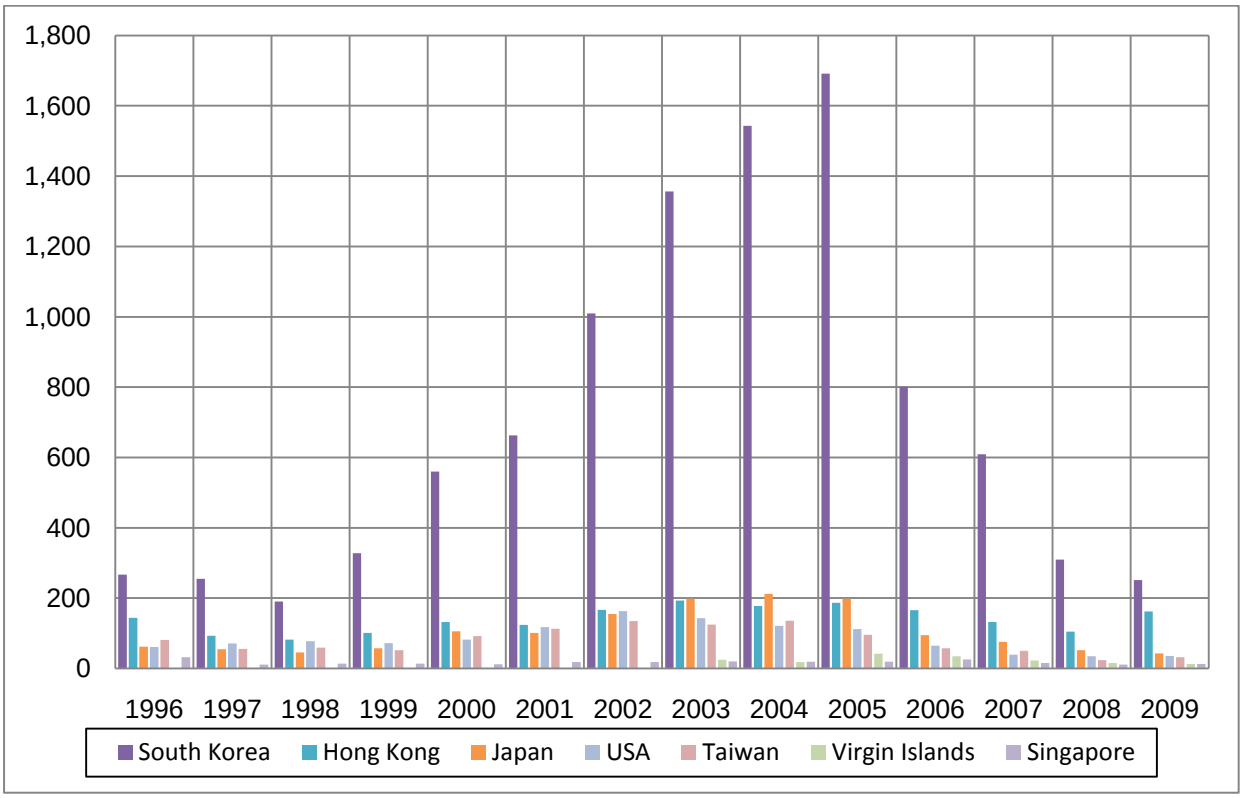
4.2 Qingdao Inward FDI: Analysis of Nations Investing

As research highlighted in Chapter Two argued, different nationalities of investor engaging in foreign direct investment have been shown to correlate with differing impacts upon host economies; certain characteristics of a donor nation appear to be encapsulated within FDI. For example, an investment from a nation with high degree of technological prowess and a strong corporate culture of responsibility towards the workforce will clearly generate a distinct type of FIE compared to, say, that from a nation with a mid-level of technological prowess and a more blasé attitude towards the well being of the workforce. This therefore necessitates a closer inspection of the nations contributing towards Qingdao's inward FDI.

Figure O depicts the number of projects annually approved categorised by nation of investor, for the years 1996 to 2009. As with the caveat iterated for the analysis of approved projects by sector, the data here warrants the same caution; we shall use the information to gain a better insight as to the main nations contributing to potential investments within Qingdao but we shall not rely on the statistics for concrete numbers.

[85] The percentage of China's utilised FDI directed towards the manufacturing sector does not match the same trend as for Qingdao. The percentage of China's utilised FDI flowing in to manufacturing was 64%, 55%, 54% and 52% for 2006, 2007, 2008 and 2009 respectively (ZGTJNJ, 2007: T18-17; 2008: T17-17; 2009: T17-17; 2010: T6-16). Despite the decline in relative share from 2006 to 2008, the absolute amount directed to manufacturing actually grew year-on-year in that period, before declining slightly in 2009. This suggests that Qingdao's potential investors are perhaps more sensitive to some or all of the effects listed above.

Figure O: Number of Projects Approved Annually by Nation, 1996-2009



*Source: See **figure M** above*

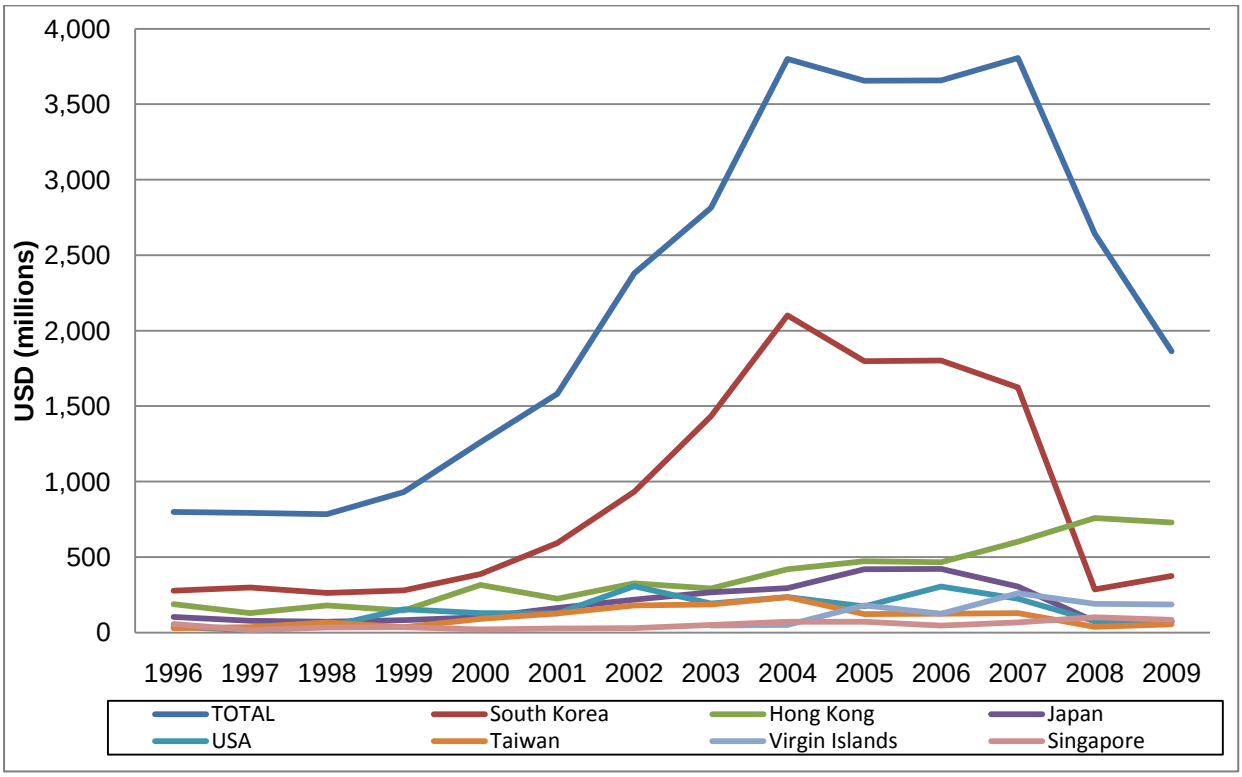
We can see instantly that there is a noticeable similarity in pattern between the data showing the breakdown of approved projects by sector (**figure M**) and the breakdown of approved projects by nation: there is a distinct correlation between number of projects approved annually for potential investment in to the *manufacturing sector* and the number of project approved for potential investment that are *South Korean* in origin. The number of projects for both sets of data exhibit a small decline in the 1996 to 1998 period followed by a strong and steady rise to a peak in 2005, before clearly and significantly dropping in 2006 onwards. The number of projects approved from other nations – notably from Hong Kong, Japan, the USA and Taiwan – loosely follows the same pattern. Although we must stress that, as before, the number of potential projects is clearly more than the number of projects that actually went ahead (see example cited in section 4.1), the overwhelming dominance of South Korean investment depicted for the 1996 to 2009 period means that we can logically argue that South Korean investors comprise the majority of new investment projects within Qingdao seen within this period. Furthermore, owing to the strong similarity with investment project numbers in the sector analysis, it is reasonable to conclude: *in terms of project numbers, a majority of the inward FDI in the 1996 to 2009 period was of South Koreans origin and focused on manufacturing sectors*.

A brief and final point to note for **figure O** is that through the global financial crisis and in to the beginnings of the recovery period, Qingdao has continuously attracted potential FDI

projects from both Asian and Western investors, thus further demonstrating the pivotal role played by Qingdao as a destination for foreign investment in China.

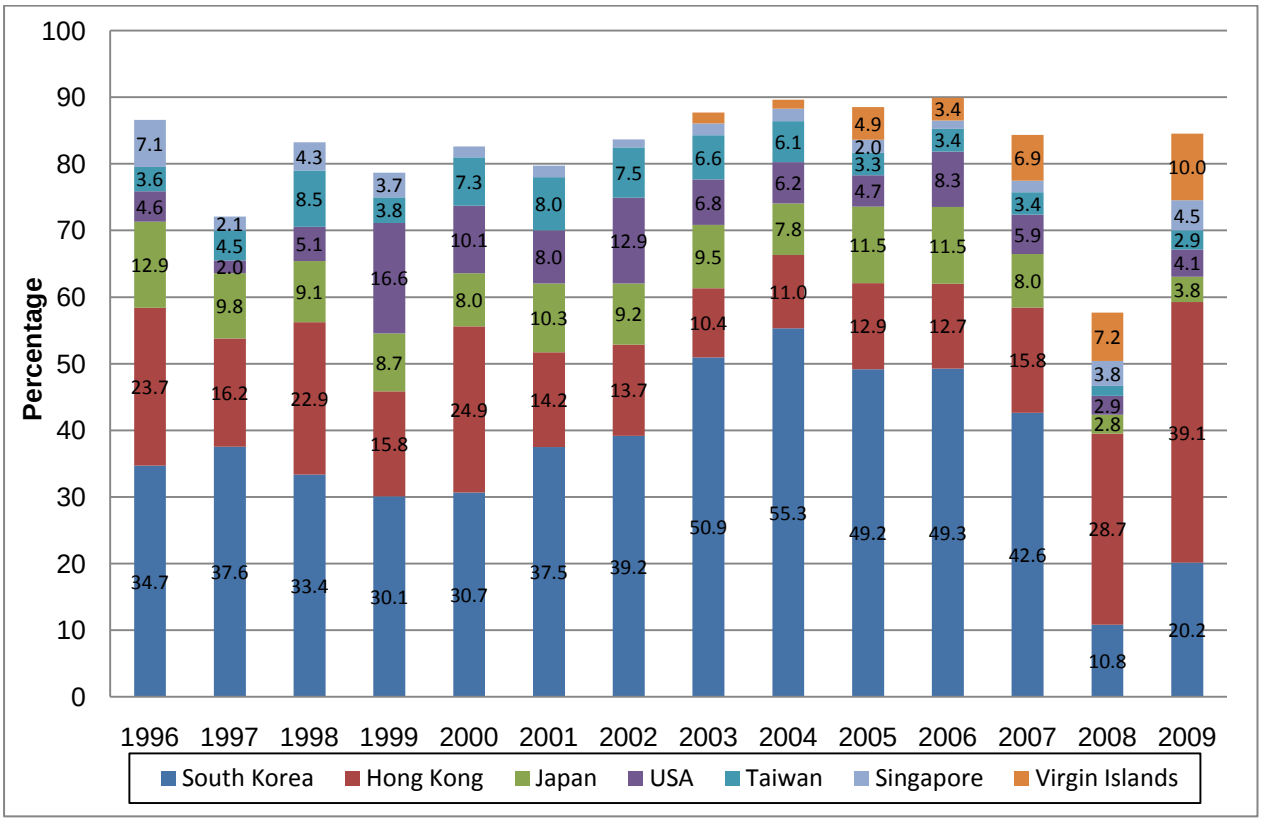
As reasoned during the sector analysis, It is possible that the trends in projects approved for potential investment broken down by nation differ markedly from the trends in actual levels of capital invested by the various nations: one nation may be focusing on a few highly capital-intensive projects, whereas another nation may have hundreds of small scale investments approved that sum to less capital invested overall. The statistical data allows us to analyse the capital inflows at a more accurate level than the project numbers, as per the sector data analysis. **Figure P** details the inflow of Qingdao's utilised FDI categorised by major contributing nations listed in the *Qingdao Statistical Yearbooks*; **figure Q** displays the same data as percentage contributions.

Figure P: Annual Utilised FDI by Nation, 1996-2009



*Source: See **figure M** above*

Figure Q: Percentage Contribution to Annual Utilised FDI by Nation (Percentages >2% Labelled), 1996-2009



*Source: See **figure M** above*

From the data concerning the number of projects approved by sector and by nation (**figures M** and **O**) we have reasoned that South Korean investors are likely to be the source of a majority of the FDI projects that went ahead in the 1996 to 2009 period, and that these projects are most likely to be centred on manufacturing enterprises. The high level of correlation between the data for utilised FDI flowing in to the manufacturing sector and utilised FDI contributed to Qingdao by South Korea – including a distinct up-spike in 2009 – provides further evidence that South Koreans are significant contributors of FDI to Qingdao's manufacturing sector (**figures N** and **P**).

However, whilst we know to treat the project number data with caution, we can see that the overwhelming dominance of South Korea suggested by the project numbers is not reflected as strongly in the data for utilised FDI. Clearly South Korea is still the largest contributor in utilised FDI inflows, contributing around fifty percent of total annual inflows in the 2003 to 2006 period alone, but the project number data paints a rather more dominant picture. Two factors could be contributing to this discrepancy: first, it could be that a large number of the South Korean investments are relatively labour-intensive in nature, hence having a greater contribution to the numbers of projects approved than to the quantity of capital invested; second, it could be that the number of South Korean

projects going ahead as a proportion of the total number of South Korean projects *approved* to go ahead is proportionally much less than for other nations, thus resulting in lower percentage contribution to the utilised FDI flows than the project number data would suggest. As we have stated previously, the utilised FDI data provides us with a more accurate picture of the investment inflows than the statistics for number of projects approved, so it is worth unpicking a few more trends in nationality of investor as depicted by **figure P**.

Alongside the distinct pattern of South Korean investment discussed above, **figure P** shows some other notable trends. First, the sharp rise in utilised FDI inflows from 1998 to 2004 appears to be driven *mainly* by increased investment by South Korean investors. However, in the 2006 to 2007 period, we see the level on investment by South Koreans in to all sectors of Qingdao drop slightly whereas the total utilised FDI actually increases. A close examination reveals that this is driven by increasing inflows from investors based in Hong Kong and the Virgin Islands.

Investments from Hong Kong are increasingly significant in Qingdao's inward FDI. From **figure Q** we can see that from 1996 to 2009, bar 2008, Hong Kong and South Korea were responsible for around 50 to 60 percent of the total inflows of utilised FDI; South Korea was responsible for most of this up until 2008 but we see a switch to Hong Kong being more dominant in percentage terms for 2008 and 2009.[86]

It could be the case that the increasing investment from Hong Kong is genuine FDI flowing in as more manufacturing migrates from Hong Kong to mainland China, perhaps as Hong Kong investors expand from their traditional investment locations in Guangdong. The long term investment pattern from Hong Kong (in to Qingdao) certainly seems to be one of a stable and increasing flow, with a slow but upward trend from 1997 to 2009, even increasing in 2008 over 2007 when all other nations depicted on the graph saw their investments fall (except a mild increase from Singapore). From 2003, we can see that Hong Kong investment has been increasing in *actual and relative* terms in contributions to Qingdao's inward FDI (see **figures P** and **Q**). This is significant for employees in Qingdao because the more stable the flow of inward investment, presumably the more stable the investment is in terms of changes in the wider global economy. If the global financial crisis has not affected the Hong Kong inflows to Qingdao as much as it has investments from other nations, this implies that the investment will be less vulnerable to further market fluctuations and so provide more secure employment opportunities for employees in Qingdao.

[86] Two factors contribute to this switch in dominance in terms of Hong Kong and South Korean investment: first, there is a significant drop in the absolute amount of South Korean investment, leading to a drop in overall investment levels and hence an increase in Hong Kong's relative share; second, this is coupled with an increase in Hong Kong investment, leading to an overall increase in absolute and relative terms for Hong Kong investment in Qingdao's utilised FDI inflows.

At this point we should recall our discussion on disguised investments from Chapter Two. We reported evidence which showed that during the 1990s and through the early 2000s, capital originating from mainland Chinese investors was said to 'round-trip' through Hong Kong and enter China 'disguised' as FDI in order to take advantage of the preferential investment environment on offer to foreign investors; equalisation of the regulatory environment governing foreign and domestic enterprises in order to end favourable treatment towards foreign-invested enterprises was allegedly meant to reduce the desire for mainland investors to round-trip their capital.

However, similarly to the approach used by scholars such as Wei Wenhui (2005: 723) and Huang Yasheng (1998: 56), who use the strong correlation of Chinese outward direct investment (ODI) to Hong Kong with the inflow of FDI from Hong Kong as evidence for round-tripping in the early-1990s,[87] **table D** details Chinese ODI in to Hong Kong and FDI from Hong Kong in the 2006 to 2009 period:

Table D: China's ODI and FDI Figures Relating to Hong Kong, 2006-2009 (USD Millions)

	2006	2007	2008	2009
China's Total ODI	17,633	26,506	55,907	56,528
China's ODI to HK	6,930	13,732	38,640	35,600
% ODI to HK	39.3%	51.8%	69.1%	63.0%
HK FDI to China	20,232	27,703	41,036	46,075

Source: ZGTJNJ, 2008: T17-15, 17-20; 2009: T17-15, 17-20; 2010: T6-14, 6-19.

This data presented in **table D** shows an increasing percentage of Chinese capital flowing to Hong Kong at the same time that investment from Hong Kong in to China – and in to Qingdao – increases significantly. Although the increase in percentage ODI flowing to Hong Kong in 2007 versus 2006 is partly due to the fact that data for 2006 and before does not include ODI flowing in to financial sectors, the increase in percentage 2008 versus 2007 is clear and significant. This would seem to provide evidence that there may still be round-tripping in operation, and therefore that a percentage of the FDI flowing in to Qingdao of Hong Kong origin may not be *genuine* FDI. This implies that – potentially – the true levels of FDI flowing in to Qingdao may actually be slightly lower that statistics indicate.

In addition to the fact that some of the Hong Kong capital may be round-tripping capital, we noted in Chapter Two that there may be new factors that are persuading investors from other locations to invest via Hong Kong, such as to take advantage of any additional investment opportunities available to Hong Kong enterprises, opportunities offered by mainland China in order to foster closer economic partnership with Hong Kong. This means that some of the FDI attributed to Hong Kong may be from another location.

[87] Refer to Chapter Two, section 2.1, for our discussion on round-tripping. Also, as previously mentioned, for the purposed of tax accounting Hong Kong is counted as a separate territory by the WTO and other major financial institutions.

Discussions on disguised investments are also be relevant when considering the contributions of the Virgin Islands to Qingdao's levels of FDI. Investments "from" the Virgin Islands have averaged USD 188 million *per annum* from 2005 to 2009 (inclusive) and have increased to a significant 10 percent of Qingdao's utilised FDI (**figures P** and **Q**). It is unlikely that this capital is "from" the Virgin Islands, rather it is probable that an investor from another location is seeking to obfuscate details of the investment. This could be for tax purposes, or it could be that the potential investor is seeking to disguise the nationality of investment to avoid potential stigmatisms that may be attached to investments flowing in from certain nations (i.e. if an investor nation, in general, has a 'bad' reputation).[88] If the investment flowing from the Virgin Islands is simply capital disguising its origin, then in terms of policy implications the authorities in Qingdao must carefully examine the details behind these investments in order to ascertain a more precise picture of the inward FDI situation as well as the motivations behind hiding the origin nation.

The need to pay attention to precisely where an investment is coming from – and hence the associated investment characteristics – has implications for the workers in Qingdao and therefore has policy implications because it is reasonable to assume that the authorities should be aiming to encourage investment that may be more 'long-term' focused and thus better for Qingdao, and its labour force.

The advantages and disadvantages of working in enterprises that are either more capital- or labour-intensive, as detailed in Chapter Two, clearly imply that we need to have a true picture of the nature of the FDI that is flowing in to Qingdao if we are to understand how the foreign investment in affecting the workforce. Investment should not necessarily be discouraged if it is labour-intensive in orientation, but an investment that has 'two heads overseas' – operations where most of the required parts are imported for final assembly and where the main market is exports overseas – and that is based on low-value added products with a high price-demand elasticity are perhaps more fickle, transient investments with implications for job security (not to mention the anecdotal everyday pressures faced when working in an enterprise of that type). As we shall see in later sections of our analysis, the nation of investor has implications along these lines, implying that some FDI is not necessarily a secure investment of 'bricks and mortar' that is unable to flee when financial pressures mount.

Analysis of the inward FDI in terms of projects approved for investment annually and the capital invested annually broken down by sector and by nation, as done above in sections 4.1 and 4.2, is necessary so that we are clear as to what type of investments are flowing in to Qingdao and thus what affects the FDI is having on the workers of Qingdao at a macro-level. What we have seen is that the predominant sector for new investment is the

[88] Anecdotal evidence from conversations with Chinese friends, teachers and officials during the fieldwork stage revealed a certain hostility towards some nationalities of investor; we are unable to show if this actually affects investor behaviour in terms of hiding the origin nation of capital.

manufacturing sector, and that the main investor nation is South Korea, from which we further reasoned that a large proportion of the new manufacturing enterprises that went ahead in the 1996 to 2009 period are of South Korean origin. The analysis so far has focused on patterns in the data for new flows of FDI in to Qingdao; the data does not reflect the cumulative total of enterprises operating in each sector annually, nor is it able to elucidate the true levels of presence of certain nationalities of FIEs in operation annually. Realistically it could be that there is a high failure rate in new investment projects and that the inflow patterns for projects approved for potential investment does not bear close resemblance to the collective totals. Unfortunately there is no data available on cumulative totals of foreign-invested enterprises broken down by sector of operation or by nationality of ownership. However, we do have data relating to the type of vehicle of entry for FDI – EJVs, CJVs, WFOEs – that proves useful to provide an indication of the cumulative levels of presence of FIEs.

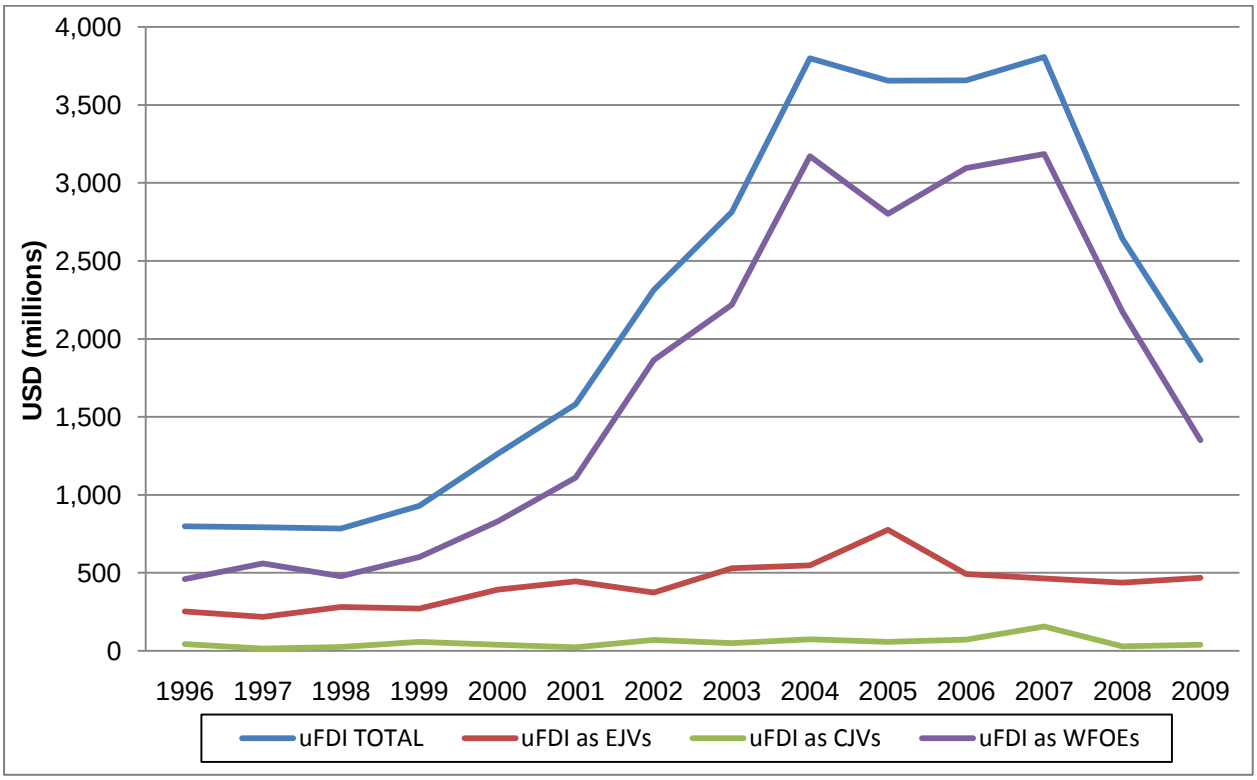
4.3 Qingdao Inward FDI: Analysis of Investment Vehicle

As stated, there is unfortunately no detailed information on the cumulative totals of FIEs in operation categorised by nation or by sector, which would therefore enable us to get a clear picture of the balance of how many new enterprises are forming and how many have closed down. However, the *Qingdao Statistical Yearbooks* do provide a useful level of information about inward FDI in terms of entry vehicle chosen by investors. The statistics are not only categorised in to those that are EJVs, CJVs or WFOEs, but in some places there are further sub-categorisations that define between those vehicles that are of 'HMT' origin, and those that are 'non-HMT' – HMT standing for investments from 'Hong Kong, Macao or Taiwan'.

The HMT versus non-HMT breakdown is useful because, as already iterated, South Korea and then Hong Kong are the two most significant foreign investors in Qingdao, and they obviously fall one each in to those two sub-categories. This means that we can use the HMT versus non-HMT data as a proxy to provide more understanding about the investment vehicles chosen by two of the more significant contributors to Qingdao's FDI. As the nature of investment vehicle has implications for the experience of workers (see Chapter Two), it is important to analyse to see if any particular vehicle entry mode that predominates, thus any particular experience for Chinese workers in FIEs in Qingdao predominates.

Before analysing cumulative totals of FIEs broken down by investment vehicle, we should first briefly look at the breakdown of the annual utilised FDI inflows in order to make comparisons with our previous analysis of utilised FDI inflows. This data does not have the HMT versus non-HMT sub-categorisation, but does give us a useful overview of the popularity of the variety of entry modes for foreign direct investment. Coupled with the previous utilised FDI breakdowns – by sector (section 4.1) and by nation (section 4.2) – we can draw our first conclusions about foreign investment entry vehicles.

Figure R: Annual Utilised FDI by Investment Vehicle Type, 1996-2009



Source: QDTJNJ, 1997: 228-31; 1998: 222-5; 1999: 212-5; 2000: T15-8, 15-9; 2001: 290-3; 2002: 282-5; 2003: 294-7; 2004: 404-6; 2005: 290-3; 2006: 325-7; 2007: 350-1; 2008: 340-3; 2009: 356-9.

The total utilised FDI line on **figure R** above follows the familiar trend already detailed in **figures N** and **P** for the utilised FDI analysed by sector and nation. A surface level analysis leads us to conclude that the WFOE is by far the most popular investment vehicle. A brief glance at the graphs showing analysis of Qingdao's utilised FDI by sector and shows a distinct correlation between capital invested by South Korea, capital flowing in to the manufacturing sector, and the dominance of WFOEs as the main vehicle of entry over the 1998 to 2004 period. We can also see that 2008 versus 2007 sees a drop USD 1,011 million in new investments entering as WFOEs, corresponding to a drop in manufacturing investment of USD 1,932 million and a decrease in South Korean investment of USD 1,337 million. This leads us to the conclusion that:

> *in terms of the utilised foreign direct investment flowing in to Qingdao over the past decade and a half, a large proportion flows in to create WFOEs in the manufacturing sector funded by South Koreans investors.*

In 2005 we see a curious pattern: the FDI flowing in as WFOEs drops by USD 370 million in comparison to the previous year (from USD 3,171 million to USD 2,801 million) where as at the same time, the overall inward FDI to Qingdao only decreases by USD 143 million (from USD 3,799 million to USD 3,656 million). We can see that the difference is made up by a

corresponding *increase* in investments entering as EJVs in 2005 versus 2004: the investment flowing in to create EJVs rose by USD 228 million (from USD 548 million in 2004 to USD 776 million in 2005). Comparing this to the utilised FDI analysed by nation (**figure P**), we see that this drop in WFOE investment corresponds to a decrease of USD 302 million, USD 172 million and USD 62 million respectively for South Korean, Taiwanese and USA investment in 2005 compared to 2004; **figure P** also reveals that the 2004 to 2005 period saw an increase in investment of USD 125 million, 130 million, and 53 million from Japan, the Virgin Islands and Hong Kong respectively,[89] which corresponds to the increase in EJV investments. This allows us to tentatively conclude that those investors who have large decreases in investment flows recorded in the 2004 to 2005 period have a preference for WFOEs as the choice of investment vehicle – i.e. South Korean and Taiwanese investors – as their reduction in new investment projects corresponds to a reduction in new WFOEs being formed. Correspondingly, those investors with an increase in 2005 versus 2004 must be responsible for the significant increase in EJV investment in 2005 – i.e. Japanese and Virgin Islands investors. Whilst these conclusions cannot be safely extended to the rest of the time period under analysis, the evidence does seem to correspond with our above conclusions regarding South Korean investment, which is that they have a preference for WFOEs. Fieldwork research was unable to find a plausible explanation for the seemingly one-off change in investor preference in 2005.

The pattern of preference for investment vehicle in terms of utilised FDI is similar to that detailed in **figure J** of Chapter Three showing the breakdown of utilised FDI by entry vehicles for Shandong, although there are some notable differences. Whereas for Shandong overall the EJV was the more popular vehicle until being replaced and overtaken in terms of popularity in 2000, for Qingdao the WFOE appears to have always been more popular in terms of capital absorption; from 2000 onwards, both Shandong and Qingdao show an increasing domination of WFOEs as the preference for inward FDI. Curiously, in the Shandong data we see a repetition of the 2005 'blip' reported for Qingdao FDI: the sudden drop in new WFOE investment and sudden step up in new EJV investments for 2005 compared to 2004. This suggests that whatever is driving the apparent one-off change in investor attitudes, it is a factor or factors occurring across Shandong, not isolated to Qingdao. It also suggests that the Qingdao data is not erroneous, but rather symptomatic of province-wide (or national) changes.[90]

According to a senior associate of a large, international law firm with multiple offices across China, one driving factor behind the increasing popularity of WFOEs as entry vehicles for FDI is the opening up of more sectors in line with China's WTO Protocol of Accession agreement

[89] Readers may note that whilst the total decrease in utilised FDI in 2005 versus 2004 is USD 143 million, the total decreases and increases in investor nations as listed in the analysis of uFDI by nation accounts for a decrease of USD 476 million and an increase of USD 308 million. This implies that there is an increase of USD 25 million supplied by other nations, nations that are not listed in the breakdown statistics.

[90] The 'blip' may be the consequence of a definition change, but we were unable to confirm or deny this hypothesis.

(Int-5, Fieldwork 2010). However, the dominance of WFOEs may not just be down to investor preference. According to a Qingdao-based representative of a UK-China business interests group, the authorities in Qingdao are now expressing a preference for investments that are WFOEs. Joint ventures are not being encouraged, allegedly not even for technology transfer, because WFOEs are much less hassle for them: they 'provide' the land and the utilities, and they receive payments and taxes in return (Int-12, Fieldwork 2009).

More recent research tends to highlight that the transfer of both skills and technology occur best in those JVs that have a higher percentage of foreign ownership, and in the WFOEs. Buckley, Clegg and Wang (2007: 154), for example, state that JVs appear to be an effective way to transfer modern business practices to China, especially in the high-tech sector.

Whilst it is beyond the scope of this dissertation to analyse in detail the level of skills transfer within JVs and WFOEs in Qingdao, we should take from the above arguments that as the majority of new enterprises created in Qingdao in the last decade are WFOEs, this implies that there is scope for skills transfer to the domestic workforce. However, the surge in WFOE projects has occurred in the recent decade, which means that the management structures may not yet have integrated domestic employees in to the higher levels of authority. Furthermore, conclusions drawn to this stage imply that a majority of the WFOEs formed are South Korean FIEs, which has implications in terms of types of skills transferred.

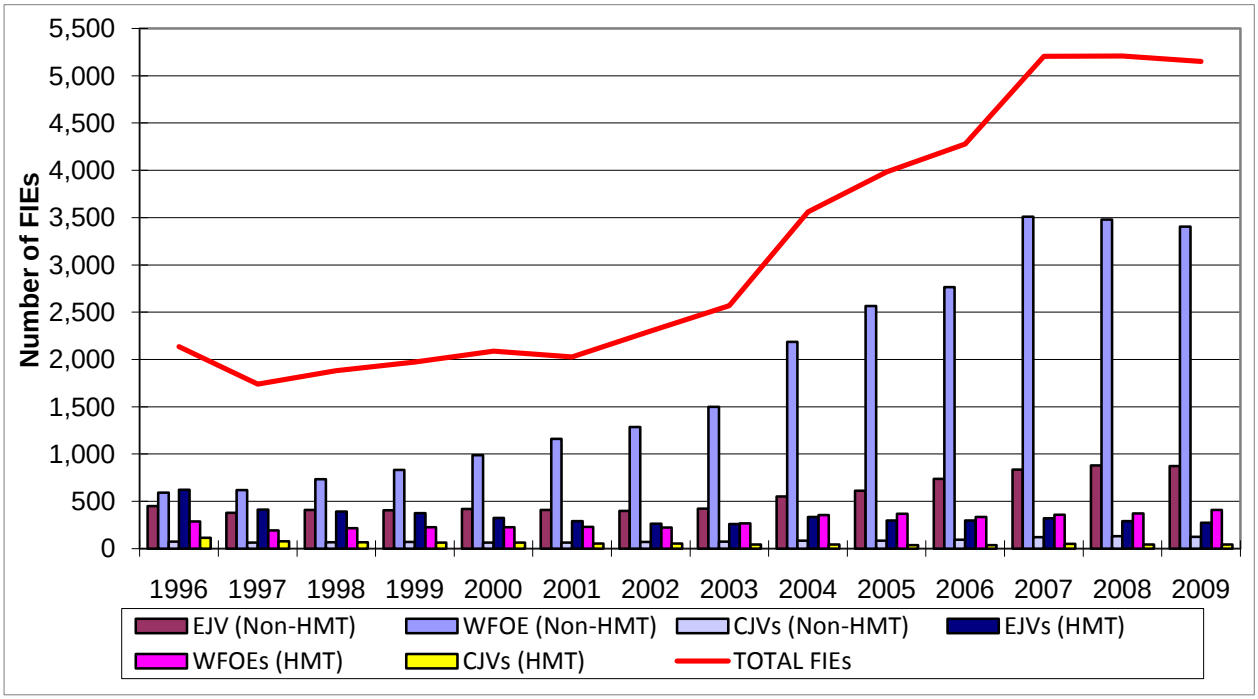
At the start of section 4.3 we reported that there is statistical data to review the *running total* of enterprises by investment vehicle type (EJV, CJV, WFOE), and even further sub-categorised in to those of HMT and non-HMT origin. This is important because we can then further understand if a majority of these new WFOEs are staying around in Qingdao – thus increasing the chances of integrating domestic workers in to the management structures – or if they are as quick to exit the Qingdao environment as they are to enter. We shall now turn to this data.

Figures S and **T** show the data for the cumulative total of FIEs in operation each year broken down by enterprise type, and the change in numbers year-on-year respectively. The year-on-year change comprises *the sum total of changes* in enterprise numbers: it is entirely possible that a positive change in WFOE numbers of non-HMT origin of, say, 100, is actually comprised of 200 new enterprises being formed versus 100 enterprises ceasing to operate. We will use the data as a loose indicator on the number of enterprises formed annually working on the premise that if huge numbers of enterprises are going bankrupt in anyone year, it is unlikely that many operations will choose to go ahead in that said year, hence implying that the a positive change of 100 enterprises is likely to be a close approximation of the true value of the number of new enterprises formed that year.

The sub-categorisation in to investments that are of Hong Kong, Macao and Taiwan origin versus those of non-HMT origin is useful as it gives us a proxy sub-categorisation for investments of Hong Kong origin, which will be in the HMT category, versus investments of

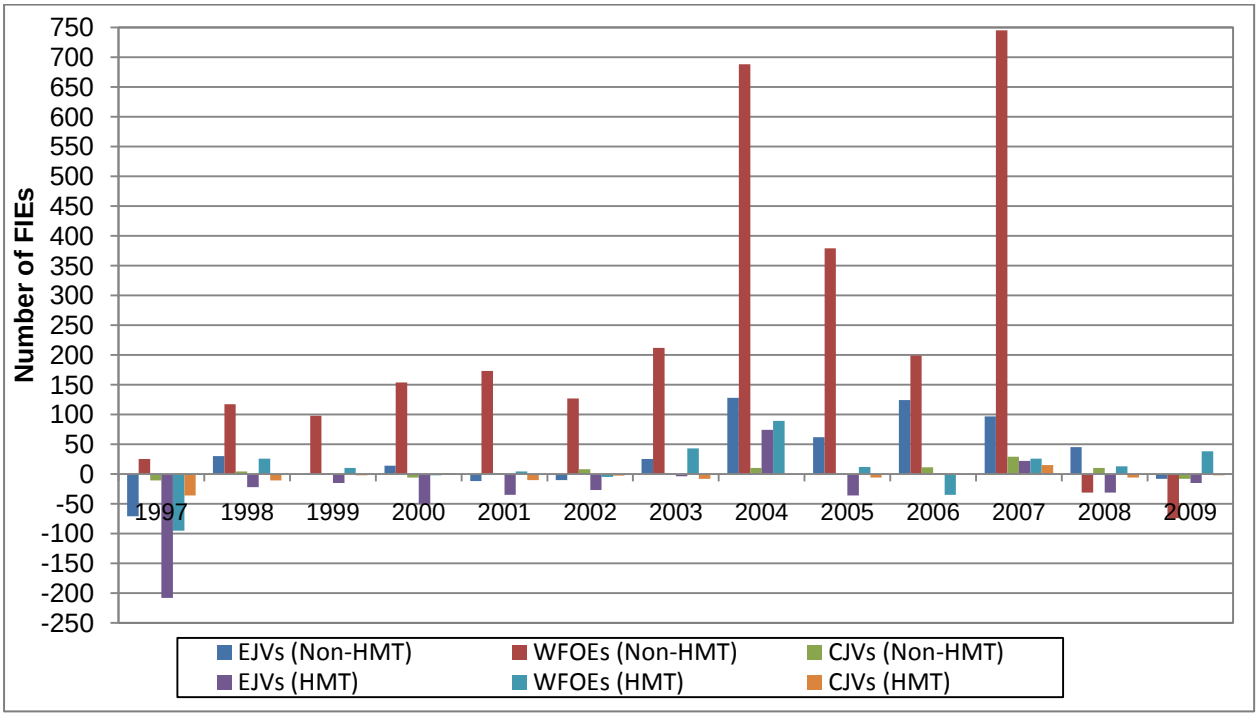
South Korean origin, which will fall in the non-HMT category – the two nationalities of investor that are the dominant contributors to Qingdao's FDI, as determined previously in our analysis.

Figure S: Number of FIEs in Operation Annually by Enterprise Type, 1996 to 2009[91]



*Source: See **figure R** above*

Figure T: Change in Number of FIEs Operating Year-on-year by Enterprise Type, 1997-2009



*Source: See **figure R** above*

[91] The reader may note that the total number of FIEs in operation is marginally higher than the sum total of those enterprises listed per annum in the breakdown. As well as the sum total of the JVs and WFOEs in operation, the total includes a handful of Sino-foreign stock enterprises, 18 as of 2008 (QDTJNJ, 2008: 359).

The most obvious pattern to note across both the graphs is that the increase in FIE numbers throughout the time period in question is driven by an increase in numbers of WFOEs that of non-HMT origin, i.e. our proxy measure for South Korean firms. The peaks in new WFOEs of non-HMT origin in the years of 2004 and 2007 corresponds loosely to the period of relatively high levels of utilised FDI of South Korean origin, identified in **figure P**.

The numbers of EJVs of non-HMT origin play an increasingly contributory role to total FIE numbers from 2004 to 2007, a time when utilised FDI of South Korean origin – whilst still relatively high – is declining in actual value; detailed observation of the utilised FDI by nation breakdown graph reveals that the non-HMT investors Japan and the Virgin Islands *increase* their contributions to Qingdao's utilised FDI in this period (for Japan only from 2004 to 2006).This seems to corroborate our conclusions drawn based on the analysis of utilised FDI by vehicle entry mode, illustrated in **figure R**: there is clear evidence that South Korean investors have a preference for WFOEs and there is evidence that from the mid-2000s onwards Japanese and Virgin Island investors have a preference for EJVs. [92]

The vehicle of operation has important implications as to the possibility of skills transfer and knowledge accumulation by the local Qingdao workforce. Within Chapter Two we discussed how certain enterprises had, theoretically, better environments within which to transfer skills or pass on knowledge. We mentioned that alongside the possibility of hard technology transfers within JV and WFOE operations, there is the possibility of transferring soft skills to the domestic workforce, thus improving levels of human capital. The soft skills included those of a more technical nature – training staff in the use of high technology or skilled machinery – and those of a non-technical nature – such as new management techniques, or accounting skills and so on. As stated, the arguments over whether or not skills are actually transferred, and the difficulties in attempting to measure this, are multifarious. Some scholars report evidence of skills and technology transfer, where as others reported that FIEs in some areas were using simple, second hand machinery of a basic skill level that therefore provided limited skills training opportunities (examples cited in Chapter Two include Child, 1994: 250, 265-6; Lan, 1999: 212; Luo, 1999: 205; Tuan and Ng, 2007: 350, Buckley, Clegg and Wang, 2007: 154).

[92] Throughout the above analysis in section 4.3 we have assumed that the data for numbers of enterprise in operation is accurate and that it is for all foreign firms operating in Qingdao, not just those 'above a certain size'. As explained in chapter three (footnote seventy), occasionally economic data at an enterprise level in the Qingdao Statistical Yearbooks is only provided for those firms that are above a certain, unstated size. When this is the case, the table usually states 规模以上工业企业, meaning those industries above a certain scale of size and operation as designated by the statistical authorities. The tables across all of the statistical yearbooks reviewed did not state this, which leads us to conclude that the figures are for all foreign firms in operation. However, a curious issue emerges when we compare the change in number of foreign enterprises in Qingdao with the listed workforce for the various enterprise types in Qingdao. The issue reminds us we should tread carefully when dealing with the data in the Qingdao Statistical Yearbooks.

To briefly re-cap, from a theoretical perspective the establishment of a WFOE could mean that the foreign partner will not be working against an established grain of values and norms that may occur in the formation of a JV with, say, a state-owned firm for example. This could, it can be argued, facilitate the transfer of new skills to the domestic workforce and thus improve their human capital. However, a newly established WFOE will more likely have a higher level of non-native managerial dominance in the upper echelons of the WFOE, thereby limiting the opportunities of transfer of management skills such as market strategising and so forth: analysis of Qingdao's FDI data shows that a majority of the WFOE projects have been established within the last decade. A lack of transfer of management power to the domestic workforce is also more likely if the foreign investor has no long term investment plans in the region but rather is simply taking advantage of a local resource (such as cheaper labour) without any desire to build up and develop the skill levels of the FIE workforce. From the analysis of Qingdao's FDI data we have seen that the dominant form of investment is WFOEs of South Korean origin and that they are mainly established in the manufacturing sector.

Analysis of Qingdao's FDI data has shown that a not insignificant sum of capital flows in to the creation of EJVs, and to a much lesser extent to the creation of CJVs. A joint-venture operation offers a different set of challenges and opportunities regarding skills transfer to the domestic workforce. As discussed in Chapter Two, the JV enterprise is a setting where two business cultures meet head on in the business environment. Theoretically, this should offer a greater number of opportunities for skills transfers to the domestic workforce, perhaps more so for non-technical soft skills (such as management techniques) rather than technical soft skills, which would be more dependent on the level of technology of the investment and the attitude of the enterprise towards workforce development. However, if the two different business cultures are vastly different in nature, one could also argue that a lack of co-operation could seep in the operation of the JV if the two cultures are unable to fuse effectively, thus not only proving detrimental to the operation of the firm but also providing a more hostile environment where skills transfer and mutual learning are less likely to occur. Although some scholars report that the atmosphere in some JVs is extremely uncooperative, even to the point of the foreign and domestic partners withholding strategic information from each other (Tang and Ward, 2003: 196), others have found immense variety in the internal organisation and co-operation between Chinese and foreign partners within JVs (Child, 1994: 250, 277-9) (see Chapter Two for more details). [94]

We shall now move on to look at employment levels in more details in order that we may better understand how foreign direct investment alters the employment environment in Qingdao.

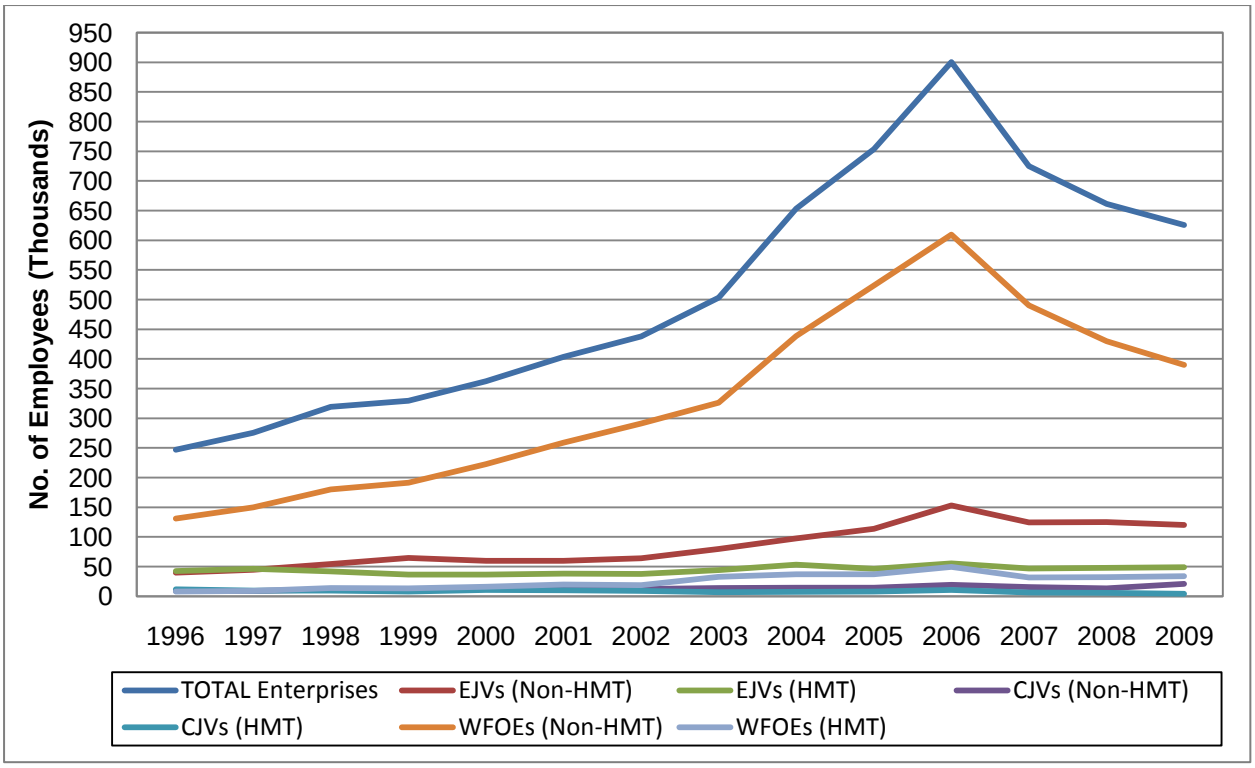
[94] Obviously these two pieces of work cited were conducted at different time, and so the business environment will likely have been different at those different occasions, thus taking weight away from a side-by-side comparison. However, it is still useful to acknowledge the types of JV environments that have been found in research at various times.

4.4 Qingdao's FIEs: Employment Figures by Investment Vehicle

The above three sections have concentrated on decomposing the inflow of FDI in to Qingdao in the 1996 to 2009 period and what we can infer from the details of that inflow about the impact of the FDI on the workforce of Qingdao. Within section 4.3 we began to make reference to data that detailed the actual levels of FIEs in operation rather than the new enterprises forming as a result of inward FDI. We shall now continue that trend and focus on the employment figures provided by the statistical authorities in order to gain a more complete picture as to the relationship between FDI and the workforce in Qingdao.

First, a reminder that we must be cautious when interpreting the statistical data. **Figure U** shows the listed levels of employment for the WFOEs and JVs of Qingdao, sub-categorised by the familiar HMT versus non-HMT banding.

Figure U: FIE Employment (Chinese Nationals Only) by Investment Vehicle, 1996 to 2009



*Source: See **figure R** above*

From **figure U** we see that the level of employment of Chinese nationals in FIEs overall in Qingdao drops from a peak in 2006 of 900,163 people down to 625,479 in 2009 – a decrease of well over a quarter a million people (274,684). This drop, as can be seen, was largely a result of the 219,882 drop in Chinese employees in non-HMT WFOEs in the same period: the non-HMT WFOE workforce stood at 609,638 in 2006 but fell to 389,756 by 2009. If we now compare this to the change in number of non-HMT WFOEs in operation in the same period, we see that the number of non-HMT WFOEs stood at 2,764 in 2006 but actually boomed in 2007 to 3,509 enterprises, before decreasing by around 100 firms over the next two years.

The same pattern is noticeable, on a much smaller scale, for the non-HMT EJVs, which see employment levels of Chinese nationals drop from 152,994 in 2006 to 124,379 in 2007 whilst the number of firms increases, on average, by 97 firms.

On the surface of it, these two facts – falling employment and rising enterprise numbers – seem to jar slightly. There are a number of possible explanations. First, the total number of enterprises listed in Qingdao is actually only enterprises "above a certain size". However, if this was the case, we would expect to see this noted in the statistical tables. It is unlikely that the reporting method contained the same error every year for the entire period in question, given that in other areas of the statistical books relevant table annotations are regularly included.

Second, it could be that the number of enterprises is not accurate because it does not take in to account the firms that close illegally and exit the market overnight – a problem that we will explain in more detail in section 4.7 – and that therefore the true number of firms is not accurately represented. This is unlikely to be the case because, even if it were true, over the 2006 to 2009 period we would expect to see the statistics balance out as the authorities reconcile the difference.

Third, the influx of non-HMT WFOEs in 2007 (745 firms) masks an overall change in number of firms that comprises a large number of relatively more capital-intensive firms arriving in Qingdao and several large scale, labour-intensive operations leaving Qingdao.

Fourth, it could be that the error lies within the employment statistics, although as we shall see through section 4.4, the employment statistics appear to be fairly consistent across all areas analysed. There is the possibility that a significant number of employees are taken on 'unofficially', despite the legality of the situation, or on short term (less than one year) contracts and therefore are not reported in the statistics.

Fifth, if could be that enterprise operation data is reported at a different time of year than the employment figures data. If enterprise data was recorded, say, at a mid-year interval but the employment figures are year-end figures, it is possible that the second half of 2007 say a collapse in enterprise numbers that was not reflected in the appropriate years data. However, as with point two, we would expect this to be correctly represented in the following year's data, which in terms of enterprise numbers it does not appear to be.

Sixth, it could be that the employment figures data is accurate but that the total number of firms in operation is not owing to the presence of a large number of illegal, small-scale operations. Whilst it is plausible that a domestic Chinese investor may be able to set-up an operation without all the correct paperwork, it is unlikely that foreign investors will be able to do so – not in numbers anywhere significant anyhow.

Finally, it could simply be the case that hundreds of new firms did, as reported, enter Qingdao as non-HMT WFOEs in 2007 but that the relatively more labour-intensive amongst

them did not employ as many workers as we would expect and the existing labour-intensive non-HMT WFOEs were shedding significant portions of their labour (without withdrawing from the market completely), which combined would give the recorded pattern of increasing firms in 2007 but falling employment numbers.

Approaches were made to the statistical authorities in Qingdao to attempt to clarify in detail the source of this curious discrepancy, but they were unsuccessful. Although this serves as a useful reminder as to basing detailed conclusions on the exact figures listed in the statistical publications from Qingdao, it does not take anything away from our analysis so far because although there may be issues with exact figures, general trends that we have discovered should hold true bar persistent, large-scale data misreporting.

Whilst noting the above qualification concerning accuracy of the figures, we can draw several useful points from **figure U**. First, regardless of the precise amount, the non-HMT WFOEs clearly account for the largest share of FIE employment amongst Chinese nationals working in Qingdao. We can see that peak employment, in 2006, is roughly two years after the peak investment by South Koreans and the peak investment in manufacturing (**figures N** and **P**). This implies that the non-HMT WFOEs in operation prior to 2004 presumably grew significantly in employment terms after 2004, continuing to expand and swell the employment figures as fresh FDI flowing in to create non-HMT WFOEs plateaued (**figure R**).

Second, whilst nowhere near as responsible for labour absorption of Chinese nationals in Qingdao as non-HMT WFOEs, non-HMT EJVs play a noticeable part in the employment environment, increasingly so from 2002 onwards; recall our earlier conclusions that from the early-2000s onwards the non-HMT EJVs were most likely of Japanese and Virgin Islands origin

Combining our conclusions drawn so far we know:

- *that a significant percentage of the new FDI that has flowed in to Qingdao in the 1996 to 2009 period is of South Korean origin, is directed in to establishing WFOEs in the manufacturing sector, and accounts for a sizeable portion of the Qingdao FIE Chinese workforce;*
- *and that there is a growing percentage of FDI that is directed in to establishing non-HMT EJVs, most likely of Japanese and Virgin Islands origin, accounting for around fifteen to nineteen percent of the Chinese employment in FIEs from 2004 to 2009.*

The data listed in the *Qingdao Statistical Yearbooks* allows us to analyse employment levels within FIEs by a number of breakdowns: sector; nation; and location of investment. Unlike for **figure U** above, some of these employment statistics are not for solely the Chinese workers in FIEs in Qingdao, i.e. they include foreign nationals in the statistics. Where data allows for specific isolation of the Chinese nationals working in the FIEs, it will be done so and clearly stated. However, even when using employment figures that include foreign

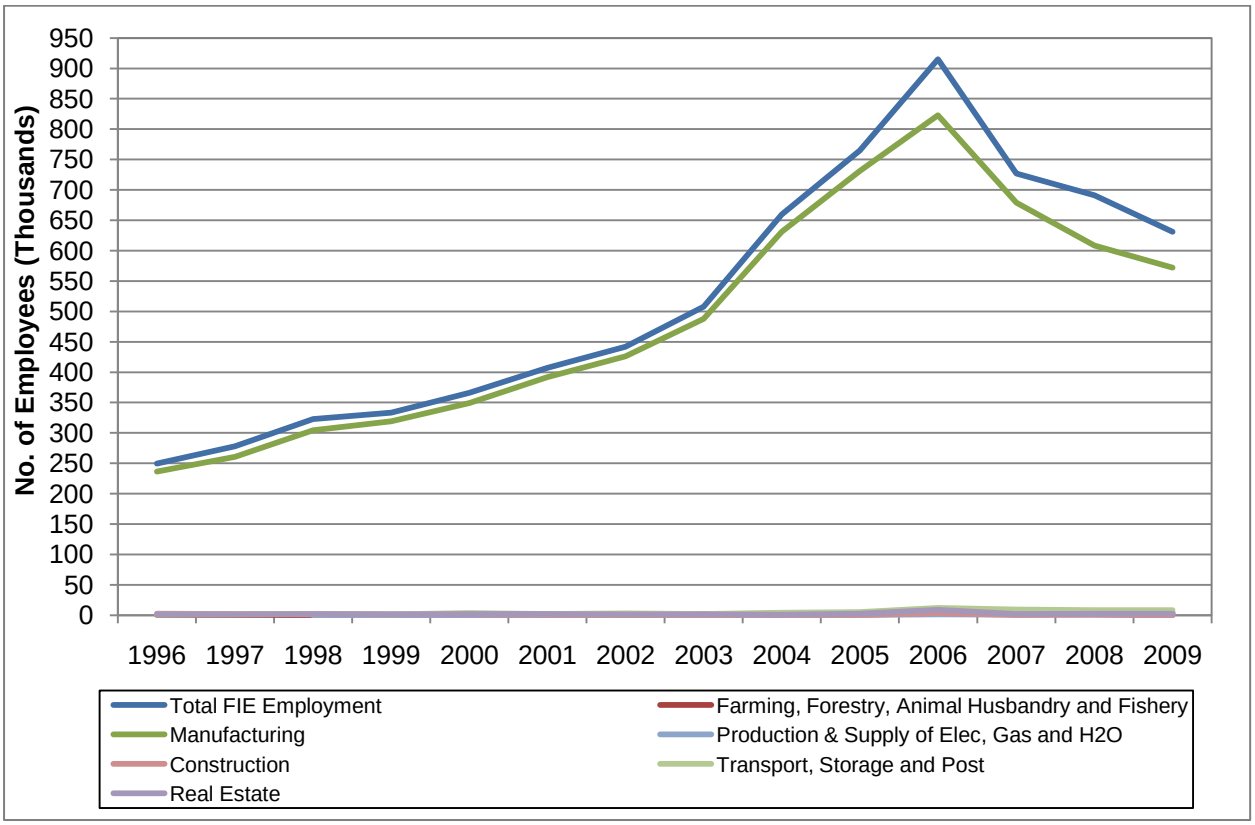
nationals, the data will still be largely representative of the employment of Chinese workers: data for the total number of foreign nationals working in Qingdao's FIEs tells us that in the 1996 to 2003 period there were less than 5,000 foreign nationals working per annum, and less than 7,500 in 2004 and 2007-09. Higher levels were recorded in 2005-06, but still negligible compared to overall figures (see **figure R** for sources).

We shall look at each of the FIE employment breakdowns in turn.

4.5 Qingdao's FIEs: Employment Figures by Sector

From our previous analysis, we have shown that the majority of new project interest and a significant percentage of the utilised FDI are directed towards the manufacturing sector in Qingdao. We expect, therefore, that the breakdown of FIE employment by sector will be heavily skewed towards manufacturing. **Figure V** illustrates the breakdown.

Figure V: FIE Employment (Including Non-Chinese) by Sector, 1996-2009



Source: QDTJNJ, 1997: 232-4; 1998: 226-9; 1999: 216-9; 2000: T15-10, 15-11; 2001: 294-7; 2002: 286-9; 2003: 298-301; 2004: 408-12; 2005: 294-8; 2006: 328-32; 2007: 352-6; 2008: 344-8; 2009: 360-64; 2010: T5-10, 5-11, 5-12.

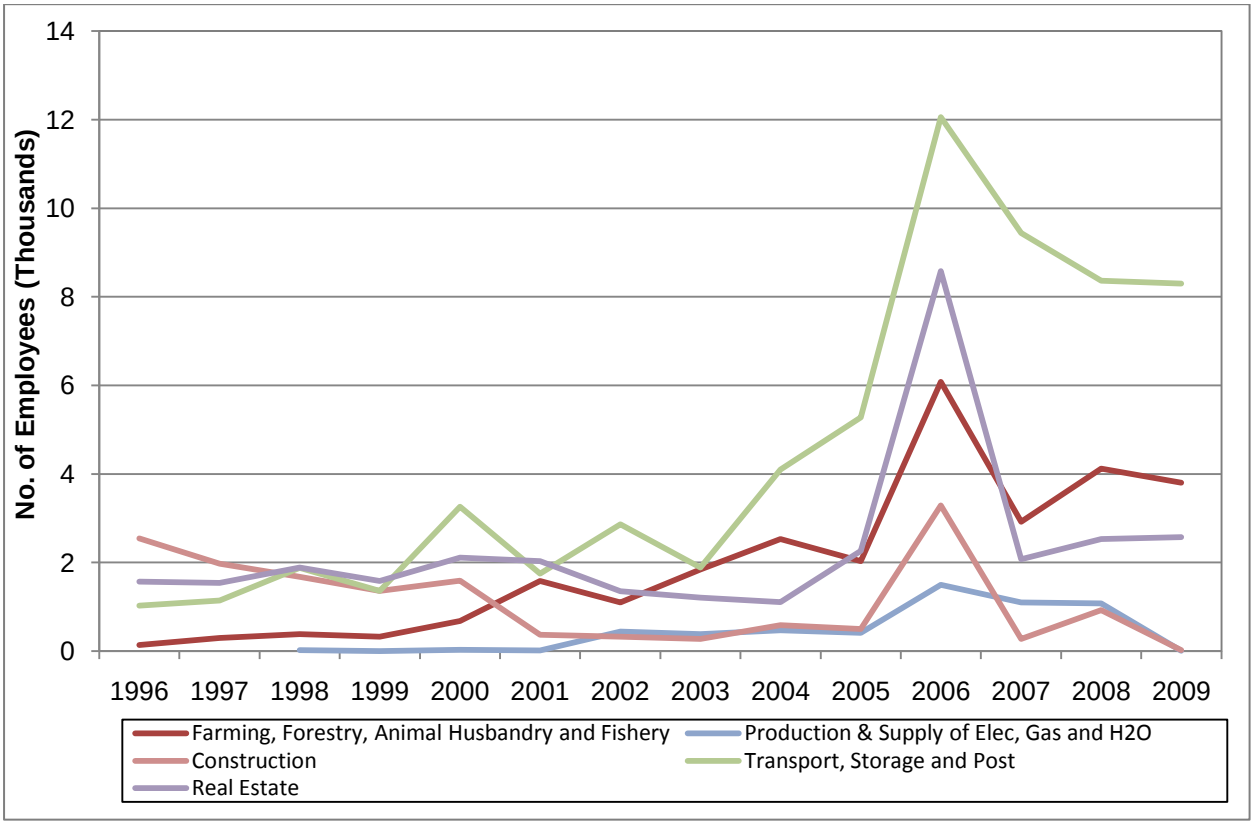
The graph clearly shows that the overwhelming majority of the jobs on offer in the FIE marketplace are, as predicted, in the manufacturing sector. The graph illustrates that total FIE employment across the whole of Qingdao is strongly driven by changes in the underlying level of employment opportunities available in the manufacturing sector. The limitations to **figure V** are that the required scale to illustrate total FIE employment and FIE manufacturing employment are such that it masks any useful information about changes in sectors other than manufacturing.[95] For example, from the peak of total FIE employment in 2006 of 914,813, we see a fall in total employment of 187,801 down to the 2007 level of 727,012. The same period sees a fall in manufacturing FIE employment of 143,977 – from 822,773 employed in 2006 to 678,796 employed in 2007 – telling us that over 43,000 jobs were lost in other sectors, which **figure V** cannot help provide evidence for.

Figure W reports the statistical data of FIE employment by sector for sectors *other than* manufacturing, and without total FIE employment, in order that we may gain a clearer

[95] We could of course use a logarithmic scale, but we have chosen not to in order to illustrate the stark contrast. The non-manufacturing sectors are explored in detail shortly.

picture of all the changes that are occurring over time in Qingdao's FIE employment levels, hence the impact on the workers of Qingdao.

Figure W: FIE Employment (Including Non-Chinese) by Sector Excluding Manufacturing and Total FIE Employment, 1996-2009



*Source: See **figure V** above*

Figures V and **W** together show us two interesting facts. First, there are large and significant drops in FIE employment across all reported sectors in 2007 versus 2006. The change in level of manufacturing FIE employment is numerically large and equates to a relative fall of seventeen and a half percent in manufacturing FIE employment from 2006 to 2007. From **figure W** we can see that other sectors, whilst experiencing much smaller losses in employment that the manufacturing sector in *actual terms* suffered huge losses in *relative terms*: "real estate", "construction" and "farming, forestry, animal husbandry and fishery" sectors lost 75.8 percent, 91.6 percent and 51.9 percent respectively, construction employment all but disappearing. Regarding the real estate and construction sectors, policy changes to cool off a suspected market bubble may have made investment conditions increasingly more difficult for foreign firms in those sectors, thus leading to sharp declines in workforce numbers (World Bank, 2008: 3-4; Int-7, Fieldwork 2010; Dezan Shira & Associates, 2011).

The second point to note is that whilst **figure V** shows manufacturing FIE employment to be growing steadily in the 1996 to 2006 period, **figure W** shows that the remaining sectors do

not display strong growth with the exception of the 2006 'spike'. These two facts in combination highlight that from 1996 to 2006, a majority of the new employment opportunities available in Qingdao were largely in the manufacturing sector alone.

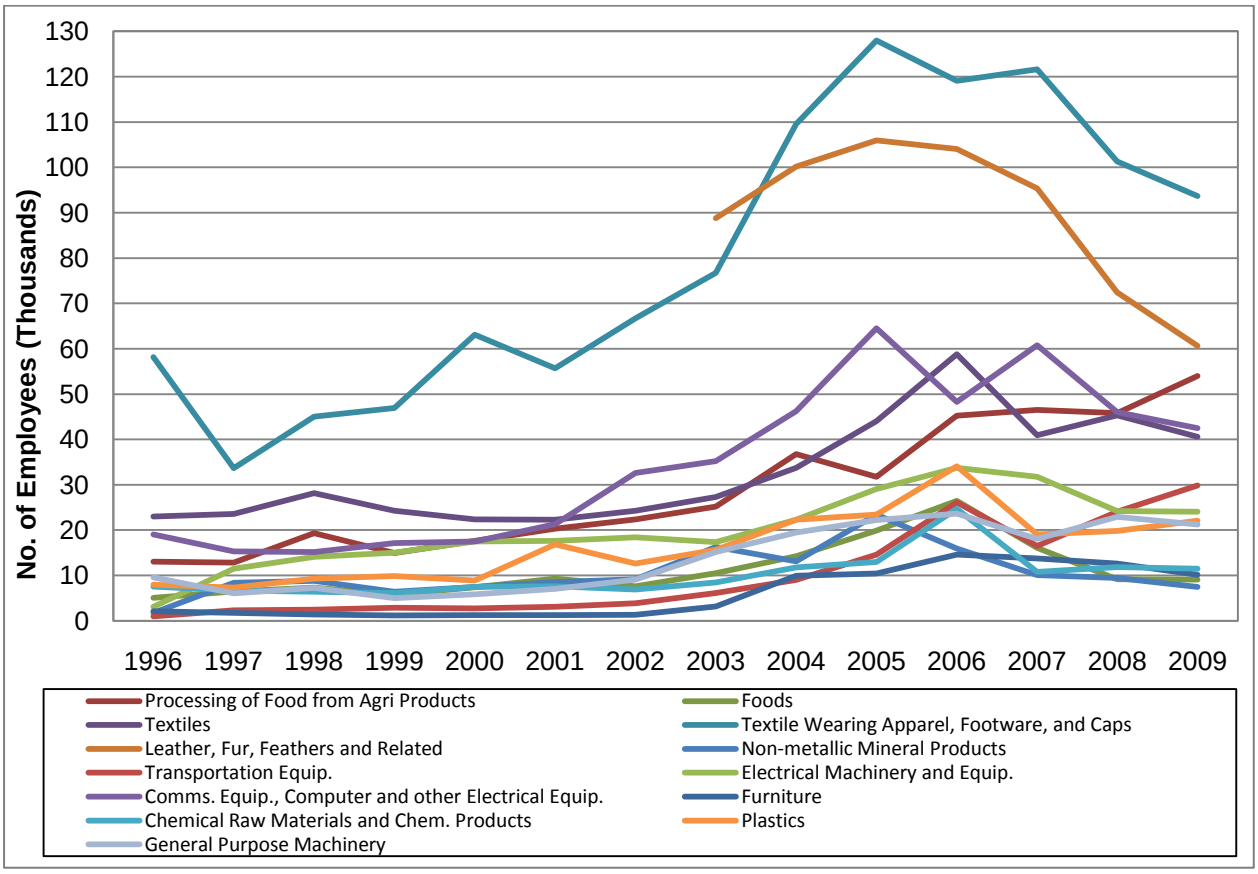
Obviously the manufacturing sector is not one individual sector but rather a combination of sub-industries. The *Qingdao Statistical Yearbook*, in recent years at least, provides a useful breakdown of FIE employment levels within the manufacturing sector, allowing us to conduct a more nuanced inspection of the nature of the FIE employment opportunities in manufacturing, thus facilitating a clearer understanding of the precise impacts of foreign direct investment on the workforce in Qingdao.

Several small caveats must be stated before assessing the sub-categorisation data of the manufacturing sector. Creating a time series is particularly difficult when research covers the earlier editions of the *Qingdao Statistical Yearbook* because although the recent editions are tending to stick to fixed categorisations of sectors and sub-sectors, there is not always consistency in the earlier editions. Using the Chinese language section titles and approximate consistency in statistical data, attempts were made to create consistent categories across the entire time period in question, 1996 to 2009. Examples include: using the "Clothing and other Fibre Manufacturing" listing (服装及其他纤维制品制造业) from the 1997 to 2003 yearbooks as earlier records for the "Textile Wearing Apparel, Footwear and Caps" category (纺织服装,鞋帽制造业) listed from the 2004 yearbook onwards; and using the "Electronic and Communications Equipment" listing (电子及通信设备制造业) from the 1997 to 2003 yearbooks as earlier data for the "Communications Equipment, Computer and other Electronic Equipment" (通信设备, 计算机及其他电子设备制造业) category, which is detailed in the 2004 yearbook onwards. Although this may not generate entirely accurate time series data, it is the best that can be done with the available statistical data and should still provide us with overall trends in the change in compositional structure of the manufacturing sector from which we can then deduce sound conclusions about the impact of FDI on the workers of Qingdao.

If a sub-sector could be traced back to form a time series and it employed more than 10,000 in any two years, it was included in the following analysis; only five out of the eighteen sub-categories listed in the 2009 Yearbook were left out, accounting for less than 12,900 people of the total manufacturing FIE workforce that year.

Figures X and **Y** show a detailed composition of the manufacturing sector in absolute and relative terms respectively.

Figure X: FIE Employment (Including Non-Chinese) by Manufacturing Sub-categories, 1996-2009



*Source: See **figure V** above*

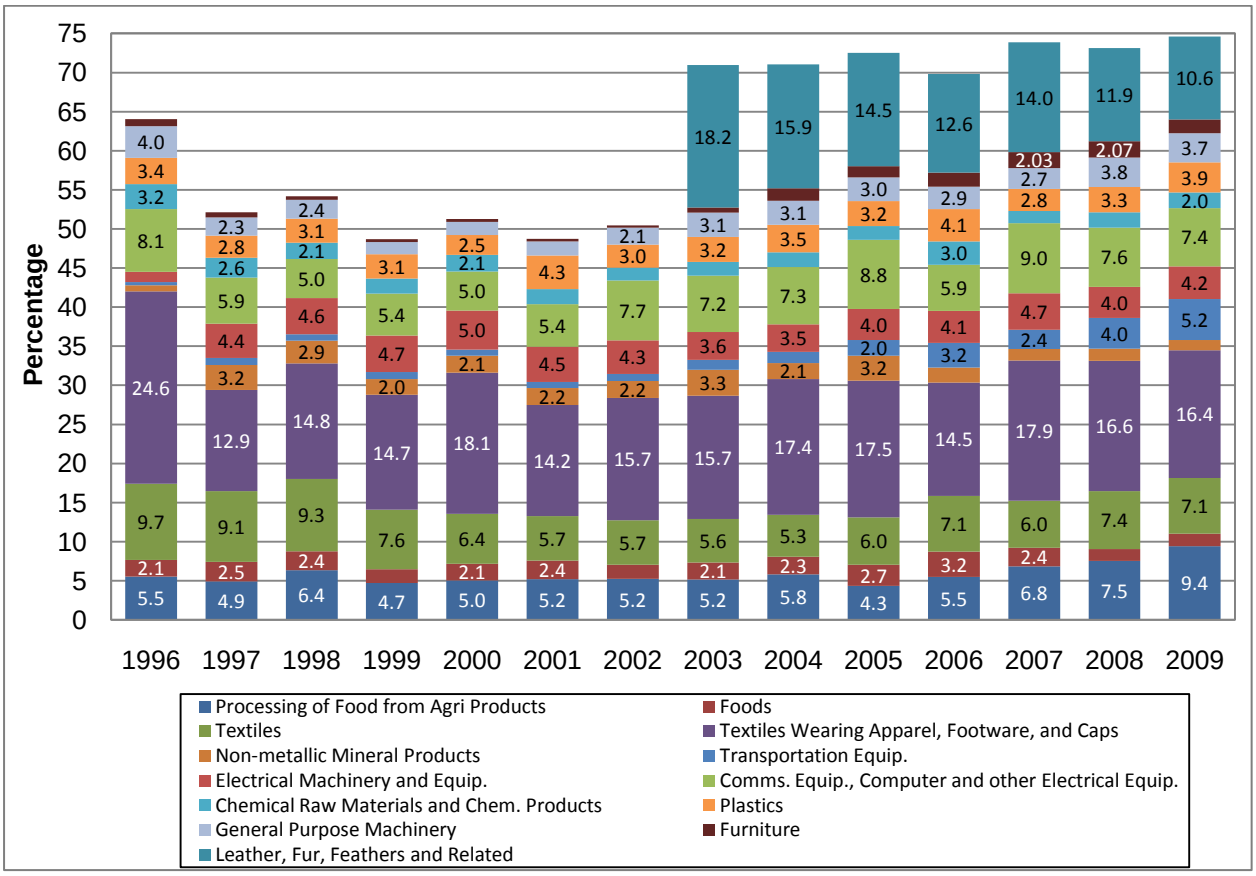
The sub-sector analysis is necessarily reliant on the statistical data that is provided in the *Qingdao Statistical Yearbook*. Recalling that **figure V** shows a drop in manufacturing FIE employment by 143,977 in the 2006 to 2007 period and then calculating the change in balance of employment from 2006 to 2007 across all the sub-categories of manufacturing listed in **figure X**, which is a decrease of 73,233 jobs, we see that there is a loss of 70,744 jobs that we do not have the statistics for;[96] the percentage composition illustrated in **figure Y** also serves to highlight that our analysis is lacking around fifty percent of the statistics per annum from 1997 to 2002, dropping to around one quarter of the statistics missing after the inclusion of the "leather, fur, feathers and related" category in the 2004 yearbook and beyond.

One might argue that the sub-categories chosen for listing by the statistical authorities must be the largest sub-categories and therefore the only ones that warrant listing. However, judging by the fact that the "leather, fur, feathers and related" category accounted for over eighteen percent of the manufacturing FIE employment when it was finally included in the

[96] The sub-sectors that do not form a time series and were thus left out of the sub-sector analysis, as explained earlier, account for an insignificant number of these unaccounted for jobs.

breakdown data for 2003, we must not take for granted that there may be other significant employment sub-sectors that are also not listed. Indeed, further proof of this is found in the sudden inclusion of an extremely thorough breakdown of manufacturing sub-sectors in the 2004 and 2005 *Yearbooks*, only then to be removed again. The brief inclusion of this detailed breakdown illustrates that in 2003, four of the extra sub-categories accounted for an extra 106,099 jobs in total (QDTJNJ, 2004: 408); in 2004, five of the extra sub-categories totalled to 142,185 jobs (QDTJNJ, 2005: 294).[97] The fluctuation in levels of richness of data reminds us that we should always tread carefully when interpreting the statistical data, mindful that we may not always have the full picture.

Figure Y: Percentage Breakdown of FIE Employment (Including Non-Chinese) in the Manufacturing Sector (Percentages >2% Labelled), 1996-2009



*Source: See **figure V** above*

[97] For 2003 the four sub-categories were: Stationary, Education and Sports Goods (文教体育用品制造业) 48,457; Rubber Production (橡胶制造品) 12,211; Metal Products (金属制造业) 15,666; and Handicraft Articles and Other Goods Production (工艺品及其他制造业) 29,765. For 2004 the five categories were: Stationary, Education and Sports Goods (文教体育用品制造业) 44,934; Rubber Production (橡胶制造品) 15,765; Metal Products (金属制造业) 19,141; Handicraft Articles and Other Goods Production (工艺品及其他制造业) 49,900; and Special-Purpose Equipment (专用设备制造业) 12,445 (QDTJNJ, 2004: 408; 2005: 294).

Focusing on what we can tell about manufacturing FIE employment from the data we have, from the percentage decomposition of the sub-sectors of manufacturing listed we see that from 1997 to 2009, despite minor fluctuations, the overall structure of the manufacturing sector – for the listed sub-sectors at least – is rather consistent, implying that the fluctuations we see across absolute employment levels have a broadly similar impact across the whole range of (listed) sub-sectors. There are a few exceptions to this: firstly the "leather, fur, feathers and related" sector that appears in 2003 shrinks its share of the manufacturing FIE employment from over eighteen percent in 2003 to just over ten percent in 2009; second is the small but noticeable growth in share of manufacturing FIE employment in the "transportation equipment" sector from the early 2000s and the "processing of food from agricultural products" sector from 2005.

The above described general pattern does not hold for 1996 to 1997 because, as we can see, there is a drastic drop in the relative share of "textile wearing apparel, footwear and caps" from almost one quarter of manufacturing FIE employment to a little under thirteen percent. This is most likely as a result of the Asian Financial Crisis, which had significant impacts upon the export markets in the region with those economies that were hit hard by the crisis being forced to devalue their currency and thus affecting their import capacity (Li and Kwok, 2009). The implications of this huge drop in share of manufacturing FIE employment for the workforce in Qingdao are obviously serious, however the overall manufacturing FIE employment at the same time (1996 to 1997) actually increases, suggesting that other manufacturing sub-sectors may have been able to absorb some of the redundant labour from the "textile wearing apparel, footwear and caps" sector in 1997, before the sub-sector itself picked up in employment terms from 1998 onwards.

Whilst the pattern of relative composition is fairly constant across the manufacturing sector, with a majority of the listed sub-sectors maintaining a roughly similar share of the overall manufacturing FIE workforce across the 1997 to 2009 period, the *absolute numbers* in each sub-sector (**figure X**) clearly demonstrate that the biggest *absolute gains* in the 1996 to 2005 period were in the particularly labour-intensive "textile wearing apparel, footwear and caps" sector: employment rose overall from 58,164 in 1996 to a peak of 128,000 in 2005, which is a creation of 69,836 jobs – around one seventh of all the increase in total manufacturing FIE employment in the 1996 to 2005 period (494,906 jobs).The next strongest performing (listed) sub-sectors in the 1996 to 2005 period in terms of job creation were: "communications equipment, computer and other electrical machinery", "electrical machinery and equipment" and "textiles", with 45,489 jobs, 25,943 jobs and 21,062 jobs respectively. Overall, these four sub-sectors account for almost one third of all the manufacturing jobs created in the 1996 to 2005 period. The "leather, fur, feathers and related" sub-sector may also have been a strong performer in terms of job creation in the 1996 to 2005 period, but we only have data from 2003; in the two year period from 2003 to 2005, the sub-sector grew by 17,164 jobs.

When discussing sub-sector industrial classifications, we should recall our discussions from the end of Chapter Three that reminded us to guard against taking industrial categorisations at face value. One might assume, for example, that any sub-sector that references computers or electronic equipment may be a rather hi-tech industry, but all of the above listed sub-sectors are more likely to be predominantly labour-intensive processing trade, taking advantage of cheap labour to assemble pre-fabricated imported parts that are then exported. We shall return to the subject of processing trade and implications for job skills later in this chapter. For now, it is reasonable to conclude that:

> *in terms of FIE job creation over a majority of the period of rising manufacturing FIE employment, the sectors that grew most (in absolute terms) in the 1996 to 2005 period were relatively more labour-intensive sub-sectors of manufacturing.*

Over the entire period of 1996 to 2009, the strongest performing sub-sectors in terms of stability appear to be the "processing of food from agricultural products" sub-sector and the "transportation equipment" sub-sector. The former has grown steadily from a relatively small level of FIE employment in 1996 (13,065) to a more significant 54,004 by 2009 – the third largest listed sub-sector for that year. The later has grown from just less the 1,000 employees in 1996 to a little shy of 30,000 employees by 2009. Both of these sub-sectors were highlighted earlier as seeing a small increase in relative percentage contribution to total manufacturing FIE employment. The former of these two sub-categories is not capital-intensive and will likely not offer the Chinese workers in Qingdao a large number of opportunities to increase their levels of human capital. Whilst the "transportation equipment" sub-sector is likely to be production line in nature, it will at least provide a slightly higher level of skills training to employees than a low-tech labour-intensive operation.

We have already noted that the *fastest growing* manufacturing sub-sectors in terms of job creation in the 1996 to 2005 period were relatively more labour-intensive. Now, assessing the highest employing sub-sectors listed for the manufacturing breakdown, we note that the largest employing sub-sectors are predominantly labour-intensive also: "textiles wearing apparel, footwear and caps", "leather, fur feathers and related", "textiles" and "communications equipment, computer and other electronic equipment". In absolute terms then:

> *not only are a majority of the jobs created in Qingdao by FIEs in the labour-intensive manufacturing sub-sectors but, perhaps rather unsurprisingly, the highest employing sub-sectors are also labour-intensive.*

In terms of losses, in *absolute* terms we see a loss of 45,312 jobs in the "leather, fur, feathers and related" sector by 2009 from its peak employment of 105,950 in 2005, and a loss of 34,341 jobs in the "textile wearing apparel, footwear and caps" sector by 2009 from its peak employment of 128,000 in 2005. The "textiles" sub-sector, which peaked in 2006 at

58,781 employees, also suffered heavily in absolute terms with over 18,000 job losses in the three year period from 2006 to 2009.

The statistics cannot inform us as to why these more labour-intensive operations shed staff in this period but it is likely that the combination of increasing minimum wages, imminent passing of stiffer regulations regarding the labour-capital relationship, and the wider global economic situation from mid-2007 onwards all increased the pressure on labour-intensive operations causing them to shed labour.[98] This highlights the unstable nature of employment created predominantly by operations that are labour-intensive in nature:

> *manufacturing FIE employment, which accounted for almost ninety percent of total FIE employment in 2006, fell by over thirty percent – over a quarter of a million jobs – in the short three year period from 2006 to 2009.*[99]

Statistical data for the listed sub-sectors only provides us with information on around 150,000 of the 250,000 job losses in the 2006 to 2009 period, so we are unable to fully identify all the sub-sectors that suffered large scale labour reductions in the 2006 to 2009 period.

Whilst noting the levels of job reduction, it should be acknowledged that the 2009 employment levels across a majority of the manufacturing sub-sectors were similar to the levels recorded in 2004 with the exception of two sub-sectors that were much higher – "transportation equipment" and "processing of food from agricultural products" – and two that were much lower – "non-metallic mineral products" and "leather, fur, feathers and related".

To recap, we first noted that there was a clear bias in terms of number of FIE employment opportunities and that they were overwhelmingly in the manufacturing sector. This led to a more detailed examination of the sub-sector employment statistics, which although they were shown to have certain limitations, highlighted several useful facts. In *absolute* terms, we saw that the majority of new jobs created and lost over the period in question were in relatively more labour-intensive sub-sectors of manufacturing, and that labour-intensive sub-sectors were the largest overall employers amongst the FIE workforce. The fact that labour-intensive employment opportunities have dominated in Qingdao's inward FDI implies that the Chinese workers in Qingdao will, by and large, only have a limited range of potential human-capital gains to be achieved from the FIE employment opportunities available to them. One could argue that the possession of a job is better than not having a job, although, as discussed in Chapter Two, it is extremely hard to show what employment levels would be like in Qingdao without FIE presence; we can look at FIE employment in

[98] Regarding wages, one interviewee referred to a situation of spiralling minimum wage *increases* district by district in manufacturing areas across China in reaction to labour shortages (Int-1, Conducted 2011). See Chapter Five, introduction section.

[99] We shall discuss FIE employment levels in relation to wider employment levels in Qingdao in section 4.7.

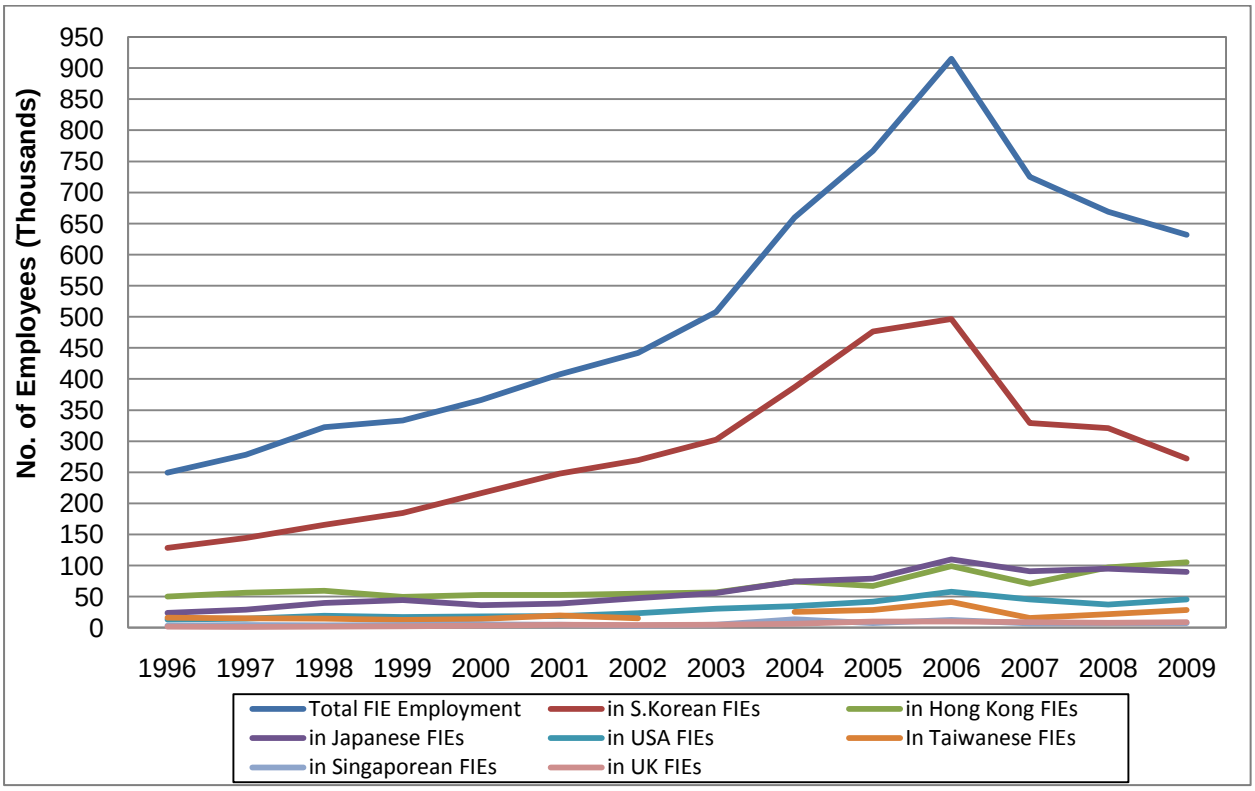
relation to total employment in Qingdao to gain some greater insight, which we shall do later in this chapter.

Analysis conducted in earlier stages of this chapter has led us to conclude that a majority of the FDI flowing in to Qingdao in the period in question was of South Korean origin flowing in to the manufacturing sector as WFOEs. Comparing this to our above conclusions on FIE employment by sector, where we have shown that labour-intensive manufacturing operations occupy a majority of those workers employed in FIEs, we would therefore expect an analysis of FIE employment by nationality of ownership to show South Korean FIEs as the dominant employer: we shall now investigate this.

4.6 Qingdao's FIEs: Employment Figures by Nation

As with the manufacturing sub-sectors, there are issues forming time series data. After making allowances for listings that could not be formed in to a time series due to missing data, the seven largest employer nationalities as listed in the *Qingdao Statistical Yearbook* 2010 were chosen as those to be analysed, six of whom were also the largest six employer nations listed in the 2000 Yearbook. **Figure Z** depicts the statistical breakdown of FIE employment (including non-Chinese) for 1996 to 2009.

Figure Z: FIE Employment (Including Non-Chinese) by Nationality FIE Investor for Seven Nations Accounting for 88% of 2009 FIE Employment, 1996-2009[100]



*Source: See **figure V** above*

Building on our analysis of the nature of FIE employment opportunities available to the Chinese workers in Qingdao, we see that **figure Z** confirms that the dominant employer is as expected; South Korean FIE employment is around fifty to sixty percent of total FIE employment from 1996 up until 2006 inclusive.

We can see that in the 1996 to 2005 period, changes in the overall pattern of total FIE workforce show a high degree of correlation with the changes in South Korean FIE employment levels. In fact, in the 1996 to 2003 period there is no real noticeable change in employment levels of FIEs of any nation accept for those of South Korean origin. This implies that from the mid-1990s to the mid-2000s, a majority of the employment opportunities in the FIE marketplace were created by South Korean investors.

In addition to this, recalling our analysis in section 4.5 that revealed the overall changes in total FIE employment were largely driven by changes in manufacturing FIE employment (particularly in those sub-sectors that are relatively labour-intensive), the correlation between South Korean FIE employment levels and total FIE employment levels provides

[100] The data point for Taiwan for 2003 has been removed as it is an extreme outlier that is completely inconsistent with the trends in data. The value, 2,278 is most likely supposed to be 22,078 or 22,780 or similar. As there is no way to check the correct value this many years later, it was decided to simply remove the data point.

more evidence to support the conclusion of the existence of a strong connection between South Korean investment and manufacturing FIEs, in the 1996 to 2005 period at least.

From 2005 to 2006, we see that total FIE employment is still rising, a time when the increase in South Korean FIE employment levels slows remarkably. We can see from the graph that the growth in FIE employment in the 2005 to 2006 period therefore is more as a result of broad growth in employment levels across Hong Kong, Japanese and South Korean investments – and to a lesser extent, increases in Taiwanese and USA FIE employment – rather than being mainly due to growth in South Korean FIE employment levels.

In 2007, we see a highly significant loss of 167,401 jobs in South Korean FIEs from peak employment of 496,367 jobs in 2006, which is almost ninety percent of all total FIE employment job losses in the 2006 to 2007 period.[101] This is obviously an extremely large percentage and we can conclude that in absolute terms the dramatic decrease in South Korean FIE employment levels would have had a significant and negative impact for a large number of Chinese nationals in the FIE workforce.

However, although the number of job losses from South Korean FIEs is large in absolute terms, the overall number of employment opportunities available in South Korean FIEs was much greater in 2006 than any other nationality of FIE, therefore we would expect the number of losses in absolute terms to be greater than for all other nations if financial difficulties were faced by all firms. What we must do in addition to the absolute levels is look at the relative levels of change, the change in employment levels compared to the size of employment market generated by the presence of a particular nationality of investor.

Figure AA shows the percentage change year-on-year in FIE employment levels for five investor nations that are responsible for around seventy-five to ninety percent of annual employment from 2005 to 2009.

[101] The total FIE employment levels across different tables in more recent editions of the *Qingdao Statistical Yearbook* do not always correlate exactly, so the change in FIE employment levels in the 'sector' analysis may differ slightly from the change as reported other analysis sections. An example of the discrepancy is that in the 2010 *Yearbook*, total FIE employment calculates as 631,151 in the breakdown by sector, 632,144 in the breakdown by nation, and 632,394 by location (QDTJNJ, 2010: T5-10, 5-11, 5-12). In previous editions, the total used to be listed at the top of every table; once the numbers no longer corresponded exactly, the totals were seemingly removed from the breakdown data, meaning manual calculations were necessary.

Figure AA: Percentage Change Year-on-year in FIE Employment (Including Non-Chinese) by Nationality of Investor for Five Nations Accounting for 75-90% of Annual Employment in 2005-2009

*Source: See **figure V** above*

The focus of our interest in this analysis is in the period of 2005 onwards to cover the period of rapid downsizing; analysis to data prior to 2005 cannot be so readily conducted for one of the above listed nations – Taiwan – owing to the difficulties already highlighted with the 2003 data point, which gives rise to a percentage change of thousands in magnitude for 2004 over 2003.

As already detailed, the loss in absolute terms of South Korean FIE jobs in 2007 is likely to have had a huge impact on the workers in Qingdao, standing as it does at almost ninety percent of the total FIE job losses that year. However, as **figure AA** shows, the *relative* percentage loss in terms of the size of the South Korean FIE sector is similar to that of the loss in employment in the Hong Kong FIE sector, both standing at around a thirty percent loss in 2007.

Figure AA also highlights that in the relative loss in employment in the Taiwanese sector in relation to the size of the Taiwanese FIE workforce is much more significant in 2007; almost 63% of the registered 2006 workforce was shed by 2007. Assessing the data for 2008 and 2009 shows us that the Taiwanese workforce then began to expand again and by 2009 it had recovered to similar levels as of 2005 of around 29,000, although this was only around three quarters of the 2006 peak of 41,384. By comparison, whilst the Hong Kong and Taiwanese investors increase their workforces after the 2007 decline, the South Korean

workforce is the only FIE workforce in the above analysis that continues to decline year-on-year from 2007.

In brief, we have seen more evidence to support the argument that a majority of the FIE employment is in South Korean firms, and the correlations between the sector and nation employment analysis indicate a strong bias amongst South Korean investors towards manufacturing, particularly the more labour-intensive sub-sectors of manufacturing. Furthermore, analysis in absolute terms and in relative terms has shown that the employment opportunities within South Korean FIEs, whilst more numerous, are seemingly more susceptible to external changes and offer less stable employment opportunities – a point we shall return to with more evidence shortly.

Alongside the useful breakdown of FIE employment data along sector and investor nationality lines, the employment data offers us an insight in to the geographic spread of the foreign invested firms in Qingdao in a way that the basic FDI data does not. In addition to this location analysis, the statistics provide the total number of fixed assets for FIEs in particular locations. This means that as well as a surface analysis of *where* the majority of FIE employment opportunities for the Chinese workers in Qingdao are, we can also calculate an indicative measure of capital-intensity that will indicate the *nature* of employment opportunities available in each location. The next section will explore this data.

4.7 Qingdao's FIEs: Employment Figures by Geographic Location

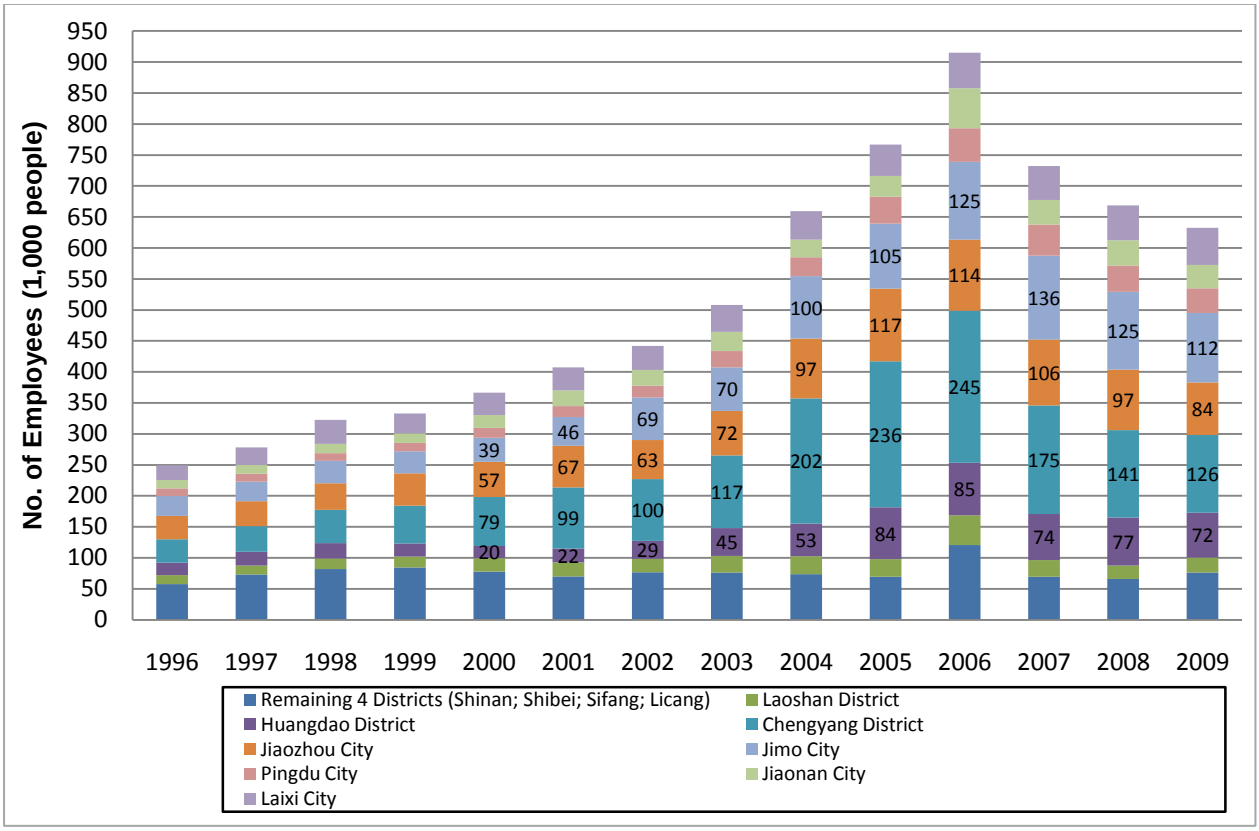
As introduced in Chapter Three, Qingdao has seven districts of its own and five county-level cities under its governance. The seven districts of Qingdao city are: Shibei district (市北区), Shinan district (市南区), Sifang district (四方区), Licang district (李沧区), Laoshan district (崂山区), Huangdao district (黄岛区) and Chengyang district (城阳区). The five county-level cities are: Jiaozhou city (胶州市), Jimo city (即墨市), Pingdu city (平度市), Jiaonan city (胶南市) and Laixi city (莱西市).[102] The FIE employment data provides us with a location breakdown for a majority of these districts and cities, which means we can investigate if there are any concentrations of FIE employment or whether FIEs are more geographical diverse in location. **Figure BB** illustrates the absolute figures of FIE employment by location.

The graph highlights that since the year 2000 an ever-increasing majority of the FIE employment opportunities are in the Chengyang district. At its peak employment, the year 2006, Chengyang district had almost one quarter of a million FIE employees (245,479 people), which was just short of twenty-seven percent of the total FIE employment for that year (915,023 employees).

[102] As explained in Chapter Three, footnote sixty-eight, it has not been possible to find an informative English language map that illustrates this, but a Chinese language map has been annotated and included in the **appendix**.

Generally speaking, most of the districts and cities see a mild swelling in employment figures along the pattern of total FIE employment described previously where employment rises up to 2006 and then falls thereafter. The locations that appear to have seen the most growth are the four labelled locations: Huangdao district; Chengyang district; Jiaozhou city; and Jimo city. Interestingly, whilst Chengyang district and Jiaozhou city have seen 2009 employment levels fall back to 2003 levels, the other two locations are still at levels higher than those of 2003.

Figure BB: FIE Employment (Including Non-Chinese) by Location, 1996-2009



*Source: See **figure V** above*

Comparing this graph to the earlier graph that illustrated FIE employment by nationality of investor (**figure Z**), we see that in the period identified as having significant growth in employment for South Korean firms and negligible growth in employment in FIEs of other nationality of ownership, 1998 to 2005, we see the four identified locations growing in FIE employment, particularly Chengyang district. This suggests that South Korean investors are mainly located in these four locations, a sizeable share being in the Chengyang district. When South Korean FIE employment levels drop sharply in 2007, we see the sharpest fall in FIE employment is registered for Chengyang district, further suggesting a relationship between Chengyang district and South Korean investors. This is consistent with anecdotal evidence from fieldwork research: when discussing foreign investment with Qingdao

citizens in general, the residents would often refer to Chengyang as an area of high South Korean investment.

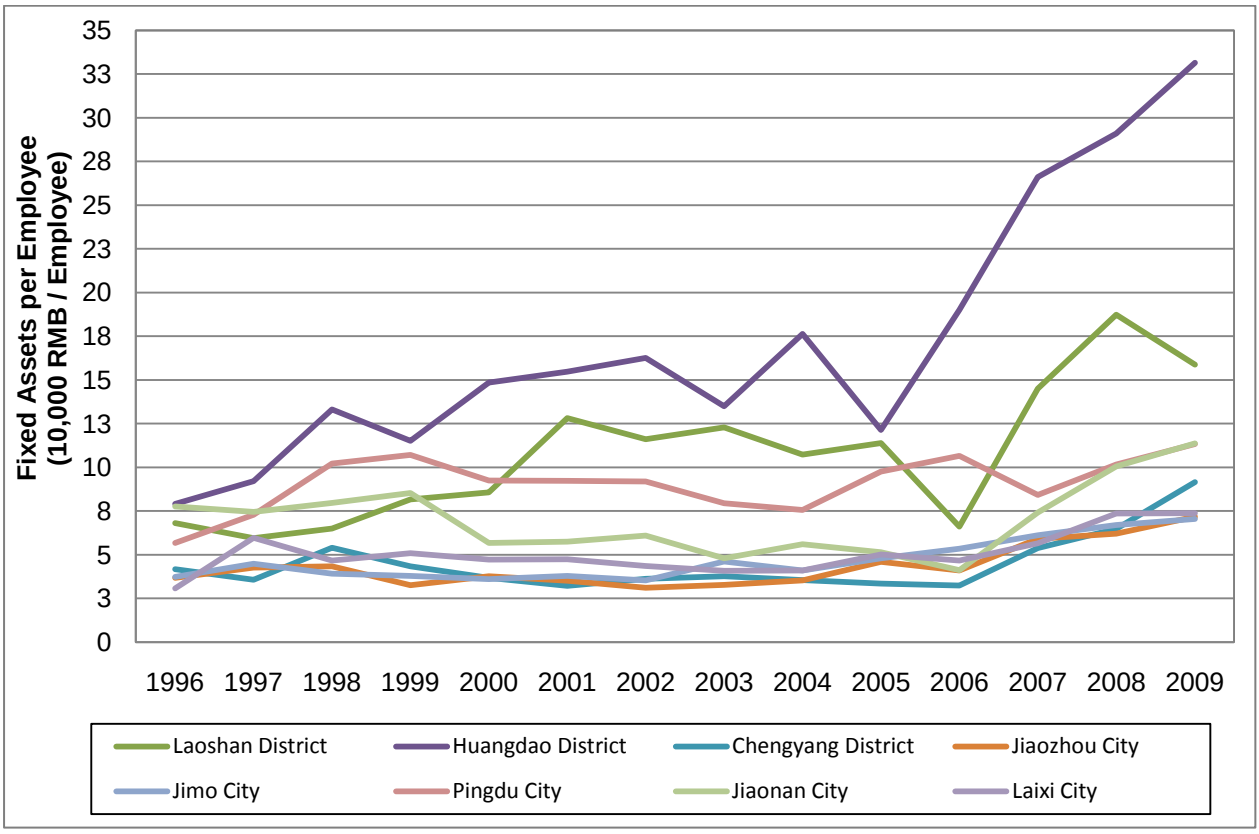
Unfortunately the level of South Korean FIE employment dominance is such that it is difficult to argue correlations between locations and other investor nations, but it is likely that those of similar investment types, which for South Korea we have already identified to be a focus on manufacturing sub-sectors that are relatively labour-intensive, will favour the same locations.

As already mentioned, the FIE employment data by location can be combined with data showing the total fixed assets for all foreign-invested firms in a particular location, allowing us to calculate a measure of *average fixed assets per employee* by location, i.e. an indicative measure of capital-intensity. Although being an average statistic means that the calculation may be susceptible to bias if there is an operation that is extremely capital- or labour-intensive in a location – thus leading us to conclude erroneously that a certain location is more or less capital-intensive than it is in reality – the size of FIE presence should militate against such bias being so overwhelming as to mask the underlying trends in levels of capital-intensity in each location.

A point to note concerning the data for fixed assets is that with the exception of the 1997 Yearbook, none of the publications state whether they are listing the “original value of fixed assets” (固定资产原值) or “net value of fixed assets” (固定资产净值). It would be useful to know as it can be assumed that original value may be overinflated as the foreign investor attempts to increase the proposed value of their investment without actually putting in hard cash, i.e. by reporting that a certain machine line is much more valuable than it actually is. This may be a particular problem in JV deals although, as we have noted, the WFOE is rather more popular in Qingdao. Where the choice was given over which measure of assets to use, i.e. the 1997 Yearbook, the net value was chosen.

Figure CC shows the results for the calculations of average fixed assets per employee at each location:

Figure CC: Capital-Intensity of FIEs by location, 1996-2009[103]



*Source: See **figure V** above*

The lines running continuously closer to the bottom axis of the graph, those for Chengyang district, Jimo city, Jiaozhou city and Laixi city, are the locations that are comparatively more labour-intensive on average; the two areas with the highest levels of capital-intensity, on average, are Huangdao district and Laoshao district.

With FIE employment levels falling across most locations post-2006, it is not surprising to see the average measure of fixed assets per employee also increase across most locations. Reviewing the figures for total fixed assets we see that the change in our capital-intensity index has arisen not just owing to the shedding of labour across FIEs but also due to an increase in total fixed assets recorded in most locations post 2006. This increase in value seems to suggest that alongside some of the more labour-intensive firms shedding labour, there is an inflow of relatively more capital-intensive investments coming in to Qingdao, particularly in to Huangdao district.

The increase in total fixed assets in the 2006 to 2009 period is most pronounced for Huangdao district, which also sees relatively stable FIE employment levels post-2006, thus contributing to a sharp up-spike in our index of capital-intensity. This suggests that there

[103] The combined category of Shinan, Shibei, Sifang and Licang districts has not been included in the analysis as we are unable to draw conclusions for the individual locations based on such a categorisation.

may be relatively more capital-intensive investment in this location. An interview with a lawyer from a large, Shandong-based law firm seemed to corroborate this when he specifically referenced Huangdao district as being an area where space is now at a premium meaning that the authorities can now be more selective in their approvals of FDI projects (Int-7, Fieldwork 2010).

Huangdao district is the location of one of Qingdao's national-level administered economic development zones, the "Qingdao Economic and Technological Development Zone", which has a significant presence of foreign enterprises (SDTJNJ, 2010: T6-31)

Alongside Huangdao district, we noted that Laoshan district is also an area of comparatively higher levels of capital-intensity. This might be expected given that located in the district is one of the national-level administered "High and New-tech Development Areas", in which there is a presence of foreign firms (SDTJNJ, 2010: T6-32).[104] **Figure CC** reveals a sudden downwards dip in capital-intensity for Laoshan district in 2006, which as the statistics for total fixed assets are relatively constant for 2005 and 2006 at around 3.18 billion yuan for both years is entirely down to a huge increase in the FIE labour force from 27,994 employed in 2005 to 48,085 employed in 2006. What is strange is not simply the size of the increase, but that the labour force has been rather constant for the preceding years and that it returns to these constant levels in 2007, falling to 26,427 employed. These factors combined led us to conclude that there is a distinct possibility that the statistic for FIE employees in Laoshan in 2006 may in fact be erroneous; detailed examination of the *Qingdao Statistical Yearbooks* revealed no way to shed light on if this was the case. It is of course possible that the figure is true, hence it has been left in the analysis, but for these reasons we shall not focus upon the dip in capital-intensity in Laoshan district's 2006 data.

In summary, the evidence presented illustrates that:

> *the main locations of growth for FIE employment were Huangdao district, Chengyang district, Jiaozhou city and Jimo city; Chengyang district showed the highest labour levels and also a high level of labour fluctuation.*

Comparisons with earlier analysis of FIE employment by nation allowed us to argue that South Korean investors must be expressing a preference for these four locations, mostly for Chengyang district. Evidence in support of South Korean investments being focused on relatively more labour-intensive manufacturing sub-sectors, as argued previously in this chapter, comes from the index of capital-intensity that we calculated for each location; most of the regions that we argue South Korean investors prefer were found to be relatively more-labour intensive.

[104] It should be noted that not too much weight should be given to the exact number of FIEs operating in the Laoshan district zone because a review of the data reported in the SDTJNJ for the period 2005 to 2009 reveals some highly erratic, almost certainly erroneous statistics, with the number of foreign firms present in four consecutive years from 2005 being 65, 7, 460 and then 67. Therefore, these statistics cannot be reasonably relied upon.

Two regions were identified as offering FIE employment opportunities in firms that were more capital-intensive, those being Huangdao district and Laoshan district. However, the two capital-intensive areas only account for a combined eleven to fifteen percent of the total FIE employment annually from 1996 to 2009, meaning that labour-intensive employment opportunities are still the dominant form of FIE employment.

When discussing FIE employment levels, we noted a rapid loss of employment during our analysis by sector and by nationality of investor for manufacturing FIEs and those working in South Korean FIEs from 2006 onwards. What the location analysis adds to this is that we can now see that as the investments are concentrated to a greater degree in certain areas – such as Chengyang district – therefore the economic impact on workers will not be spread evenly across Qingdao but in fact be more concentrated on workers employed in certain locations. Apart from the localised impact of the scaling down and/or withdrawal of FIEs on the Chinese workers in Qingdao, these trends appear to go against the oft stated advantage of FDI in terms of developing a host economy and its workforce: FDI is a stable investment because it is hard for 'bricks and mortar' to flee.

Stability of FIE Employment Levels

In relative terms, whilst acknowledging that FDI sometimes comprises a certain amount of capital that is re-invested profits from a parent multinational and could easily *not* be re-invested, FDI is often argued to be more 'secure' – from the host nation's perspective – than portfolio equity financing 'hot money' that caused such havoc for certain Asian economies during the Asian Financial Crisis of 1997 (Liang, 2007: 105-6).[105] However, our statistical analysis so far indicates that some forms of FDI do not actually offer stable levels of employment; certain South Korean firms may be a cause for concern for the Chinese employees in Qingdao. Evidence can be found beyond the statistics from the Qingdao authorities and from both South Korean and Chinese media.

In the 2007 edition of the *Qingdao Labour and Social Security Yearbook* (QDLDSHNJ) (青岛劳动和社会保障年鉴),[106] several sections make reference to worrying cases of bosses of

[105] Although recall our discussion in Chapter One, footnote one. The definition of exactly what level of investment changes the investment classification from portfolio investment to FDI varies across nations.

[106] During fieldwork it emerged that this statistical yearbook, whilst appearing to be a normal yearbook and having an ISBN number, was not supposed to be published. The author came across the publication during fieldwork stages and attempts to track down other copies of the yearbook were met with confusion from the local statistical authorities and the Mayor's office. It eventually emerged that the department that had published this book – the then Qingdao Labour and Social Security Department – was not meant to do so and that the copies that had been printed were not supposed to be circulated; the ISBN number does not appear to be genuine. The author was not allowed to keep the book but has photocopied large sections of it. In line with changes made at the national Ministry level in March 2008 (Baker & McKenzie, 2008), mid-2010 saw the Qingdao Labour and Social Security Bureau (青岛劳动和社会保障局) merged with Qingdao Bureau of Personnel (青岛人事政务) to become the Qingdao Human Resources and Social Security Bureau (青岛人力资源和社会保障局) – see www.qd12333.gov.cn for details [accessed: 8th Aug 2010].

certain small to medium FIEs 'withdrawing'[107] overnight leaving nothing but unpaid wages, rents and loans outstanding and some worthless machinery in their factory. In the "FIE section", it is clearly stated that one of the urgent matters that needs to be tackled in the FIE population is the instances of some bosses illegally withdrawing from the country rather than go through formal bankruptcy procedures (QDLDSHNJ, 2007: 53). Two particular examples are mentioned where the illegal 'absconding' of the bosses from two firms – the Qingdao Gold Star Sports Equipment Company (青岛金星体育用品)[108] and the East Prosperous Clothing Company (东昌服装公司) – gave rise to high levels of unrest amongst the villagers working in those firms and led to the authorities stressing the need to "re-allocate" labour to other enterprises in the area in order to pacify the workers (*ibid.*). The section submitted by the Chengyang Department of the Qingdao Labour and Social Security Department for inclusion in the yearbook clearly shows that they are worried by the illegal withdrawing of foreign enterprises within their district, and that they faced the problem earlier than 2007. They report that in order to "prevent leasers going in to hiding", in 2006 they conducted a detailed survey of all foreign enterprises renting across the district, their registered capital, the number of workers and so on (2007: 71-2). Further evidence of the problem of FIEs illegally withdrawing comes from the report submitted by the relevant department of Jimo city, which describes how the city has successfully tackled cases of "foreign capital absconding", detailing five examples of where they had to step in and assist over 1,100 restive workers when South Korean FIEs illegally fled leaving unpaid wage and insurance payments (2007: 81-2).

The problem has clearly continued beyond 2006/7: in October 2009 the Jiaonan city court published an article sub-titled "The Court's Response to the Phenomenon of South Korean Foreign Investment Illegally Withdrawing" (韩资企业非法撤离现象的法院应对) (Li and Liu, 2009). In it, the authors Li Hongwei and Liu Bo detail their understanding of the factors leading to South Korean investment absconding and the steps that have been and should be taken by the court to continue to build a "harmonious society". The article states how Qingdao has attracted a lot of South Korean investment since the reform and opening era began, most notably in the 2001 to 2006 period, and that the combination of increasing competition and of the global economic downturn has meant some South Korean firms are unable to service their debts and decide to "quietly withdraw", leaving behind unpaid wages, debts, some low-value machinery, and much social disturbance in the local economy.

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[107] The word 'withdrawing' is being used as a translation of **撤离**, which can also be translated as "to withdrawn from; to leave; to evacuate". Sometimes the word **逃逸** is used in reference to this phenomenon, which we have translated as "to abscond; to run away".

[108] Of interest is that this enterprise presumably would appear in the manufacturing sub-sector of 'Stationary, Education and Sports Goods' (**文教体育用品制造业**), which as mentioned in footnote 97 is listed only in two yearbooks but employs a considerable number of employees. As we now know that this sub-sector clearly has some firms that have illegally absconded thereby having a drastic impact on the local workforce, the lack of statistics – hence lack of full picture – of the state of this sub-sector is frustrating.

Detailing the experiences of Jiaonan city particularly, the authors confirm some of our previous conclusions about the nature of FDI flowing in to Jiaonan stating that the South Korean FIEs that the city has attracted are mostly labour-intensive manufacturing or processing trade enterprises focused on a narrow range of industries; small scale enterprises dominate, with eighty-two percent of South Korean FIEs in Jiaonan city having between USD 300,000 – 500,000 of registered capital, and products are mostly exported to South Korea or a third nation (Li and Liu, 2009).

The article states that several factors contribute to the withdrawal of South Korean firms: the wider global economic conditions obviously play a part, as do Qingdao's own changes in macro-economic conditions such as changes in taxation, environmental and labour policies, changes in the cost of resources such as labour, land and utilities, and changes in exchange rates of the RMB versus the USD. All these pressure mean that some South Korean investors operating small-scale enterprises reportedly 'abscond' overnight with the profits they have rather than risk going through bankruptcy procedures. The authors stress how this sudden loss of a labour-intensive enterprise not only has dire implications for the employee involved, but also for social stability in general, which is why they stress prioritising employees' wages when dividing up the assets that do remain in the cases that come before them (*ibid.*).

As well as discussion by the authorities, the phenomenon of South Korean FDI illegally withdrawing and impacting upon society at large has received media coverage – in both South Korean and Chinese press. In a news article published online by 'China National Radio' (中国广播网) in February 2009 entitled "South Korean Enterprises Withdrawing and Leaving Debt Black Hole" (韩企撤离留债务黑洞) (Chen, 2009), Chen Yanhui reports one example where in December 2008 a South Korean factory boss fled overnight from a village under Chengyang district's administration, leaving nothing but debts and unrest, which forced the local government to step in and pay. The Party secretary of the village went to Seoul and tracked down the manager with ease, who reported that the parent corporation simply didn't have enough cash to keep the factory running at the moment. The problem, as the reporter highlights, is that although in December 2008 the Chinese authorities issued a directive to say they will follow the cash and sue a parent MNC if necessary, the factories that are set up in China are limited liability firms (有限责任公司) as per Chinese law; it is hard to see how the parent MNC, if indeed there is one, can be held to account.

Chen reports that the particular village mentioned had around fourteen to fifteen South Korean FIEs in operation at the time, some of which were owing rent; the village authorities demanded all arrears from the remaining South Korean FIEs (*ibid.*). The illegal withdrawal of South Korean FIEs therefore not only alters the Chinese authorities' views and attitudes

towards those South Korean FIEs that remain,[109] but also can increase the financial pressures on those that remain and hence potentially further fuel the problem.

Further increases in financial pressures arise from the responses of lenders to the crisis: banks in Qingdao have responded to the phenomenon by being increasingly wary of lending to 'flexible' companies that have "two heads overseas" – where materials are imported and the main product sales base is overseas – and being increasingly wary of South Korean small-scale FIEs in general (*ibid.*).

According to the article, at least 206 South Korean enterprises illegally fled in the 2000 to 2007 period. The Qingdao government are clearly treating the situation seriously: Chen reports of an emergency office being established early in 2008 in order to deal specifically with the issues surrounding illegally withdrawing South Korean FIEs, the main stated aim being to help them through the global financial crisis (*ibid.*).

The information recounted above appears to detail a fairly serious phenomenon, but there are those that feel that reports of the occurrence of absconding firms are being exaggerated in foreign media in order to influence Chinese policy. An article published in January 2008 in the Xinhua online newspaper "International Herald Leader" (国际先驱导报) suggested that the South Korean press were exaggerating the situation, coining the phrase "evacuation surge" (撤离潮) in an attempt to pressure the Chinese authorities to refrain from ending the preferential treatment of foreign firms and to control the rising costs of labour (Xinhua, 2008). The article states that the South Korean media are exaggerating the situation by regularly reporting on the attention being given to the problem by the South Korean government as well as the stating that there has been a dramatic increase in operating costs in China brought about by policy changes such as new tax legislation, new environmental regulations and the promulgation of the labour contract law. The article states that South Korean media reported that in 2008, around twenty percent of the 20,000 South Korean firms in China were considering absconding and that from mid-2007 to the start of 2008 there had been 103 South Korean firms[110] illegally withdrawn from Jiaozhou city alone. However, the article states that policy changes, which South Korean media cite as one of the key driving reasons for firms fleeing, affect all FIEs, not just those of South Korean origin. According to the article, the firms that have left tend to be those where cheap labour is more critical to operation and those that make leather products, those that concentrate on cutting, sewing or tailoring, and those that make fabric toys (*ibid.*).

[109] During fieldwork, the negative attitudes of some Chinese towards South Koreans was clearly noticeable; informal conversations with cab drivers, teachers and government officials revealed a high level of hostility towards South Koreans in Qingdao, especially towards their 'irresponsible' behaviour. Of course, we are not able to discern how much of this negativity existed before the phenomenon of illegally fleeing began.

[110] The sources for the statistics used in the article are unreferenced so it is difficult to know how accurate they are. However, given the huge drop in South Korean FIE employment levels that we have noted previously, it is plausible that a figure in the hundreds for the number of firms leaving could be correct.

There is evidence to suggest that some of the firms that are fleeing are not perhaps in such dire straits and are instead just concerning with maximising profits: Chen (2009) reports two examples where South Korean FIEs had illegally fled from Jiaozhou city in December 2006 only to later be discovered operating in India.

Liang (2007) suggested that although FDI is preferable to 'hot money' investment, it should not be seen as a form of investment with no downsides, especially if it is mostly M&A investment in a post-crisis economy snapping up assets 'on the cheap'. However, the above analysis shows that in addition to Liang's warnings, even if the FDI is not in the form of M&A but rather newly established enterprises there is still scope for concern as to the permanence of the investment, particularly those investments that are small-scale, mostly taking advantage of cheap resources, and have limited attachments to the local economy.

From the perspective of Chinese FIE employees in Qingdao, what is particularly worrying is that this phenomenon of FIEs illegally withdrawing is reportedly most prevalent amongst the labour-intensive investors of South Korean origin, precisely the characteristics of a majority of the FDI that has flowed in to Qingdao in the 1996 to 2009 period.

Alongside the implications for an individual's well-being if made suddenly redundant with wages owed and unable to realistically claim back any arrears, there are of course wider implications for social stability in general, which is perhaps the main reason why the authorities are expressing such an interest in tackling the issue.

As we shall see in Chapter Five, however, there may be some smaller elements of the Chinese FIE workforce that may be less harmed by the sudden closure of firms than we would imagine and perhaps even gain forewarning of such closures, namely the Chinese management layer (see Chapter Five).

FIE Employment in Perspective

Returning to our analysis of the levels of FIE employment, a useful analysis would be to compare the levels of FIE employment in Qingdao, and by location, to the levels of registered employment to illustrate how important – or otherwise – FIE employment is in each location. Despite the QDTJNJ seeming to offer rich detail in levels of employment across the city and the regions under its jurisdiction, side-by-side comparison with data presented in the SDTJNJ highlights significant inconsistencies between the data sets, meaning that we cannot conduct such a comparison of FIE employment in total employment with confidence: we shall explain.

First we should address the small inconsistency in FIE employment figures presented across the two sets of publication. **Table E** presents some comparison statistics, using the breakdown of data for FIE employment in HMT operations versus non-HMT enterprises:

Table E: Qingdao FIE Employment Statistics in QDTJNJ Versus SDTJNJ, 2005-2008[111]

	HMT FIE E (1,000 people)		Non-HMT FIE E (1,000 people)	
	SDTJNJ	QDTJNJ	SDTJNJ	QDTJNJ
2005	60	92	475	664
2006	63	117	525	795
2007	69	85	492	638
2008	67	86	469	575

Sources: SDTJNJ, 2006: T4-3; 2007: T5-3; 2008: T4-3; 2009: T4-3; QDTJNJ, 2006: 326-7; 2007: 350-1; 2008: 342-3; 2009: 358-9.

With this discrepancy in data, it is likely that the QDTJNJ figures for FIE employment are more accurate. We can argue this because: the figures are largely consistent through the QDTJNJ when decomposed by sector, nation and location, bar the caveat stated in section 4.6, footnote 101; and the figures listed in the SDTJNJ for FIE employment are under a sub-category of employment in urban areas only rather than for all Qingdao.[112] Therefore, our analysis conducted in the previous sections is justified in being based on the QDTJNJ FIE employment figures.

Turning our attention to the levels of total employment listed in the two series of data, as explained before the discrepancies in data prevent us from conducting a sensible analysis of FIE employment in relation to total employment across Qingdao. **Table F** illustrates this issue:

[111] The FIE employment statistics used here for QDTJNJ clearly state that they are for foreign and domestic staff; the SDTJNJ data makes no such distinction. As we have previously shown, inclusion of the foreign staff totals has a minimal impact on the figures.

[112] The SDTJNJ data comes from tables that detail “Number of Employed Persons at the Year-end in Urban and Rural Areas” (按城乡分的年底就业人员数), sub-categorised by "Sub-total of Urban Area" (城镇小计) and "Sub-total of Rural Area" (乡村小计). The FIE employment figures are only listed under the urban category, meaning that there may be some FIE employment in rural areas that account for the discrepancies between the two sets of data. The possible exclusion of FIE employment data from enterprises located in rural areas – probably more labour-intensive in nature – from the SDTJNJ data may also explain why there is much less of an effect seen from the global financial crisis, which we have argued previously to have affected the labour-intensive industries more than the capital-intensive operations.

Table F: Total Employment Statistics in QDTJNJ Versus SDTJNJ, 2005-2008

(1,000 people)

		"Number of Employed Persons at the Year-end in Urban and Rural Areas" (按城乡分的年底就业人员数)			"Major Economic Indicators of Counties (Cities and Districts at County Level" (各县(市、区)主要经济指标)			"Social Employment" (社会从业人数)	"Major Year's Number of Employed Persons in All Units of the City" (主要年份全市单位从业人员人数)	"Number of Employed Persons in All Units of the City by Region" (全市单位分市、区全部从业人员人数)	"Production and Operation Condition of Foreign-funded Enterprises by Region" (分市、区外商投资企业生产经营状况) / "Employment" (从业人员)
		Total	"Sub-total of Urban Area" (城镇小计)	"Sub-total of Rural Area" (乡村小计)	"Total Employed Persons at Year-end in Units" (年末单位从业人员数)	"Employed Persons at Year-end in Country[side]" (乡村从业人员数)	Total				
2005	Qingdao	4,568	1,989	2,578				4,710	2,243	2,243	767
	Laoshan District				54	100	154			125	28
	Huangdao Dist.				105	85	190			159	84
	Chengyang Dist.				127	202	329			267	236
	Jimo City				131	557	688			241	105
2006	Qingdao	4,881	2,235	2,647				4,901	2,432	2,432	915
	Laoshan District				52	105	157			146	48
	Huangdao Dist.				161	88	249			180	85
	Chengyang Dist.				185	208	393			323	245
	Jimo City				146	562	708			279	125
2007	Qingdao	4,838	2,155	2,683				5,058	2,498	2,498	732
	Laoshan District				48	85	134			149	26
	Huangdao Dist.				182	89	271			195	74
	Chengyang Dist.				165	209	374			309	175
	Jimo City				145	566	711			296	136
2008	Qingdao	4,882	2,175	2,707				5,138	2,541	2,541	669
	Laoshan District				46	85	131			151	22
	Huangdao Dist.				202	91	292			196	77
	Chengyang Dist.				167	210	377			316	141
	Jimo City				132	554	686			297	125
		(A)	(A)	(A)	(B)	(B)	-	(C)	(D)	(E)	(F)

(A) *Sources: SDTJNJ, 2006: T4-3; 2007: T5-3; 2008: T4-3; 2009: T4-3.* ***(B)*** *Sources: SDTJNJ, 2006: T20-1; 2007: T21-1; 2008: T20-1; 2009: T20-1.* ***(C)*** *Source: QDTJNJ, 2009: 57.* ***(D)*** *Source: QDTJNJ, 2009: 58.Note, states at bottom of table that figures for prior to 2004 are for "staff and workers", which implies figures since then are for all employees (注:2004 年以前为城镇单位职工人数).* ***(E)*** *Sources: QDTJNJ, 2006: 66; 2007: 70; 2008: 64; 2009: 62. (F) Sources: QDTJNJ, 2006: 332; 2007: 356; 2008: 348; 2009: 364*

From the table it is clear that there are large inconsistencies in the data. For example, let us focus on the year 2006, which we have previously identified as peak FIE employment. If we compare the QDTJNJ figure for total FIE employment that year (915,000 people) to total employment according to the SDTJNJ statistics (4.88 million people), we conclude that FIE employment is just under one-fifth of total employment across Qingdao. However, the statistics for total employment across the entire city (全市) according to QDTJNJ is much lower, at 2.43 million people, indicating that FIE employment is just under two-fifths of total employment in Qingdao.

The statistic listed for total employment in Qingdao according to the SDTJNJ bears a resemblance to what is referred to as "social employment" in the QDTJNJ, although even here there are divergences, with the former showing slightly lower figures that fluctuate across the four year period above, and the later showing higher figures that progressively increase throughout the period: "social employment" is left undefined in the QDTJNJ, and no clarification is given in the SDTJNJ.

The problems persist when we use the data for each location. For 2006, the numbers for total employed in each location according to QDTJNJ do not correspond to the SDTJNJ values: QDTJNJ lists total employment in Chengyang district as 245,000 people in 2006, whereas SDTJNJ gives us a total of 393,000 people, of which 208,000 were employed in the countryside. Clearly, FIE employment as a percentage of the QDTJNJ figures will be higher than if we used the SDTJNJ figures: FIE employment is either approximately seventy-six percent of total employment in Chengyang district, or around sixty-two percent for 2006.

In summary, the variations in employment figures mean that we cannot conduct a precise analysis of FIE employment in relation to total employment for Qingdao or for a breakdown of locations. We cannot say with confidence that one set of total employment figures are more reliable than the other, although the reference to the much higher levels of employment as "social employment" in the QDTJNJ perhaps suggest that the category is using a more broad definition of employment than we would prefer for our analysis.

We can argue with confidence that the contribution of FIE employment to total employment varies considerably across the seven districts and five county-level cities that comprise Qingdao. In areas that we have identified as having a comparatively more labour-intensive FIE presence, the contribution of FIEs to total employment is more significant. For example, within Chengyang district, a location we have identified as having a relatively labour-intensive FIE presence, FIE employment in total employment was around sixty-two to seventy-six percent in 2006 (depending on statistics used); the same statistic for the same year in Huangdao district – relatively capital-intensive in terms of FIE presence – was much lower, at around thirty-four to forty-seven percent.

Post-2006, the time period where we have identified considerable shrinkage in the FIE labour force, calculations show that the contribution of FIE employment to total

employment undergoes more change in the relatively labour-intensive locations but, critically, total employment seems to be either steady or growing on average (depending on statistics used), suggesting that in terms of *quantity* of jobs available, FIEs are became less and less important in the 2007 to 2009 period.

Finally, we must of course acknowledge that there are limitations as to what the data can tell us about the *quality* of the jobs available.[113]

FIE Employment 'Pulling' Migrant Labour

As stated during the literature review, the labour-intensive workforce is likely to be made of a certain percentage of migrant labour. The presence of migrant labour in the Qingdao region is of interest because, as Anita Chan highlights, migrant workers tend to be the main victims of labour rights abuses (Chan, 2001: 7; Ross, 2007: 196).

The Chinese authorities now collect full national census data every ten years, the most recent being the sixth national population census conducted in November 2010; unfortunately, the detailed statistics have yet to be published in full (NBS, 2011).

In the intervening period, half way between the full national census collections, much smaller scale 'one percent' surveys are conducted, the most recent being the 2005 one percent survey (NBS, 2005). Unfortunately, as well as being smaller in scale, the one percent surveys lack some of the critically informative detail that is provided in the complete national census data. For example, the full surveys contain data at a very detailed level reporting the number of residents living in a certain local area that are registered as local citizens – i.e. those that have a local 'hukou',[114] information which is not present in the one percent surveys. As the 2005 one percent survey does not provide this level of information and the sixth national census data has yet to be fully published, we have to rely on the fifth national census for information about migrant presence in Qingdao; the fifth survey was conducted in 2000 (NBS, 2000) and so naturally only provides a small snap-shot of insight in to the presence of migrant labour in Qingdao.

Despite this limitation, the results analysing the data are quite revealing, as shown in **table G**. It being impractical to list the data for all 209 village, township and residential districts that comprise Qingdao, a selection of areas of high concentration of migrant presence have been identified and listed along with the average for each of the twelve locations in total. Areas under the districts and county-level cities that have a listed migrant population of over fifteen thousand have been highlighted in red.

[113] This analysis clearly focuses on the presence of FIEs as it actually is rather than hypothesising about the levels of employment if the FIEs were not there; as already addressed in Chapter Two, scholars rightly state that is it is almost impossible to explore the counter-factual stance of what employment would be like had FIEs not entered the marketplace (Dunning and Lundan, 2008: 443).

[114] The *hukou* registration system is a form of registration that has generated a wide body of research due to its implications for population movement controls and for access to a wide range of social services such as health and education (for example, see Stockman, 2000: 53-55; Wang, F., 2010).

Table G: Extracts of the Fifth National Population Census Detailing Migrant Presence in Select Locations

	Pop.	% male	Pop. Aged 15-64	% male	Those with local 'hukou' (居住本地，户口在本地)	Therefore those without local 'hukou'	% without local 'hukou' in local pop.
青岛市 Qingdao	**7,494,194**	**50.1%**	**5,505,421**	**50.3%**	**6,205,924**	**1,288,270**	**17.2%**
市南区 Shinan District	**447,532**	**50.3%**	**346,752**	**51.0%**	**299,387**	**148,145**	**33.1%**
浮山街道 Fushan Residential District	33,608	54.4%	27,397	55.7%	17,393	**16,215**	48.2%
珠海路街道 Zhuhai Road R.D.	30,206	51.9%	24,868	52.2%	15,333	14,873	49.2%
市北区 Shibei District	**504,213**	**50.4%**	**385,804**	**51.2%**	**331,251**	**172,962**	**34.3%**
辽源路街道 Liaoyuan Road R.D.	55,932	51.0%	44,521	51.1%	33,011	**22,921**	41.0%
合肥路街道 Hefei Road R.D.	42,568	52.1%	33,142	53.0%	14,057	**28,511**	67.0%
四方区 Sifang District	**429,389**	**51.2%**	**333,969**	**51.9%**	**291,670**	**137,719**	**32.1%**
湖岛街道 Hudao R.D.	9437	54.6%	7,775	55.9%	4,625	4,812	51.0%
河西街道 Hexi R.D.	14,086	51.2%	11,665	51.4%	5,832	8,254	58.6%
双山街道 Shuangshan R.D.	14,354	62.8%	12,588	64.3%	5,444	8,910	62.1%
黄岛区 Huangdao District	**238,405**	**51.2%**	**187,093**	**51.4%**	**162,361**	**76,044**	**31.9%**
长江路街道 Changjiang Road R.D.	81,648	50.0%	67,128	49.7%	44,674	**36,974**	45.3%
崂山区 Laoshan District	**254,625**	**50.6%**	**198,965**	**50.9%**	**195,644**	**58,981**	**23.2%**
李沧区 Licang District	**352,801**	**50.3%**	**273,764**	**50.6%**	**235,075**	**117,726**	**33.4%**
虎山路街道 Hushan Road R.D.	29,444	51.1%	23,610	51.2%	15,237	14,207	48.3%
浮山路街道 Fushan Road R.D.	30,750	50.0%	24,616	49.7%	16,182	14,568	47.4%
永清路街道 Yongqing Road R.D.	27,177	51.6%	20,543	52.4%	15,722	11,455	42.1%
城阳区 Chengyang District	**494,007**	**46.9%**	**373,127**	**46.2%**	**388,589**	**105,418**	**21.3%**
流亭镇 Liuting Township	89,893	43.4%	72,832	42.2%	55,289	**34,604**	38.5%
胶州市 Jiaozhou City	**783,478**	**49.5%**	**562,397**	**49.3%**	**690,996**	**92,482**	**11.8%**
阜安街道 Fuan R.D.	75,733	47.7%	57,811	46.6%	55,889	**19,844**	26.2%
中云街道 Zhongyun R.D.	60,817	48.6%	45,531	47.9%	45,253	**15,564**	25.6%
云溪街道 Yunxi R.D.	20,179	48.7%	15,354	48.0%	13,247	6,932	34.4%
即墨市 Jimo City	**1,111,202**	**49.8%**	**812,264**	**49.8%**	**980,593**	**130,609**	**11.8%**
即墨经济开发区 Jimo Economic Development Zone	15,191	46.8%	11,904	46.1%	11,294	3,897	25.7%
平度市 Pingdu City	**1,321,975**	**50.7%**	**920,936**	**51.1%**	**1,235,772**	**86,203**	**6.5%**
城关街道 Chengguan R.D.	78,142	50.5%	59,390	50.4%	59,329	**18,813**	24.1%
李园街道 Liyuan R.D.	62,425	49.5%	45,414	49.1%	49,248	13,177	21.1%
平度经济开发区 Pingdu Economic Development Zone	18,121	50.3%	14,494	50.2%	10,564	7,557	41.7%
胶南市 Jiaonan City	**827,771**	**50.7%**	**587,049**	**50.8%**	**735,080**	**92,691**	**11.2%**
灵海街道 Huohai R.D.	28,249	51.6%	22,035	51.7%	17,816	10,433	36.9%
莱西市 Laixi City	**728,796**	**50.3%**	**523,301**	**50.4%**	**659,506**	**69,290**	**9.5%**
滨河路街道 Binhe Road R.D.	21,083	47.6%	15,916	46.4%	8,360	12,723	60.3%

Source: NBS, 2000

Our previous analysis has shown that in the year 2000 the total FIE employment was a little over 366,000 people (including non-Chinese nationals) across all of Qingdao, which had grown from around one quarter of a million FIE employees in 1996, and that the two districts beginning to grow quickest in terms of FIE employment were Chengyang district and Jiaozhou district (see **figure BB**). Analysis of **table G** shows that there is no apparent correlation between the presence of migrant labour and the growing FIE employment level recorded in the two identified districts; the two districts only have around seven to eight percent of the total population of near 1.3 million registered migrants in Qingdao. The two central districts of Qingdao – Shibei and Shinan districts – are the location of most of the migrant population in 2000, having almost 13.5 and 11.5 percent respectively.[115] Although we do not have the specific data for FIE presence in these two districts, **figure BB** reveals that the total FIE employment for these two districts plus Licang and Sifang districts actually fell by 7,000 people from 1999 to 2000, the combined total for all four districts standing at just 78,000 employees in 2000.

In 2000, it seems that the migrant presence is not closely related to the presence of FIEs. What would be extremely useful is for the one percent census of 2005 to provide the same level of data as the fifth national population survey, and for the data from the sixth national population census to be available in order that we may do more of a time series analysis rather than a spot picture for 2000; statistical limitations prevent this, although the National Bureau of Statistics have started to release piecemeal information from the latest survey (NBS, 2011).

Despite limitations, a brief review of the migrant population data has shown that despite a sizeable presence of migrants in 2000 – being almost one fifth of the total registered population that year – and a significant FIE presence across Qingdao – **figure S** shows 2,086 FIEs in 2000 – there is no apparent correlation between the two. It could be that the FIE presence in 2000 was still too small to create a noticeable effect on the migrant population presence pattern, but for reasons already expounded we are unable to examine beyond 2000.

Within Chapter Two, we reviewed the anecdotal evidence in the literature that highlighted the fact that migrant workers are the primary victims of unfavourable – abusive even – working condition, with those in certain nationalities of FIEs being reportedly more likely to

[115] An answer to this may be found in that the construction industry is reportedly the largest employer of migrant labour, particularly male migrant labour (Swider, 2011: 138), and that Shinan and Shibei districts have seen strong construction drives in the last decade. Anecdotal evidence of strong construction drives was derived during fieldwork from informal conversations with teachers, students and a close friend that worked as a senior consultant on construction sites; they all stated that the Shinan and Shibei districts had seen huge amounts of construction over the past decade. In some cases, buildings allegedly only stood for five years before being torn down and rebuilt, some commenting cynically that this was down to the contribution that construction could make towards the city's GDP. Such was perceptions of destruction and re-construction that some students joking referred to China in Chinese as "*chai na?*" (拆哪), the characters loosely translating as "shall we pull it down?".

receive harsh treatment. In our analysis of migrant levels in Qingdao, we are not concluding that there are no migrant workers within the FIE workforce as this would be highly implausible. Indeed, one FIE employee to whom we shall turn to in Chapter Five clearly stated that he came from outside Shandong province (Res-15, Fieldwork 2010). What we are arguing here is that the available statistical data on migrant presence does not lend itself to allow us to draw conclusions based on migrant presence and FIE presence in the year 2000. The picture may very well be different in 2006, the year of peak FIE employment in our time period under analysis, but we do not have the available statistics to investigate.

To summarise, section 4.7 has explored the FIE employment figures decomposed by geographic location. First, we noted that the spread of FIE employment opportunities is not evenly distributed across Qingdao but is instead has higher concentrations in certain locations such as Chengyang district and Jiaozhou city. Comparison of the data reviewed for FIE employment by nationality of investors led us to conclude that South Korean investment expresses a preference for certain locations, mostly focusing on Chengyang district.

Next, by using the total fixed assets recorded for all FIEs in each location we were able to formulate a measure of average capital-intensity per location, which revealed that four locations were relatively more labour-intensive – including Chengyang district and Jiaozhou city – and two were relatively more capital-intensive – those being Huangdao district and Laoshan district.

Given the dominance of South Korean FDI, correlations between FIE employment in the areas identified as being comparatively more labour-intensive and South Korean FIE employment levels, we concluded that the evidence supported our earlier assertions about South Korean FDI, namely that it is focused on relatively more labour-intensive manufacturing sub-sectors.

A brief discussion was made of the worries in Qingdao, expressed by both the media and the Qingdao authorities, concerning the stability of the relatively more labour-intensive operations, particularly small-scale South Korean enterprises; the impact of a firm illegally withdrawing was shown to have large-scale impacts on social stability, and clearly would be a stressful and harmful situation for a worker to face.

We finished the section be exploring the FIE employment levels in relation to total employment levels in each location and in relation to migrant levels in each location. We acknowledged that despite the data limitations, it is clear that FIE employment is much more significant in certain locations that others, the examples illustrated being Chengyang district and Huangdao district, two extremes on our capital-intensity index calculations. Severe data limitations surrounded the migrant presence statistics, but they provided a snap-shot of the year 2000, which seemed to suggest that the registered migrant population did not seem to cluster near the FIE employment opportunities, in 2000 at least.

Sections 4.4 to 4.7 have used data for FIE employment levels in order to explore the nature of employment opportunities available to the workers in Qingdao. Before moving on to Chapter Five and our more micro-level focus on the opportunities and experiences available to Chinese workers in Qingdao's FIEs, there is one final area of macro-level analysis that we should address and it concerns export statistics. Using export data, we shall attempt to further illuminate the nature of foreign-invested firms that are operating in Qingdao and hence what opportunities and experiences the Chinese workers in Qingdao are likely to face.

4.8 Qingdao's FIEs: Assumptions Based on Contributions to Exports

By examining the nature of exports originating from FIEs, we can add further evidence to our analysis so far as to the nature of employment opportunities available within Qingdao's FIEs. The statistical authorities do not report the breakdown of Qingdao's FIE exports, but a potential method to proxy the breakdown of FIE exports is to first examine the percentage of Qingdao's overall exports that are due to FIEs and then, if the percentage is high enough, we can then draw conclusions by proxy about the nature of FIE exports by drawing parallels with the overall export data. Firstly then, we should assess the contribution of FIEs to Qingdao's exports.

As is frequently the case when relying on statistical data at the local level, there are limitations to the data. The *Qingdao Statistical Yearbooks* do not provide comparable information for FIE exports from the 2000 Yearbook up to and including the 2008 Yearbook, which prevents us from forming an effective time series. We can only report a short run of data such as FIE exports as a percentage of total exports being 58.3%, 54.5% and 53.8% for 2007, 2008 and 2009 respectively, where total exports stood at USD 26.8 billion, 30.0 billion and 26.9 billion for those years respectively (QDTJNJ, 2009: 354; 2010: T5-5).[116] Beyond stating that FIEs still contribute more than half of all exports despite a declining share in recent years, the *Qingdao Statistical Yearbooks* do not allow for much analysis. However, we can find a longer time series of data for Qingdao if we turn to the provincial statistical yearbooks, but there is a small caveat.

Side by side comparison of the data that we do have in the earlier editions of the Qingdao yearbooks with that in the Shandong yearbooks reveals that there must be a difference in how the data is recorded – investigation shows that the *Shandong Statistical Yearbook* export data *includes* the figures for the exports from centrally and provincially managed companies that are registered in Qingdao whereas the available data in the Qingdao yearbooks *excludes* exports from centrally and provincially managed companies from the

[116] Where there are conflicting values reported in the 2009 and 2010 Yearbooks, the more recent statistics are used based on the assumption that they are more accurate. Also, the intervening yearbooks do provide information on sales from exports for FIEs in the 2000 to 2007 period but only in RMB rather than USD, conversion of which would introduce unnecessary errors in to the time series analysis.

totals.[117] The effect of excluding the export data from those enterprises based in Qingdao but managed either provincially or nationally from the total export data is to *increase the percentage FIE exports in total exports* because, as **table H** highlights, for certain years the inclusion of central and provincial companies greatly increases total exports:

Table H: Comparison of FIE Exports in Total Exports According to Qingdao and Shandong Statistical Yearbooks (Exports in USD million)[118]

According to QDTJNJ	*1995*	*1996*	*1997*	*1998*
FIE ex	1,248.66	1,703.12	2,221.52	2,657.24
Tot ex	2,450.72	2,871.23	3,385.35	3,826.57
%	50.95	59.32	65.62	69.44
According to SDTJNJ	*1995*	*1996*	*1997*	*1998*
FIE ex	1,555.42	2,082.22	2,831.82	3,023.68
Tot ex	5,352.54	5,162.94	5,792.52	5,730.20
%	29.06	40.33	48.89	52.77

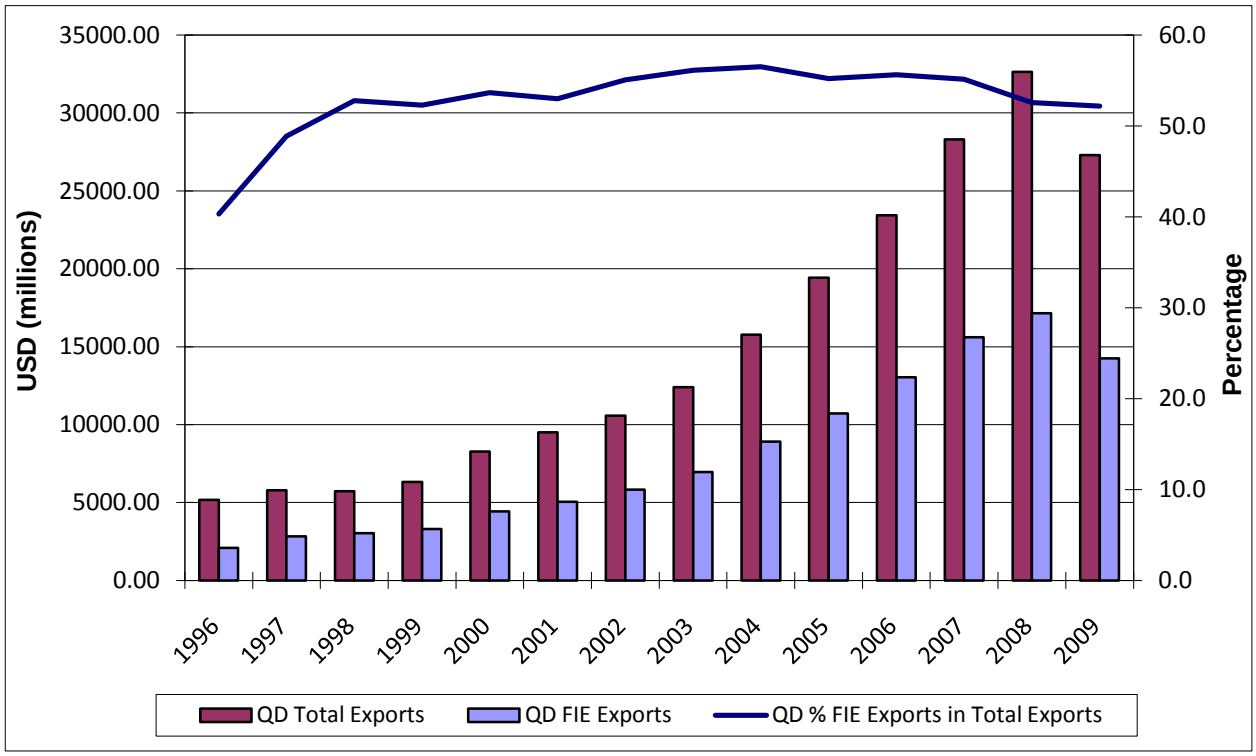
Source: QDTJNJ, 1997: 226; 1998: 220; 1999: 210; SDTJNJ, 2000: 343-345

The data in the 2009 *Qingdao Statistical Yearbook* (QDTJNJ, 2009: 353) shows that the difference between either 'including' or 'excluding' central and provincial companies from Qingdao's total exports reduces considerably from 2001 onwards, meaning that the percentage of FIE exports in total exports for Qingdao should be similar based on either set of statistics from 2001 onwards. However, analysis of pre-2001 data that *excludes* central and provincial companies from total exports – a significant amount of the total exports – will provide statistics that may overstate the importance of FIE exports in total exports. We shall now examine the time series data for FIE exports in Qingdao's total exports (*including* central and provincial companies) as detailed in the *Shandong Statistical Yearbooks*; **figure DD** illustrates the data.

[117]The SDTJNJ does not actually state which set of data it is using for total exports, but comparisons with the available total exports data in the QDTJNJ, which lists both *including* and *excluding* for certain categories, reveals that the Shandong statistical data must be 'including central and provincial managed companies residing in Qingdao' (含中央,省驻青公司). The other category, that of not including centrally and provincially managed companies is referred to as 'not including central and provincial managed companies residing in Qingdao' (不含中央,省驻青公司) from the 2006 QDTJNJ onwards, but as 'municipally managed enterprises' (市管公司) prior to that – i.e. only firms that fall under Qingdao municipality's jurisdiction and licensing rather than a higher authority: it is the same category.

[118] Curiously, as can be seen from **table H**, the inclusion or exclusion of central and provincial companies also slightly alters the FIE export statistics for the years that we have data in the *Qingdao Statistical Yearbooks*, implying that some of the Qingdao FIEs are in partnership with firms that are classed as central or provincial companies.

Figure DD: Qingdao's FIE Exports in Total Exports (Including Central and Provincial Company Data), 1996-2009



Source: SDTJNJ, 2000: 343-345; 2006: 438-440; 2007: 550-552; 2010: T6-19, 6-20, 6-21, 6-22

The graph illustrates clearly that from 1998 to 2009 inclusive FIEs are responsible for over half of all of Qingdao's export. Comparing the pattern of FIE exports to that of utilised FDI inflows (**figure N**) and of FIE employment levels (**figure U**), we see that FIE exports continue to rise up until 2008 after new investment flows have steadied (2004 to 2006) and then declined from 2007, and after FIE employment has begun to fall significantly from its peak in 2006.

Whilst there is no doubt that FIEs are making significant contributions to exports, unfortunately the percentage is not high enough for us to analyse total exports as a proxy for FIE exports. It is unlikely that the fifty percent or so of exports originating from FIEs will be spread evenly across the categories that it is possible to analyse for total exports; it is more likely that FIE exports are concentrated in certain categories. The fact that FIE exports and non-FIE exports follow largely similar trends over the period detailed in **figure DD** also prevents us from using differing trends to isolate differences in export category presence for the FIEs versus the non-FIEs. Instead of looking at the narrow categories of exports, we can instead look for evidence of 'processing trade', or 'export processing' as it is also known, because it has important implications not only for assumptions we may make about the number and skill-level of technical occupation opportunities available, but also has practical implications concerning the ability of the FIE to rapidly withdraw from the marketplace.

Put simply, export processing is the use of imported parts to create a product that is destined for an overseas market, taking advantage of China's cheap resources for the labour-intensive assembly stages. Several scholars point out that a large majority of China's overall exports are generated by final assembly, labour-intensive production that is making use of imported parts rather than domestic content (Lardy, 1996: 119; Pei, 2002: 217; Naughton, 2007: 396). This is as a direct result of the actions of the Chinese authorities who, in the initial stages of the reform era, established Special Economic Zones as a way to attract FDI, soak up excess labour that had been released from agriculture, and absorb foreign capital as well as technical knowledge; foreign firms were not charged taxes on imports to the zones that were destined for export processing (Chow, 2002: 295).

The technological implications of limited value-added in the assembly stage are that if the FIEs are simply importing hi-tech, high value components – say, computer parts from Malaysia – and then combining them in China to make the finished product, there is limited development of the skills of the domestic workforce and there is limited development of the domestic supply chain, which could have had further positive effects in terms of employment opportunities if supported. It can also create misleading impressions if we look at export statistics because a finished product such as a computer would be categorised as a high-tech export and give the impression of an increasing skill level of enterprises in operation, but in reality the 'technology' aspects of the construction are being done elsewhere.

As well as the limited positive implications for the improvement of levels of human capital amongst the workforce, an enterprise that is reliant on imported parts and whose market is overseas can easily relocate if, for example, the cost of labour increases. One could argue that the offering of employment opportunities whatever the technical level is still the provision of an income for workers and hence a positive thing, but we have already seen that FIEs that have minimal integration to the economy in Qingdao have been able to readily relocate or 'abscond' leaving behind a unpaid wages and social instability (see section 4.7). Despite the initial preference for foreign investment that is export processing in nature, the Chinese authorities are now well aware of the benefits that are to be had in terms of developing their own industries, supply chains and skilled workforce by forcing increasing levels of integration between foreign firms and the domestic economy (Zhang, 1999, 38; Tang and Ward, 2003: 181; Thun, 2006: 63).

Unfortunately the Qingdao yearbooks only provide statistical data for export processing from 2007 onwards. The level of processing trade in exports has fluctuated from 53.8, 48.8 and 50.0 percent of exports for 2007, 2008 and 2009 respectively (QDTJNJ, 2009: 354; 2010: T5-5). As a proxy for the earlier period we may think that given the importance of the Qingdao economy to Shandong province, we can look at the overall data for Shandong province to gain an insight as to the levels of processing trade in Qingdao. However, there are severe limitations to this type of analysis as the overall trends may mask regional

differences such as processing trade enterprises moving further inland in the province to make use of cheaper resources as costs escalate in the coastal regions. Therefore, we shall not conduct this analysis.

A second proxy we could look at is the level of FIE imports in relation to total imports, but we are unable to distinguish which of the imports are from FIEs targeting the increasingly wealthy Qingdao populace as market-seeking FDI.

The data that we do have – from 2007 onwards – shows that around half of the exports in Qingdao are processing trade exports and we know from our discussions that FIEs engaged in processing trade activities offer limited benefits and potential risks to the workforce in Qingdao owing to their limited technical development opportunities and their lack of integration to the host economy. Our conclusions on export processing are limited to the 2007 to 2009 period, but it is likely that they extend back further than this given that we have shown labour-intensive FIE employment was strong all through the 2000 to 2009 period.

4.9 Chapter Four Summary

Within this chapter, we have used a combination FDI statistics, FIE employment data and export information to gain an insight as to the presence of FIEs in Qingdao and what the inflow of FDI has meant for the Chinese workers in Qingdao at a macro-level. We have seen that:

> *a significant percentage of the utilised FDI that has entered Qingdao in the 1996 to 2009 period is of South Korean origin, is directed in to creating WFOEs in the manufacturing sector, is focused on the more labour-intensive manufacturing sub-sectors and accounts for a sizeable section of the total FIE workforce in Qingdao.*

Employment data revealed that manufacturing clearly dominated in terms of FIE employment, accounting for almost ninety percent of all FIE employment in 2006. Sub-sector analysis showed that the fastest growing sub-sectors in the 1996 to 2005 period were the relatively more labour-intensive sectors such as those relating to textiles and clothing, and that these sub-sectors are also responsible for the highest proportion of FIE employment. The concentration of FIE employment in labour-intensive manufacturing had clear implication in terms of employment stability, with manufacturing FIE employment falling by over thirty percent – over one quarter of a million jobs – in the three years from 2006 to 2009, sub-sector analysis allowing us to isolate around three-fifths of the job losses.

We were able to further narrow the FIE presence by location within Qingdao and using the total fixed assets recorded for FIEs in each location we calculated an index of capital-intensity. We identified four locations as being the predominant locations for FIE employment – Huangdao district, Chengyang district, Jiaozhou city and Jimo city – and identified that most of these areas were relatively more labour-intensive in terms of their

FIE presence. We also identified that South Korean investors expressed a strong preference for these locations, particularly Chengyang district, further supporting our assertions about the level of capital-intensity of South Korean investment. Employees seeking employment in Huangdao district or Laoshan district were likely to be in more capital-intensive operations but the contribution of these FIEs to total FIE employment was low, their combined total accounting for only eleven to fifteen percent of total FIE employment annually from 1996 to 2009.

Acknowledging data limitations, a basic comparison of FIE employment to total employment in each locations revealed that the significance of FIE employment varies markedly across Qingdao; in areas that were identified as having a more labour-intensive FIE presence the contribution of FIE employment to total employment was more significant. In the post-2006 period, when FIE employment was seen to have shrunk considerably, FIE job losses appear to be countered by growth in the domestic job market, implying that in terms of quantity of jobs available to the workforce in Qingdao, FIEs are less and less important, although it was noted that there are limitations about what we can say regarding the quality of FIE jobs available in comparison to local employment opportunities.

We can be sure that job losses would have a negative impact on the workforce in Qingdao but a more serious phenomenon was reported in section 4.7, which was that of FIEs illegally withdrawing in the night and leaving employees with unpaid wages and no way to claim them back. The seriousness of the issue was highlighted by the degree of attention that the issue had received in the media and by the authorities.

We reviewed some data concerning two separate issues of migrant presence and export processing, leading us to some limited conclusions: migrant presence does not seem to correlate to FIE presence, at least not in the year 2000, and that in recent years there is a sizeable presence of FIEs that are export processing, which has implications for employee development and job stability.

We have seen that there is clearly a strong bias in the FIE presence in Qingdao in the 1996 to 2009 period for labour-intensive manufacturing investments, amongst which South Korea firms dominate. The anecdotal evidence reviewed in Chapter Two highlighted some of the extreme working conditions and situations faced by employees in labour-intensive firms in China, particular those of Asian-investment origin. This, coupled to the phenomenon of South Korean investors illegally withdrawing, means that at a macro-level it seems as though the employment opportunities for the Chinese workforce in Qingdao's FIEs carry many risks and limited development potential. To further enlighten us, Chapter Five will present a more micro-level perspective of FIE employment in Qingdao.

Chapter Five: Micro-level Analysis of Qingdao

This chapter will focus on the views and attitudes of Chinese employees in Qingdao towards foreign-invested enterprises using the combination of media articles, government publications, questionnaires to workers, and interviews with a wide range of relevant actors – both Chinese and foreign.[119] The chapter will be broadly split in to two halves, the first of which will explore general views towards FIEs in Qingdao and beyond before the second half focuses more tightly upon the views, attitudes and themes that emerged in the questionnaires and interviews with FIE employees.

From a non-Chinese perspective, attitudes expressed by some foreigners in China suggest that they tend to assume that employment in FIEs offers an unrivalled chance for development and improvement for a Chinese worker, a chance for which Chinese workers will eagerly compete for. One such article that was published in a Chinese nation-wide magazine, *Youth Reference* (青年参考), entitled "Why Chinese People Love Working at FIEs" (中国人为何爱在外企工作) painted a picture of many Chinese desiring to work in FIEs (QNCK, 2006). The article, written in 2006, stated that although worker protection and rights were enshrined in law the reality was that most people did not receive all the benefits and protection that they were supposed. The unnamed author stated that FIEs were thought well of in China and that the salary, working conditions and aspects such as insurance payments were all better than in domestic firms, which were reportedly plagued with nepotism and *guanxi* problems (*ibid.*). Although this article is in Chinese and the author unnamed, the language used implies that the writer is non-Chinese. This seemingly one-sided view of how the Chinese see FIEs is in stark contrast to the reality of the situation, which is a much more complex and rich picture of diverse attitudes and opinions influenced by an individual's (or friend's) positive and negative experiences within FIEs, such as training opportunities or discrimination on grounds of sex or race.[120]

If FIEs were as an attractive prospect as some claim then we would not expect them ever to face labour shortages. For China generally, Andrew Ross (2007: 197) states that labour shortages (用工荒) were reported in the Chinese media as early as 2004, and more recent press articles across Chinese and foreign media show the problem has continued. Dongguan city, a famous engine of growth in Guangdong province with a strong FIE presence (Yeung,

[119] This chapter will be making reference to a range of media, online and other published sources from Qingdao and further afield. In qualitative research that seeks to examine the *range* of opinions and attitudes surrounding a topic, each person's opinion, no matter if it is representative of the whole, is a valid opinion. However, when such sources are claiming to report wider public attitudes, we must pay close attention to the reliability of the source as certain publications may have agenda's of their own that lead them to present information in a bias light. When relying on media and online sources in this chapter, it is important to stress that we are predominantly highlighting the *range* of attitudes in Qingdao rather than attempting to quantify the strength of such attitudes in the wider community.

[120] Attitudes may have also changed over time; if would be interesting to be in a position to analyse the attitudes of the participants over a longer time frame to address this topic, but limitations prevent this.

2001), was reportedly short of two million workers in early 2010 (BBC, 2010). Whilst we cannot be sure on the national scale how these shortages specifically affect FIEs relative to domestic firms, given the balance of domestic to FIE employment that we have seen in Qingdao detailed in Chapter Four we can be more certain that the following labour shortages are affecting the FIEs.

In Pingdu city, the only location in Qingdao to record a definite decrease in total fixed assets of FIEs in operation in the 2006 to 2009 period (see Chapter Four, section 4.7), a labour shortage[121] was reported by the Pingdu city bureau of the then Labour and Social Security Bureau as being a problem in 2006 (QDLDSHNJ, 2007: 88-80). Labour-intensive industries such as electronics assembly and shoe making were identified as being worst hit – industries in which we have shown FIEs to be present – and the city government reportedly attempted to assist at least 113 companies in tackling the labour shortages (*ibid.*).

In January 2010, Jing Hong of the *Qingdao Morning Paper* (青岛早报) reported that large- and medium-sized enterprises were collaborating with labour service companies from both inner Shandong province[122] and from Hebei province to try and tackle labour shortage issues (Jing, 2010). Jing (2010) reports that recovery in purchase orders from mid-2009 had created added strain and emphasis on the existing labour shortage, which has now lead to firms having to offer higher and higher salaries and benefits to attract workers. One example cited was of an FIE subsidiary of Samsung that had responded to the labour shortage by offering increased perquisites to their staff such as internet access and televisions in their dormitories in an effort to attract and retain workers (*ibid.*).

The following month an article in another Qingdao-based newspaper – *Peninsula City Paper* (半岛都市报) – reported the results of a survey conducted by the Qingdao Human Resources and Social Security Bureau (QDHRSS)[123] of 223 firms in Qingdao that had found a shortage of around 24,000 workers, concentrated mainly in the labour-intensive industries (BDDSB, 2010), which we have shown FIEs to be strongly present in. The survey was conducted at the behest of the national authorities, suggesting the seriousness with which the Central government is treating the issue. Zhang Zaiyang, the director of the QDHRSS Migrant Job Introduction Centre (外来从业人员职业介绍中心), said that the problem is not new as a survey in 2007 found the same results, with over six hundred enterprises of the 1,112 firms previously surveyed reporting labour shortages. The new survey identified the

[121] As we shall shortly discuss, it seems that there is a complex mix of factors that are influencing the flow of migrant workers to Qingdao that has led to an absolute shortage of employees for certain industries; it is not a straight-forward salary issue.

[122] Inner Shandong being the central and Western parts of the province, such as near the cities of Laiwu, Jining and Heze; see **figure F**, Chapter Three.

[123] Formerly the Qingdao Labour and Social Security Bureau – see footnote 106 of chapter four. The previously expounded caveats regarding official statistics from authorities in Qingdao apply when addressing survey data from the QDHRSS. In terms of the two newspapers cited above, the *Qingdao Morning Paper* and the *Peninsular City Paper*, they were papers that were widely available across the central districts of Qingdao during fieldwork and they were known by a large majority of those with whom the author engaged.

worst hit sector as labour-intensive manufacturing (*ibid.*), an area we know FIEs have invested heavily in. The labour shortages were said to be affecting some firms' potential profits, with orders having to be cancelled as the enterprises are unable to deliver on them. The survey identified low salaries as the main factor behind the labour shortages in Qingdao, salary being even more of a factor in the labour-intensive operations on tight profit margins. The article explains that it is not so simple as having just a labour shortage as there are some sections of workers that are clearly more in demand – around seventy percent of the demand for workers is for female, rural migrants in the sixteen to thirty age bracket; there is actually a surplus of male workers in Qingdao (*ibid.*).

March 2010 saw the same survey cited by Li Yuan in the *Dazhong Daily* (大众日报). In an article entitled "Qingdao Directly Experiencing 'Labour Shortage'" (直击岛城"用工荒"), the author writes that Qingdao is actually facing a shortage of around 120,000 workers because the salary, working conditions and benefits are no longer strong enough to attract migrant workers to the city (Li, 2010). It seems for some migrants that there are now less 'pull and push' factors for migration, with city life being expensive and difficult where as setting up a small shop or business in their hometown can offer a more relaxed life (*ibid.*).

Related, there are reports of migrants' hometown governments assisting in this reverse migration and business establishment because of the clear benefits in terms of developing the local area and because it creates a more 'harmonious society' if families are not divided across the province (BBC, 2010).

This labour shortage across China, Qingdao included, can be argued to be beneficial to the migrants and local workers in Qingdao that are seeking employment in the FIEs that are predominantly operating in labour-intensive sub-sectors of manufacturing. When interviewed in February 2011, Chang-Hee Lee – the Senior Specialist on IR and Social Dialogue based in the International Labour Organisation's (ILO) Beijing office – said that he has witnessed a change in attitude towards minimum wages by local governments. Previously, local governments wanted to hold down minimum wages in order to attract investment, but now they are becoming involved in a competition of spiralling minimum wages, district by district, in order to tackle labour shortages and attract workers (Int-1, Conducted 2011).

Although these above articles are mainly discussing labour-shortages in general rather than specifically FIEs, our analysis from Chapter Four shows that there is a sizeable FIE workforce within Qingdao's total workforce, implying that any shortage would also affect FIEs.[124]

[124] Recall that our analysis of migrant presence in those locations in Qingdao with a high FIE presence showed limited correlations for the year 2000 – see Chapter Four, section 4.7. The labour shortage discussions provide further motivation for us to analyse migrant presence over a longer time frame to see if there are any stronger correlations as FIE employment grew in Qingdao through the mid-2000s, but the aforementioned data limitations prevent this.

On analysing attitudes towards FIEs at a *general* level, there seems to be a different attitude[125] in the certain elements of the youth workforce towards FIEs and how much they see FIEs as 'there to be taken advantage of'. In the blog of one former Japanese FIE worker, written in November 2004 and based on the blogger's own experiences as well as a survey of other FIE workers, it is acknowledged that whilst white-collar workers tend to use job-hopping to increase their salaries, the longer serving members in the Japanese FIEs consider that job security in their firm is high – a fact that they claim the youth employees allegedly do not consider (BBS, 2004).

This strength of position of younger, skilled workers in a labour shortage environment echoes the results from previous research conducted on FIEs. Andrew Ross (2007) conducted interviews in high-tech firms in the Shanghai region and noted that the shortage of workers with adequate skills led to spiralling wages in FIEs and high job turn-over rates as the young employees use job-hopping as a weapon to boost their salary. Dimitri Kessler's (2007) research interviews with FIE managers found a hostility towards some of the Chinese engineers in their firms, fearing that they had no loyalty at all and thinking that they were just joining the FIE to steal technology for China, which then influenced the levels of technology transfer and ability for the Chinese staff to build their human capital. The Chinese media also report similar, with one article published in a Shanghai-based newspaper – *Primary Finance and Economics Daily* (第一财经日报) – detailing the aggressive salary hunting techniques used by the Chinese youth employed in technical industries (Wang R., 2010).[126]

These reports suggest that, for some elements of the FIE workforce – particularly those in the more skilled industries – the FIEs can be 'taken advantage of' for the purpose of rapidly increasing their material well-being in a short space of time. It is important to note this because, as has already been explained in the methodology, the FIE worker participants questioned and interviewed during fieldwork for this dissertation were mostly white-collar workers hence we should be aware that there may be different results in attitudes and experiences compared to interview work conducted with factory floor workers cited in Chapter Two.

Evident in a general examination of attitudes towards FIEs is negative attitudes towards certain nationalities of FIEs. In some cases, this is put down to simple surface comparisons of which nationality of FIE can offer the best for the employee. Focusing on the difference between EU/USA FIEs and those of Japanese origins, the picture painted is one of higher turnover in the Japanese firms. On a Chinese human resources development website, Ding

[125] We must of course stress that there is likely to be variety in attitudes towards FIEs across different segments of the workforce. We are not attempting to detail a universal attitude here, merely the *range* of attitudes that exist.

[126] Media reports may of course exaggerate the situation, but academic investigations conducted by researchers such as Kessler (2007) does seem to corroborate this.

Mingfei (2005)[127] compares the turnover rates in the two categories of firms and reports that the higher turnover[128] in Japanese FIEs is down to several factors.

First, there is allegedly less attention to employee welfare in the Japanese FIEs and a focus on only doing the minimum required by law – an attitude to which we shall see reference amongst participants in my research.

Second, higher levels of job security in the Japanese FIEs means that there are less higher-level self-walkouts, meaning that junior staff see no room for development compared to if they were in EU/USA FIEs.

Finally, experience counts more than ability, which means that staff in Japanese firms will generally earn less than someone doing the equivalent role in an EU/USA firm because the EU/USA firm is paying according to talent, not how long the worker has been at the firm. The salary differential is said to be more extreme the 'higher' the level of job one does (Ding, 2005).

The previously cited blog from an ex-Japanese FIE employee also focuses on the EU/USA versus Japanese FIEs differences, identifying six reasons why white-collar talent does not like to stay working in Japanese FIEs (BBS, 2004). Most of the reasons echo those identified in Ding (2005) above, but in addition there are elements of lack of trust – the Japanese staff do not trust the Chinese staff so equally talented and experienced individuals do not receive the same promotions – complaints of a 'proceduralised' working environment that stifles creativity and a culture of working overtime without extra pay (*ibid.*).

Reports in official Chinese media seem to confirm that elements of the Japanese media are aware of the difficulties that Japanese FIEs are facing in China, with Japanese car manufacturers in Guangzhou suffering more in terms of staff shortages and staff turn-over than their EU/USA counterparts; the Chinese author of one such article identified high pressure, mediocre benefits and the Japanese management style being the alleged causes of the difficulties (Xinhua, 2006).

Alongside these surface comparisons of the attitudes of the Chinese workforce across China towards employment within FIEs based upon pay and benefits, there are deeper elements that emerge of more cultural attitudes towards FIEs, sometimes specifically against certain nationalities of investor. Particularly with reference to Japanese FIEs, historical influences on people's attitudes sometimes find expression.

[127] The author was made aware of the site through online searching and through discussions with Chinese friends (both students and teachers). The reliability of information posted on the website is difficult to assess, but the information quoted does present an interesting perspective. Ding Mingfei may be a pseudonym.
[128] Turnover here is taken to mean from the labour force perspective – i.e. staff choosing to leave – rather than from wider economic factors causing a firm to alter the size and/or composition of its workforce.

When discussing attitudes and experiences towards FIEs, a senior partner of a large Qingdao-based law firm said that he believed cultural differences in dealing with staff sometimes led to hostile attitudes towards FIEs. He gave the example of him and his fellow partners ensuring that when they lay off staff, they do so without causing a loss of face for their employee (Int-6, Fieldwork 2010). He believes that a more blunt approach used by some FIEs towards staff layoffs and meant that even if the employee was given a whole months pay as a severance package, they still left with hostile attitudes towards their FIE employer because of being made to feel inadequate in their role (*ibid.*).[129] Asked specifically about workers attitudes in Japanese FIEs, he at first refused to speculate before saying that historical reasons probably came in to it, with the Japanese killing "30 million" Chinese and the Chinese "only killing 2 million" Japanese (*ibid.*).

References to the Sino-Japanese war also emerged during the fieldwork from the responses of FIE employees, with one ex-employee of a Japanese FIE stating that here experience of employment left her with the attitude that some Japanese FIEs "ignore and disregard the law, trample women underfoot, no different to that year when the Japanese invaded" (Res-5, Fieldwork 2010). This passionate response may have been influenced by her particularly negative experience of being fired allegedly due to her pregnancy – a point which we shall return to in detail later – and she did state later in the questionnaire that this type of "bastard firm" was rare (*ibid.*).[130]

The underlying attitude that Japanese FIEs are unfavourable in their treatment of their Chinese workforce has also been expressed by those in high power positions, as was expressed recently in an interview of Chen Weiguang – both chairman of the Guangzhou Federation of Trade Unions and vice-chairman of Guangzhou City People's Congress – for the online 'Global Labour Column' published by the University of Witwatersrand (Lüthje, 2011). In reference to the strikes that had hit the automobile supply industry in Southern China in the summer of 2010, he stated that as well as the positive outcome in terms of salary improvements for the workforce: "we also taught our Japanese employers that they cannot treat their workers in such harsh ways" (*ibid.*).

An interview conducted for my research provided further evidence of the sometimes unfavourable attitudes that people in positions of authority have acquired towards certain nationalities of investors. William Brown, who has written extensively about many facets of industrial relations, has been invited to China several times over the past few years hosted by various parts of the Chinese government in their quest to learn more about UK industrial

[129] Obviously we cannot be sure that the interviewee in this case is addressing the question from a neutral perspective, and may perhaps be prone to present his own firm's workforce relations in the best light possible. However, he did stress that there was variety amongst the FIEs that he deals with; none of the FIEs he deals with are South Korean FIEs, reportedly for language-based reasons.

[130] Such attitudes towards the Japanese are not restricted to Chinese workforce attitudes to Japanese FIEs, but are more widely prevalent in Chinese society. See Austin and Harris (2001: 42-79) for an informative summary on the origins and evolutions of the Sino-Japanese relations in terms of public opinions towards each other.

relations, particularly relating to dispute resolution (Int-8, Conducted 2011). On one particular visit to China, Brown recalled some of the Central government officials with whom he interacted displaying an irritation towards investments from places such as Taiwan, South Korea and Japan because these investors were noted as being less caring towards their workforce (*ibid.*).

In Chinese academic circles, too, there is a hostility displayed towards Japanese FIEs, sometimes relating to historical events. Liu Rui of Renmin University's Public Management School has been quoted as saying that there are several reasons why Chinese talent does not like working for Japanese FIEs, for example: the Chinese people being "very disgusted" (非常反感) by the Japanese government's refusal to admit historical wrongs towards China; and the lack of respect of human rights of Japanese FIEs towards their workers and the culture of subservience (BBS, 2004). Liu also references pay and benefits issues, promotions issues as the top jobs are always filled by Japanese nationals, and job security issues because there is the fear that when the Japanese economy struggles Chinese workers in Japanese FIEs are the first to be made redundant (*ibid.*).

Also at Remin University, Li Ping of the Philosophy Department argues that culture clashes within Japanese firms in particular and the alleged lack of respect that the Chinese workforce hold towards Japanese FIEs is due to the Chinese culture being more distant to the Japanese culture than to other FIEs' parent nation cultures. He argues – rather curiously – that there is *less* culture difference between China and the USA than there is between China and Japan, and argues – again rather curiously – that the Chinese language is *closer* to English than to Japanese in terms of how well it carries concepts and ideas (*ibid.*).

What we are illustrating here with the comments by scholars such as Liu and Li is that we must be aware that reasons given for negative attitudes of workers towards certain FIEs – such as the alleged lack of attention to worker welfare in Japanese FIEs – may sometimes be influenced by underlying, personal attitudes and emotions.[131]

In brief, the above discussion serves to remind us that elements of hostility reported towards certain FIEs may have arisen due to historical events that are colouring peoples' attitudes, and/or certain nationalities of investors may treat workers more harshly because of historical events and racial tensions. Dissecting what amount of these attitudes are born out of 'real' fact and what amount are borne out of mutual racism is beyond the scope of this dissertation, but it is interesting to note that as has been shown in research conducted by scholars such as Anita Chan (2001) and Ching Kwan Lee (2007), there does seem to be a perceived difference in treatments and attitudes that can seemingly be grouped by nationality of investor.

[131] The using of vocabulary such as "very disgusted" by Liu (BBS, 2004) certainly suggests an emotional engagement with the topic.

The experience of a freelance auditor provides more anecdotal evidence highlighting the different experiences that workers may face if employed in different enterprises. Keith Jones is now a freelance auditor for Comply World who also conducts third party audits on behalf of the big global players in the workplace auditing and certification market – SGS (Société Générale de Surveillance) and BV (Bureau Veritas) (see www.complyworld.com [April 2011]). Jones has much experience with auditing being involved in the early stages of the CSR movement and heavily involved in the initial drafts of the SA8000 certification standard; around thirty percent of his overall work nowadays in done in South East Asia in nations such as China, Vietnam and India (Int-11, Conducted 2011). In his experience conducting audits in China, he reports that the standards in UK and USA FIEs are generally ok but that the South Korean and Taiwanese FIEs have lower standards and occasionally make the process of conducting the audit more difficult (*ibid.*).

Returning to Chang-Hee Lee, the ILO's Senior Specialist on IR and Social Dialogue based in Beijing, he reminds us that whilst it is the case that "mother country" experience is important in shaping a firm's employment relations and that approaches to HRM in FIEs of Hong Kong, Taiwanese and South Korean investment are more authoritarian in style, we can must refrain from generalising too much (Int-1, Conducted 2011). Whilst it is the case that the workforce experience in a German FIE in the automotive sector will undoubtedly be different to those in a South Korea FIE in the same sector, other South Korean firms – an example given being that of a large South Korean electronics MNCs – have approaches to HRM that we would generally see in EU-invested FIEs (*ibid.*).

The above discussions centre on general perceptions and attitudes towards FIEs the Chinese workforce; for this dissertation we are focusing our attention on Qingdao and so now we shall now progress to reporting the results from the research conducted during the fieldwork phase of 2010.

Experiences of a Selection of Chinese FIE Employees in Qingdao

As detailed in the methodology section, decisions on the practical limitations of conducting interviews lead to a bias in the potential workers that were contacted for participation in my research; the participants were mainly mid-level to senior management. The fourteen respondents whose experiences are detailed below were either current or ex-employees from a range of nationality of FIEs: Danish (2), USA (1), South Korean (4) and Japanese (7). One respondent contributed two complete questionnaires for two separate experiences, thus making fifteen questionnaires that were analysed. The FIEs operated across a range of industries including: logistics; hotels and catering; IT; and textile product manufacturing. Three of the respondents were interviewed face-to-face, one of which did not complete the questionnaire afterwards. The size of firm that the employees were in ranged from five employees to two thousand employees, and the roles and responsibilities varied from junior sales roles, domestic purchasing roles, export sales responsibilities to heads of department

and secretary to general manager of the FIE. Six of the respondents were female, eight were male.[132] The following table details the basic information on each respondent:

Table I: Basic Details on FIE Employee Respondents

Respondent	*FIE Investor*	*FIE Type*	*Industry*	*No. Workers in Firm*[133]	*Time in Firm*	*Role*
Res-1	S. Korea	WFOE	Manufacturing: Fabric toys	2000	10 yrs	Responsible for domestic sourcing and purchasing
Res-2	S. Korea	WFOE	Food products	5	4 yrs	Responsible for processing all aspects of received orders up until point of dispatch at port
Res-11	S. Korea	WFOE	Manufacturing: Boxes and bags	100-500	6 yrs	Responsible for matters relating to finance and HR
Res-14	S. Korea	WFOE	Manufacturing: Clothing accessories and handicrafts	c.10 in Qingdao (main factory outside Qingdao with 100-500)	9 yrs	Responsible for exports orders
Res-3*	Japan	WFOE	IT Industry	Less than 100	2 yrs	General Manager, responsible for overseeing Qingdao operations and communications with Japanese HQ
Res-4*	Japan	WFOE	Manufacturing	Less than 100	2 yrs	Sales Manager, responsible for domestic sales and communications with Japanese HQ
Res-5	Japan	WFOE	Logistics	100-500	2 yrs	Member of General Manager's secretarial team
Res-6	Japan / USA	WFOE	Manufacturing: Boxes and bags	c.800	2 yrs	Responsible for co-ordinating orders and production
Res-7	Japan	EJV	Commerce	Less than 100	3 mths	Sales role
Res-8	Japan	WFOE	Commerce	8	2 yrs	Responsible for finance and office work
Res-9	Japan	WFOE	Manufacturing: Clothing and bedding	Less than 100	15 yrs	Domestic Business role
Res-15	Japan	WFOE	Manufacturing	100-500	2 yrs	Assistant to Head of Management Department
Res-10	USA	WFOE	Hotels and Catering	100-500	1 yr	Sales Role
Res-12	Denmark	WFOE	Logistics	500-1000	3 yrs	Managing and co-ordinating orders from original purchase order to overseas delivery
Res-13**	Denmark	WFOE	Logistics	500-1000	3 yrs	Managing and co-ordinating orders from original purchase order to overseas delivery

* These are two questionnaires completed in full by the same individual for two previous FIE roles, neither of which the respondent still holds.

** This respondent was interviewed but did not complete the questionnaire.

[132] It was decided not to ask the age of respondents; the age range is approximately from early-twenties to mid-fifties.

[133] In order to facilitate answering this question, it was decided to give people set categories of size as can be seen in **appendix**. Some respondents were able to give more detailed answers to this question hence some of the data being more specific in this column.

Despite the reported limitations and the issues surrounding the external validity of such a sample, the respondents represent a good cross-section of FIE employees, varying in levels of responsibility, industry, length of service and so on; the range of participants allowed for a broad range of attitudes to emerge.[134] We must again stress that we are not attempting to draw conclusions on the prevalence of the identified range of attitudes towards and experiences in FIEs; we are drawing attention to the *range* of experiences of Chinese FIE employees in Qingdao in the late-2000s. Also, unless specifically stated otherwise, we are not concluding that experiences reported here are unique to FIE employment. For example, it may be the case that interviewees in white-collar roles within Chinese private enterprises would report stress arising from long working hours, or that the salary attracted them to the role. Exceptions to this will be highlighted, for example an employee benefiting from operating in a foreign language environment.

As can be seen from the questionnaire in the **appendix**, which is similar to the topic guide used for the interviews, the issues covered ranged from the simple questions centred on identifying the types of enterprise and industry that the respondent worked in, to questions on why they were attracted to the company, to the more delicate issues surrounding their experiences in the firm. Seven main themes emerged from the thematic analysis conducted on the questionnaire data (see methodology section for more details), each of which encompasses a range of attitudes and responses and will be discussed in turn below: the appeal of FIEs; the motivations for continued employment in an FIE; training and development opportunities; the working environment; worker-management relations; culture differences; and discrimination (both racial and sexual).

5.1 Why are Workers Attracted to the FIEs?

Rather than asking a leading question about what the appeal of FIEs is to the respondents, it was decided that it was better to ask them what was appealing about the particular company they work (or worked) for before they attained employment there, i.e. what made them want to apply.[135] In this way, if the appeal *was* for reasons of the firm being an FIE it would emerge through their answers, but critically we are not priming the respondent.

In response to this question three broad themes emerged, which were: those that were attracted for *company-specific* factors; those that were attracted by *role-specific* features (such as remuneration or skills development opportunities); and those who were attracted

[134] As noted in the methodology section of Chapter One, practical limitations of the recruitment of participants meant that the sample of FIE employees did not include shop-floor workers. This meant that issues that sometimes arise in other research concerning the working environment being hazardous do not find expression in our results.

[135] One small caveat to note is that we are asking people to remember what first attracted them to the particular enterprise and role; their judgements may have been coloured since by a particularly positive or negative experience. However, we are not in a position to conduct a time series analysis questioning the same workers before just before starting employment and then again at a later stage.

specifically *because it was an FIE*. Respondents' answers did not always correspond neatly to one category, some listing multiple points that were appealing to them.

One of the stronger themes that emerged was that of *company-specific* factors. These features may of course be found in and be common to FIEs, but are not *exclusively* FIE factors. Examples of the *company-specific* features identified include references to the simple appeal of a company's location, the reputation that a company had attained, a company's historical achievements, and/or the potential security attached to being in a large firm:

> "[was attracted because of the] location of employment" (Res-9, Fieldwork 2010)

> "[was attracted by the firm's] long history, its industry and its fame" (Res-10, Fieldwork 2010)

> "[was attracted because the] company is rather big [and so] very regular and standard" (Res-5, Fieldwork 2010)

With this later respondent, Res-5, further analysis revealed that she has assumed that a company this size would obey all the rules and regulations relating to employment law, the implication being that a company of that size would be a safe and fair place to work. In one case a respondent drew attention specifically to the fact that the company had a vast overseas market that implied a secure job:

> "[was attracted because] the company has a vast overseas market [which is] rather stable" (Res-2, Fieldwork 2010)

References were also made to the nature of the company's industry being appealing, either because the product was high-tech and had potential for huge market share in China, or because the company was seen to be in an interesting industry (Res-3 and Res-4, Fieldwork 2010).

When the theme of *role-specific* features was singularly identified as being the main attractive feature for drawing the worker to the employment opening, it generally focused around two aspects: that of remuneration (pay and welfare benefits); and that of opportunities for skills development.

> "[was attracted because] the salary was pretty good" (Res-8, Fieldwork 2010)

> "[was attracted because] it is a place where I could develop my talents" (Res-6, Fieldwork 2010)

> "[was attracted because] I could fully utilise and develop all my skills" (Res-3, Fieldwork 2010)

Along with those identifying *company-* and *role-specific* factors that first attracted them to the FIE within which they sought employment, there were those that specifically cited *'being an FIE'* as the driving factor. This occurred in several cases, across a variety of nationality of FIE:

> "[was attracted because] it was a Japanese WFOE" (Res-15, Fieldwork 2010)
>
> "[was attracted because] it was an FIE and it fitted with my vocational skills" (Res-14, Fieldwork 2010)

Respondents 13 and 14, who were also interviewed, revealed similarly that they were drawn to the firm as it was an FIE. Being an interview, further probing of this response was possible and they both stated that given their particular FIEs' fame within the logistics industry, they and many of their colleagues see the FIE as a useful way to leap-frog in to higher paid employment in domestic firms based on their work experience in the firm. They reported that the average time-in-role in the firm for colleagues of around their level was approximately two years, with most then moving on to domestic logistics firms based either in Shanghai or Beijing. They also mentioned that they wanted to specifically work in an FIE to gain a different perspective on how companies can operate, to experience a different form of business culture.

References were occasionally made that crossed over several categories, where *company-specific* and *role-specific* features were identified as attracting the respondent's attention initially, for example respondent 1 citing both the firms' reputation and the potential salary on offer as the appealing points.

Overall, there was a broad range of responses to the question of why the respondents were first drawn to their respective companies, of which 'being an FIE' was a theme but not a dominant theme. It was true that in some cases the simple fact of the firm being an FIE was seen as being of potentially beneficial, but generally speaking more practical concerns about the remuneration package and the career development opportunities were the more salient driving features drawing the respondents to the firms, features that are not exclusively foreign-invested enterprise features.[136]

5.2 Why Continue to Work in the FIE?

The aim of the research here was to discover if those employed within FIEs continue their employment relationship for reasons that are specific to FIEs, for example to learn a foreign management technique or to operate in a foreign language environment. Those

[136] Here we are addressing an employee's attitude towards a specific firm. There is of course a large body of labour economics literature that addresses the decisions of workers to engage in labour markets at a more macro-economic level. Borjas provides straight-forward and informative discussions on: worker preferences in relation to decisions to enter the labour market; how welfare systems can alter preferences; and the financial implications of searching for employment (2008: 27-42; 55-65; 496-503).

respondents that had experienced a continuous employment relationship for a period of one year or more in the FIE were asked to identify what factors were behind their decision to stay with the FIE. The one year period was selected as it was reasoned that after this time period an employee could be said to have an honest experience of what working within the FIE was like – rather than have a biased perspective if they were asked after too short a period of employment – and they would have experienced a complete annual cycle of pay and bonuses. Similar to section 5.1, some respondents were able to identify a single reason behind their decision to continue their employment relationship with the relevant FIE, whereas others reported a more complex mix of motives and factors contributing to their attitude. The strength of feeling expressed as to single or multiple factors did not correspond to any sub-set of respondents, i.e. it was not more common for those with longer terms of employment to identify multiple reasons for their continued employment.

Amongst those that identified a single factor behind their decision to remain in the FIE there was a broad mix of answers ranging from those who stayed due to a promotion (Res-10, Fieldwork 2010), those who stayed simply for the salary (Res-11, Fieldwork 2010), to those who stayed for what seemed to be lack of choice:

> "[stayed in the FIE because] it is hard to find good work" (Res-5, Fieldwork 2010)

There was some expression in the data amongst these 'single-factor' respondents that the way the company operates was in part responsible:

> "[stayed in the FIE because] I feel that the company is pretty good" (Res-15, Fieldwork 2010)

> "[stayed in the FIE because] of the relative freedom" (Res-8, Fieldwork 2010)

Although these later two respondents, fifteen and eight, were both from Japanese-invested FIEs, we should refrain from drawing conclusions across all Japanese FIEs because the sample is too small to be representative. What the qualitative data helps us highlight is the range of opinions and attitudes that are expressed amongst the workforce rather than attempting to provide a precise picture that can be generalised from at a highly specific level.

As well as those who isolated a single factor as being behind their decision to continue their employment relationship with the FIE, there was an equal strength of expression of those identifying a more complex mix of factors behind their decision. Amongst these respondents, it was usually common for the salary to be mentioned as one of the elements:[137]

[137] Initial design and testing of the topic guide for the interviews and later the questionnaire revealed that it was necessary to have prompts on this question. As can be seen in **appendix**, the prompts were: "salary,

> "[stayed in the FIE because] the company benefits have been good all along, the salary is pretty good and also [have had] promotion opportunities" (Res-14, Fieldwork 2010)
>
> "[stayed in the FIE because of the] salary, promotion [and because] able to put my specific skills in to full use and display my talents" (Res-1, Fieldwork 2010)
>
> "[stayed in the FIE because] am able to study new things and accumulate experience. The salary is also pretty good" (Res-2, Fieldwork 2010)
>
> "[stayed in the FIE because the] salary is good [and I am] happy at work" (Res-9, Fieldwork 2010)
>
> "[stayed in the FIE because] the salary is considerable, the business is effective and can see [the potential] for one's future" (Res-4, Fieldwork 2010)

Those that mentioned promotion as one of the factors behind their continued employment were, perhaps unsurprisingly, two of the longer serving FIE workers; respondents fourteen and one were some of the longest serving FIE workers interviewed. However, respondent ten also identified promotion – in his case as the sole factor behind his continued employment – and he had only had one year's FIE employment by the time he participated in the research.

One of the respondents that was also interviewed – respondent twelve – initially listed a host of benefits as to why she had decided to remain with the FIE including her colleagues, her general enjoyment of the work, and more practically her three year contract. However, as the interview progressed several negative aspects of her particular employment emerged including that she felt the salary was not so competitive and that one of the strong attractions of the firm was the training opportunities but the training budget had been greatly reduced due to the global financial crisis' impact upon the firm's profits. When pressed as to why she had continued her employment when it seemed like many of her colleagues only stay two years before moving on, she said that it is a mix of the benefits already mentioned and being too lazy to look for other work (Res-12, Fieldwork 2010).[138]

One other interesting attitude that found expression in the data was in relation to job-hopping. As mentioned earlier in this chapter, research by scholars such as Kessler (2007) and Ross (2007) has shown that amongst certain segments of the FIE workforce, particularly in sectors with skills-shortages, there is an apparent lack of loyalty towards the FIEs as employees use them to rapidly increase their salary, which then breeds distrust between

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training, promotion, contract or other (if other reason, please state)". This may be why, in part, there is a potential bias towards mentioning the words 'salary' and 'promotion' in the following analysis.

[138] Later in the interview it emerged that one reason that she had not used the FIE experience to enter in to a domestic logistics enterprise was that she actually wished to be an air hostess and so was not particularly passionate about remaining in the logistics industry (Res-12, Fieldwork 2010).

the FIE foreign staff and domestic employees. Respondent three, who held a high-level management role within an FIE gave a complex mix of reasons behind his motivation for staying in the FIE, amongst which he wrote:

> "[I'm] definitely not willing to continuously job-hop, [instead] desiring job stability" (Res-3, Fieldwork 2010)

Given the respondents knowledge of the researcher's background – i.e. a foreigner – this unprompted mention of job-hopping perhaps suggests that he was aware of the possible perceptions amongst foreigners concerning skilled, domestic Chinese workers using the FIEs solely as stepping stones for better roles and that he was keen to cut himself apart from this trend.

Similarly to section 5.1 we can see that a multitude of themes emerged and that FIE-specific features did not seem to be the dominant factors behind people's decision for continued employment in an FIE.

5.3 Training within the FIE

Participants were questioned as to whether or not they had received any formal training whilst at the FIE, either technical training or management training.[139] There was of course a variety of responses, but the strongest theme that emerged was that of no training been given whatsoever. In one company's case, as already referred to, this was because the training programme had been temporarily suspended around the time that the two employees interviewed had joined owing to budget constraints resulting from the global financial crisis. The firm in question is an international logistics firm, which suffered a downturn in business as a result of the global financial crisis. During an interview with two employees from this firm they stated that in their three years of employment they had not received any training but that they have been assured that the old programme will re-start soon (Res-12 & Res-13, Fieldwork 2010).[140]

[139] Although it is not within the remit of this dissertation to address *why* FIEs provide or don't provide training, labour economics literature tells us that there are several important factors influencing whether a firm will train an employee, such as how general or specific the knowledge gained is – general training considered as training that will increase the productivity of a worker in all firms, specific training will only increase the worker's productivity if they stay in that particular firm. See Borjas for a summary of the key theories (and further reading) relating to whether a firm will provide training (2008: 275-279) and the relation between training and job turnover (2008: 356-358). From the perspective of exploring the effects of training, some interesting academic research is directed towards analysing the returns to certain acquired skills, i.e. the increase in pay associated with having that skill. One amusing paper on the subject is by DiNardo and Pischke (1997), which managed to show returns to certain 'skills' such as using a pencil at work, or sitting at a desk. Their paper was attempting to highlight the rather simplistic approach to 'return to using computers' assessed in Krueger (1993); returns to computing (amongst other skills) have since been examined in detail, see for example Dickerson and Green (2004).

[140] Respondents twelve and thirteen both stated during the interview that they had received no training, but on the questionnaire completed by respondent twelve she stated that she had received some minimal training just before the training programme was stopped.

Of those respondents who had received training whilst at the FIE, some had received vocational training such as accountancy training (Res-8, Fieldwork 2010), and some had received general management training (Res-15, Fieldwork 2010). When training was mentioned, in a few cases it did seem as if there was a more substantial system in place for training where opportunities were provided frequently. Respondent ten, for example, initially replied saying that he receives frequent training. In response to follow-up questions (submitted to him via email) he elaborated that they received around fifteen days of training spread through-out the year covering knowledge of the industry, sales techniques and leadership skills (Res-10, Fieldwork 2010). Respondent three, a General Manager in a small Japanese WFOE in the IT industry, also reported a more structured programme. Initially he replied saying that he receives technical training related to the firm's industry of operation; in response to follow up questions (submitted to him via email) he stated that the training was spread over the year in half-day blocks, totalling to around ten days worth across the year (Res-3, Fieldwork 2010). Respondent seven also reported structured training focused on general business knowledge, having training sessions once per month for approximately four hours at a time (Res-7, Fieldwork 2010).

For some respondents then, there seemed a clear theme of a detailed and fairly structured training programme whereby continuous investments are made in the levels of human capital of the staff, training them across a wide range of topics. The theme of structured training was not more prevalent amongst more junior or more senior staff.

One possible benefit of FDI that we discussed in Chapter Two was the opportunity for skills transfer and knowledge accumulation that a domestic workers can achieve through working in an FIE. In terms of active training sessions to impart knowledge to their workforce – as opposed to just passive learning opportunities – there does not seem to be a strong theme amongst respondents of a training taking place within the FIEs. When training was mentioned, the topics covered in training were generally not areas that FIEs alone are experts in and so it is plausible to suggest that an employee could gain such human capital improvements elsewhere. However, one could argue that topics such as accountancy and management training may well have unique aspects deriving from the fact that they are being taught by an international firm.

Alongside these active training opportunities, there is of course the chance for the FIE workers to accumulate knowledge and experience from their everyday working life in the FIE. Although questions were not specifically asked on this topic, it was common for respondents to draw attention to being able to learn and experience a foreign business culture of operation (Res-3, -4, -5, -12 & -13, Fieldwork 2010).

One final anecdote on training highlights that it is not always the case that training and development opportunities will guarantee staff retention. In an interview with an American ex-pat with a long history of living and working in Qingdao, he recounted a story concerning a USA FIE investor friend of his. The Shanghai-based FIE was grooming a Chinese manager

for higher positions by offering substantial training opportunities, including offering periods overseas in the USA; despite these opportunities the manager quit and took up a much less stressful post in a local SOE with a comfortable salary (Int-13, Fieldwork 2010). From a positive aspect, this does highlight that the FIE did have an aim to train up local staff to senior management positions.

5.4 FIE Working Environment

The working environment is a crucial area to focus upon within an FIE to understand the stresses and strains that may be faced by the domestic workforce. Participants were asked to discuss how they perceived their current working environment; in order to gain answers that could be more comparable across the sample, they were prompted to respond along the lines of work pressure, hours of work per week, and how much holiday they are entitled to receive and that they actually take. They were also asked to compare their experience to previous employment, if relevant.

'Working environment' is being used in a very broad sense to here and does not reflect and physical aspects such as a poor ventilated, cramped workspace; given the nature of the participants that it was possible to interview and question to inform this dissertation, it was decided that the more physical working environment issues that are commonly focused upon in qualitative research concerning factory floor workers in labour-intensive enterprises would not be so applicable to the sample of white-collar workers.

Answers mostly centred on the level of pressure in the FIE, but occasionally the idea of rest and holiday time was discussed. Obviously one issue with this type of discussion is that perceptions of a 'high-pressure' environment or a 'reasonable' level of holiday days is subjective. However, there is still merit in exploring the topic because whilst we might not get precise ideas on quantifiable levels of stress and tension, we can understand comparable levels and get an insight in to the strength of feeling surrounding such topics.

The theme of high pressure roles was common, across all nationalities of FIE and across the whole range of levels of responsibility:

> "The work pressure is big, the work time is long and the holidays are few" (Res-1, Fieldwork 2010)
>
> "The work time and rest time are reasonably allocated, [although you] can't unreasonably request [your] holiday time. When the work load is rather large there is a lot of pressure" (Res-2, Fieldwork 2010)

The pressure in the working environment reportedly came from many angles, including pressure generated simply from busy order periods, for example Christmas orders impacting upon the work load of those co-ordinating international logistical deliveries (Res-12 and Res-13), or pressure to host and entertain clients. Respondent fifteen stated that he felt his

working environment to be very high pressure: although he reported working approximately a thirty-six to forty hour, five-day week and getting the minimum level of holiday required by Chinese law, he stated that one of the downsides to working at the firm was the pressure to continuously host social engagements such as dinners and lunches, which presumably fell outside the 'working hours' (Res-15, Fieldwork 2010).

One respondent reported the global financial crisis had provided relief from this pressure:

> "A few years back the working time was long and overtime was frequent but now because of the influence of the [global] economic crisis foreign orders have declined, work time has fallen and the is infrequent overtime" (Res-14, Fieldwork 2010)

From the analysis in Chapter Four, we have seen that the global financial crisis seemed to have had a serious impact in terms of number employed within labour-intensive enterprises. Respondent fourteen is employed in what we can infer to be a labour-intensive operation (manufacturing of headdresses, small handicrafts and materials for clothes); it is interesting to note that there is the possibility for the global financial crisis to have positive impacts on an individual's working environment if they are in 'white-collar' roles within a labour-intensive firm.

When discussing the working environment, occasionally holiday allowance arose as an issue. Previously in this chapter we have reported some sources that depict Japanese FIEs as providing the minimum mandatory requirements concerning all aspects of workforce relations, such as pay and holidays. There was a theme across the respondents of only having the nationally required number of holiday days that was more prevalent across the Japanese FIEs, but given the number of Japanese FIEs in the sample this is perhaps not surprising. Respondent eight, an employee in a very small-scale Japanese FIE, works five days a week, seven hours a day; in regards to holiday he said:

> "[I get] holidays as regulated by national statutory requirements on annual leave; [I use] all them completely" (Res-8, Fieldwork 2010)

Some FIEs seemed to be more generous in their holiday allocations. One respondent stated that "holiday time was perfect" (Res-10, Fieldwork 2010). Asked to elaborate in follow up questions, he said:

> "[I get] all public holidays plus another ten days annual leave" (Res-10, Fieldwork 2010)

Of course, just because an employee has an annual leave allocation that does not necessarily mean that they will get the opportunity to take it. When respondent three was employed in an FIE as the general manager he worked an average of in excess of fifty one hours per week spread over five days and although at the time had a small allocation of annual leave, reported not having time to take them:

> "According to national regulations [on annual leave] I had five days annual leave at that time [but] owing to the role I was in I had to give-up taking any holidays" (Res-3, Fieldwork 2010)

Looking at media reports, it seems that there may even be a culture of overtime and no rest in some FIEs in Qingdao that leads to workers feeling unable to ask for their entitled paid annual leave for fear of giving off the wrong impression. Zhu Cailing writes in an article in a Jinan-based newspaper, the *Shandong Commerce Newspaper* (山东商报), that despite there being national regulations on annual leave that came in to force as of the 1st January 2008 people are still facing problems in taking their allocation of leave (Zhu, 2010). Zhu reports one example of Miss Yan, an employee in an FIE located in Qingdao. Despite her firm having a system in place for taking annual leave, Miss Yan said that the excessive hours and overtime prevent people from 'daring' to ask about taking their holiday entitlement:

> "[I] dare not raise the issue of paid annual leave, other people don't raise it so if I raise the issue it will look bad. Everyone has the same way of thinking so up until now nobody has had any annual leave! In actual fact, we all really want a few days rest…" (Miss Yan, quoted in Zhu, 2010)

Taking working environment in its broadest sense, we can see from the qualitative data that just because an employee may have provisions and entitlements set down in national legislation and in company policy, it does not necessarily imply that the worker is in a more favourable working environment: there is the chance that the worker feels pressured not to take the leave.

When describing their working environment, one of the respondents left the researcher with the impression of a very unclear employment relationship. Replying to follow up questions asking for more details on her working environment, presented to her via email, respondent seven said:

> "[I get the] nationally regulated holidays [but] am not sure on [my other] annual leave. Not all of the [company's] regulations are one-hundred percent completed yet because the company is newly established" (Res-7, Fieldwork 2010)

At the time of participation in the research, she had only been in the Japanese EJV for three months, the firm itself being in Qingdao for half a year. According to her responses we can infer that her employment contract does not define her holiday entitlements, which it is not specifically required to do so by the Labour Contract Law that was passed on the 1st January 2008 (Russell, 2007; Baker and McKenzie, 2008a). This shows that an employment relationship can meet the letter of the law and yet still remain unclear.

As Ching Kwan Lee rightly points out, the pressure on workers employed in some of the higher paid labour-intensive FIEs can lead to less visible but equally serious occupational injuries such as extreme depression and even mental illness (2007: 169). Whilst one must

clearly acknowledge that the FIE employee participants addressed via interviews and questionnaires in my research are not shop floor workers in labour-intensive FIEs, the themes emerging from the responses of the participants involved remind us that other sections of the FIE workforce – the more white-collar roles – also can face working environments that are extremely stressful, with long days, much overtime and limited opportunities for holidays. It is not simply the case that working in a more senior position within an FIE will imply that a Chinese worker will be in a 'better' working environment.

One final point to note here is that although all our respondents are current (or recent ex-) FIE employees, we are not suggesting that such high pressure working environments are unique to FIEs in Qingdao. It would be of interest to conduct a similar qualitative investigation amongst non-FIE employees in Qingdao in order to compare and contrast experiences; perhaps an area for future research.[141]

5.5 Perceptions of the Worker-Management Relationships in the FIEs

The participants were questioned as to how they perceive worker-management relations, and as to their personal experiences in interacting with those above and below them. Participants were in a range of positions within FIEs, as can be seen from **table I**, which meant that discussions concerning their perceptions of worker-management relationships were extremely interesting as they were not only from employees in a variety of FIE sizes, but also from employees in a variety of different 'levels' of responsibility. There were four clear themes that emerged across the data: those worker-management relationships that can be interpret as being *healthy* relationships, those that are more *formal,* cold relationships, those that were *domineering* in nature (but not necessarily hostile), to finally those that were clearly perceived as being *hostile*, antagonistic relations.

Those responding positively were not isolated to a single nationality of FIE – coming from Korean, Japanese and Danish FIEs – and were from those in entry-level positions managing sales orders to General Managers. Respondent two, who was also interviewed, said that he was part of a small, close-knit Korean FIE of five staff, the FIE itself being focused on exporting food products to overseas Chinese and Korean communities. Discussing worker-management relations as he perceived it, he said that:

[141] To illustrate that these working conditions are not unique to FIEs in Qingdao, Lee (2007: 235-237; 250-261) draws vivid comparisons between the experiences of employees in the mid-nineteenth century Manchester with migrant workers in twentieth century China: side-by-side quotations are virtually interchangeable, showing that workers across the globe "face similar challenges of exploitation" (2007: 236). We should stress that Lee's subject of study is not restricted to FIE employees, and has more focus on shop-floor workers, but the implications are that the experiences of stressful working environments are historically recurrent (2007: 250-261).

> "The relations are friendly with mutual understanding, we are a small team and everyone works to their best abilities" (Res-2, Fieldwork 2010)[142]

Although the fact that he was in a very small firm may imply that FIE size does plays a role in the worker-management relations, themes of a positive environment also came from those in larger firms. Respondents twelve and thirteen, employees in a large Danish logistics FIE, both responded largely positively when discussing the worker-management relations as they perceived it. In the questionnaire, respondent twelve said:

> "At [FIRM] the relations between the workers and the management layer are rather harmonious, everyone working in an open environment, although it is not always like this. Sometimes the managers' leadership style causes people to be uncomfortable" (Res-12, Fieldwork 2010)

The interview with respondents twelve and thirteen revealed that their immediate management structure was staffed by domestic Chinese nationals; they believed that there was one foreigner in their office but not on their floor and they very rarely saw him. Within larger firms, it is likely that those in more senior positions will be the ones that have interactions with the foreign investors.

Respondent three, formerly a General Manager in a Japanese IT firm, reported that he felt the conditions in his FIE were excellent and that there were 'subtle' relations between the workers and the management layer. However, his answers also revealed an added stress dimension because he felt his position of being between the Japanese management based in the overseas HQ and the Chinese staff within the Qingdao FIE made him somewhat of a middle-man walking a fine line:

> "Because you are in the middle of the boss and the workforce, you are the bridge between the two. If you are too loyal to the boss then the workers will naturally alienate you, [but] if you are excessively friendly with the workers then naturally the boss will consider removing you because [he/she] feels you are not loyal enough" (Res-3, Fieldwork 2010)

He added an example to highlight the awkward situation, describing how he lost contact with a good friend for over six years because of this tension in roles (Res-3, Fieldwork 2010). Respondent three completed a separate questionnaire for his time in another role as the Sales Manager responsible for all domestic sales and for communications with the overseas head quarters in a different Japanese FIE; he reported a similar delicate scenario within that FIE (Res-3 and Res-4, Fieldwork 2010).

[142] We should of course remember that there is a possibility that, despite guaranteeing anonymity in the research, respondents may be reluctant to be critical of the worker-management relations within their firm. It could be that a face-to-face interview situation would facilitate a deeper understanding of the workplace relations, but for reasons previously expounded this was not an option with a majority of respondents. This same caveat also holds for discussions of other sensitive topics, such as discrimination in the workplace.

These attitudes indicate that for some Chinese staff in relatively senior positions there is added stress from not wanting to appear bias towards one 'side', almost as if there are clear demarcations between the foreign management structures and the domestic workforce.

Along with those whom responded relatively positively is their descriptions of the worker-management relations, there were those who whilst not reporting hostility depicted an environment of much more formality and unfriendliness, some attributing the lack of familiarity to language barriers:

> "[the relationship] is not particularly friendly or understanding, perhaps because of the language barrier" (Res-15, Fieldwork 2010)

> "[workers and the management] mutually ostracise each other" (Res-11, Fieldwork 2010)

> "[the management layer] never want to be in the presence of [non-management] people, they want to maintain a definite gap between themselves [and the workers]" (Res-7, Fieldwork 2010)

Respondent seven had only been in the firm for three months and yet already had acquired a strong perception as to the nature of the worker-management relations. Formal relations bordering on frosty do not seem to be ideal conditions for knowledge transfer to the domestic Chinese workforce, perhaps indicating that in these firms there is no desire to develop a local workforce that can operate the enterprise.

Alongside the two themes detailed above, the language used by some participants to describe worker-management relations implied a scenario of overbearing or domineering characteristics in the relationship. Respondent eight, a member of a small eight person representative office of Japanese investment, used language that indicated that he had to stand up to his boss to avoid getting trampled on; another Japanese FIE employee in an manufacturing firm said that the management layer was "rather overbearing" (Res-9, Fieldwork 2010). One particularly interesting case seemed to link the lack of the management to listen to lower levels of staff to the enterprises' eventual failure. Respondent one said:

> "South Korean culture is that lower levels must submit themselves to the authority and leadership of upper levels, even if [the leadership is] wrong you are not able to question it" (Res-1, Fieldwork 2010)

Respondent one was not willing to talk about her current employer – another South Korean FIE – but completed the questionnaire based on her previous South Korean employer. Through other contacts the researcher was able to learn more about respondent one's particular scenario, which when asked to discuss in follow up questions she was not willing to talk about. The large manufacturing firm that she previously worked for was actually one

of the South Korean firms that 'fled' in the night, closing over Chinese New Year whilst all the workers had a week's national holiday. The fact that respondent one managed to leave just before this occurred coupled to her unwillingness to discuss the issue suggests and the language used in to describe the worker-management relationship suggests that she may have been aware that the company was making 'wrong' decisions but that she felt unable to question the management.

The final attitude that found expression in the qualitative data, albeit only weakly, was that of hostile and antagonistic worker-management relations. Respondent five's initial response was that worker-management relations were "hostile and antagonistic" (Res-5, Fieldwork 2010). When asked to expand on this, she gave an example:

> "For example, the provision of welfare benefits such as the summer 'high-temperature' fee, which is not enforceable according to national regulations but which all Chinese enterprises provide. Once, some management personnel who sympathised with the ordinary workers explained the national situation to the boss, but according to the national regulations they had no power to force the boss to provide the fee [and he] refused to provide it" (Res-5, Fieldwork 2010)

We should note that respondent five, as we shall detail later, suffered a particularly negative experience whilst at this company and so is maybe more willing to talk about negative aspects of the firm than other respondents are of their respective firms. Nevertheless, the fact that this confrontational, hostile atmosphere is cited here highlights some of the range of conditions that exist with respect to worker-management relations in Qingdao's FIEs.

Respondent five's experiences seem to echo the previously referenced reports by Ding Mingfei that cited one issue facing Japanese FIEs in terms of staff retention is the perception that Japanese FIEs provide the minimum required by legal regulations but go no further in terms of staff welfare (Ding, 2005).

We see here then that within the small sample of FIE employees we have a full range of worker-management relationship scenarios from those who report friendly, harmonious scenarios, those who detail more cordial, formal or 'cold' relations, to those who feel the relations are hostile and antagonistic. It is not the case that any of these attitudes correlated more strongly with specific sub-sets of the respondents, such as nationality of FIE or size of firm.

5.6 Perceptions of Culture Differences within the FIE

In our literature review we discussed the idea that two cultures meeting in the business environment can have potential advantages and disadvantages to the operation of the FIE. According to some Chinese commentators, clashes of culture contribute to serious

misunderstandings within FIEs in China (Sina, 2006),[143] and recall also the discussions cited previously from the interview with a senior partner of a Qingdao-based Chinese law firm: he believed that cultural differences could sometimes lead to hostile relations in FIEs between foreign and domestic staff, particularly if the foreign partners are not appreciative of Chinese culture when dealing with their staff (Int-6, Fieldwork 2010). As far as possible, the subject of cultural differences was addressed in my research.[144]

Participants were asked if they perceived any cultural differences between the Chinese staff and the foreign staff, and asked to describe how this cultural difference manifested itself, if it existed. They were prompted along lines of any differences in attitudes towards company policies, attitudes to work and attitudes to each other. They were primed along these lines to focus the responses on cultural differences that affect the working environment rather than cultural differences that do not. The prompt concerning attitudes to work generated a strong theme amongst the responses, but there was a secondary theme occasionally discussed centred on personal interactions between the foreign and domestic staff.

Attitudes to work was frequently cited, but not always elaborated upon. Respondent eight, for example, said "work attitude" and declined to elaborate that particular response on the follow up questions sent (Res-8, Fieldwork 2010). Respondent eleven likewise gave a short answer: "attitude to work" (Res-11, Fieldwork 2010). From responses like this it is impossible to isolate exactly where the culture difference lies and how it is perceived. However, other respondents elaborated further when asked for more details:

> "There is definitely a culture difference between the Chinese workers and the foreign workers; it can be seen from attitudes to doing things, attitudes to work and so on. For example, Japanese people lay particular stress upon planning [whereas] Chinese people handle matters basically by dealing with things as they arise" (Res-7, Fieldwork 2010)

[143] One famous example that arose in conversations with Chinese friends concerns an alleged culture clash within an FIE that led to a serious, high-profile dispute when a secretary said "no" to an FIE president. The story was widely reported at the time, for example see Sina 2006, and involved the secretary to a Singaporean president of an FIE subsidiary of an large USA MNE replying to a rude email (from the FIE president) in blunt Chinese (as opposed to the expected English) and carbon-copying the whole firm in – the email went viral across China. Some commentators argue that culture clash played a key part in the build up of anger between the secretary and the foreign boss (Sina, 2006), although it seems difficult to believe that there were not other, more significant, 'personality factors' at play between the two.

[144] Culture is of course a tricky concept to isolate; here we are using the term as a label for the collection of behaviours and/or attitudes that can be associated with a particular nationality, and are more specifically looking for *perceived differences* by the respondents. Culture and nationalities reminds us of the work of Hofstede, who developed a theory of four dimensions of national culture – amended to five dimensions in the early-1990s – that allow cross-cultural comparisons to be made (Hofstede, 1991; Hofstede, Hofstede and Minkov, 2010). However, his work is not without its critics; for a particularly lively debate concerning his work – including his rebuttal – see McSweeney (2002) and Hofstede (2002).

> "The degree of seriousness towards work is not the same. Foreign staff are fairly calm and carry out company policies rather well; Chinese staff can endure a lot of pressure but are often not satisfied emotionally" (Res-10, Fieldwork 2010)

> "First, from the attitude to work you can clearly see [the culture difference] and second, from the attitude to usage of company property you can clearly see [it]. Foreign staff consider the end of the working day to be when all the work is done; Chinese staff consider the end of the working day to be the stipulated end-of-work time. Japanese people treat company property as company property, clearly separating private and company interests, absolutely never using a company telephone for personal use [and] absolutely never using company property for private matters. Chinese people 'love the factory as their home', if they can use a company phone then they won't use their own phone [and] if they can use company property for private use then they will" (Res-4, Fieldwork 2010)[145]

Echoing the sentiment expressed towards working until all tasks are completed as expressed in respondent four's quote, respondent fourteen in a different nationality of FIE said similar:

> "There is a culture difference … often [the foreigners] respect work [time] more than the Chinese workers, and they often do overtime on their own initiative" (Res-14, Fieldwork 2010)

This cultural difference in attitude towards work time can not only lead to friction between the foreign and domestic staff, but also to extra pressure on the Chinese staff to work longer hours than they are willing to, potentially breeding attitudes of resentment towards the foreign investors and added levels of stress.

As can be seen from the range of respondents discussing attitudes to work, there is no correspondence with a specific sub-set of FIEs, respondents coming from various levels of authority, various nationalities of FIE and various sizes of FIE. This is important to note here because we must be careful to distinguish between perceived differences in approaches to work stemming from nationality, and perceived differences that are actually being influenced by differences in levels of responsibility and seniority. A semi-structured interview would have allowed for us to probe deeper in to responses here, helping to clarify if the reports of cultural differences in attitudes to work are stemming from seniority characteristics. However, for reasons explained elsewhere we were unable to pursue such a methodology in this current research project.

Alongside the theme that arose concerning cultural differences as expressed through attitudes to work, there was a secondary theme surrounding personal interactions between the foreign and domestic staff. In a similar vein to having a professional, non-personal

[145] Note, the Chinese 中国员工 has been translated as "Chinese staff", and 中国人 as "Chinese people".

approach to work, one respondent employed in a large South Korean manufacturing FIE said that there is a noticeable cultural difference:

> "Foreigners don't bring their personal feeling to work and are not willing to discuss work in rest times" (Res-1, Fieldwork 2010)

This implies a lack of shared emotional experiences and that there is no interaction on a personal level, only a professional level, between the foreign and domestic workers in some FIEs. This is given further support by statements such as:

> "The foreigners sometimes exclude the Chinese workers" (Res-14, Fieldwork 2010)

A lack of personal interaction between the foreign and domestic staff is not necessarily a negative factor, but it does seem to imply a lack of willingness to engage with each other, which provides more scope for cultural misunderstanding to provide further obstacles for the operation of the FIE.

From the perspective of transferring skills, a lack of personal interactions does not necessarily preclude skills transfer as this may occur through observations or via scheduled training, but one could argue that skills are better transferred when there is mutual understanding between the two sides rather than a feeling of separation.

As well as those noting that there were cultural differences expressed in their working environments, one respondent reported that he perceived minimal impacts in the FIE environment as a result of any underlying cultural differences:

> "There is some, but a very small amount, basically [we're] the same. [We] mutually merge together and adapt [to each other] pretty well" (Res-2, Fieldwork 2010)

In summary to the question of cultural differences finding expressions in the workplaces of the Qingdao FIE respondents, we have seen that there is a strong expression of the idea that the attitudes towards work are perceived to be different. This is noticeable not just in terms of attitudes towards work time, but also towards 'work' property. We acknowledged that there are limitations arising from the research methodology that prevent us from disentangling possible influences of seniority and responsibility factors on these perceptions of cultural differences in attitudes to work. Finally, we noted that there is sometime a lack of a more personal bridge between the foreign and domestic employees, which can be said to potentially exacerbate any mutual misunderstandings.

5.7 Discrimination in the FIE: Gender and Race

One of the most sensitive topics to address was that of discrimination in the workplace:[146] questioning on such a topic can make the respondent recall particularly unhappy or

[146] One of the limitations here is that a 'discriminatory environment' may be a subjective issue, with some reporting that their environment isn't discriminatory – because they think the word implies some sort of

uncomfortable memories, maybe issues that they wished to forget, resulting in them becoming emotionally stressed. Having given due consideration as to whether or not the research should explore this issue, it was decided that if the topic was approached in a sensitive manor then it should be possible to respect the respondents' feelings and still gain insightful knowledge as to the levels of discrimination within some of Qingdao's FIEs. Perhaps rather encouragingly, the strongest theme of responses was that of the FIEs not having a discriminatory environment. When there were mentions of discrimination, they tended to be in fairly strong language and mainly along two lines: discrimination based on gender and discrimination based on race.[147]

Discrimination Based on Gender

As stated, the theme of discrimination was, thankfully, rather weak. However, one case where a worker appears to have been strongly discriminated against owing to her gender was detailed.

Respondent five was a member of the General Managers secretarial staff in a Japanese-invested WFOE operating in the logistics industry. When she began working for the firm she reports that she an oral demand was made of her, and of other female employees, to not marry within the first two years of employment and not become pregnant within the first three years of the employment relationship. This oral demand was not included in the written contract because such an illegal demand would render the written contract null and void. If she was to break this oral demand, however, the company said that that would terminate her employment contract.

Having been at the firm for around two years, respondent five became pregnant in August 2009 and, owing to violent morning sickness, was unable to go to work. She presented the company with documentation from the hospital confirming the pregnancy and stating that she should be excused from work. The company refused to accept the notice from the hospital and demanded instead that respondent five report for duties as normal, which she did not do.

On the first day of her leave period, at the start of September 2009, she said that the company dropped a hint of their intention to fire her, and then they sent her a cautionary warning notice about being absent from work without permission, which was followed up by the termination of her contract in October 2009.

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extreme scenario – where as a situation exists that we may deem rather discriminatory. One such example is detailed shortly.

[147] Academic literature shows that discrimination in the workplace is far from unique to FIEs. From a labour economics perspective, Borjas (2008: 365-405) discusses discrimination in the labour markets and the evidence of its presence and impact (in terms of gender and race), although the review of evidence mostly centres on the UK and USA.

When asked which third parties she turned to for assistance, she said that she the company's trade union and the company's Staff and Workers' Representative Committee were "are the company gang" (Res-5) and so no use to her. She tried government hotlines, lawyer hotlines and eventually decided that the mediation and arbitration courts system was the only way to proceed, asking them to re-instate her labour contract; the mediation and arbitration committee supported her but the company responded by appealing to the law courts. As of the time of participation (June 2010) she was still not able to report a clear resolution, stating that she was under severe mental strain not knowing what the future developments may be.

She vowed to continue to fight the company through the legal system not for money, as she claims she will never recover the amount that she has spent on the case, but for dignity and honour (尊严). She also reported that the company was now under investigation by the labour bureau relating to the issuing of such oral demands on its female employees. Her anger and frustration was clearly discernable through the language that she used, comparing the attitude of the foreign investors – the Japanese – to previous historical events and swearing in reference to the firm (see beginning of the chapter for quotations). Despite such an experience, from a wider perspective she reported that this type of company was rare and that amongst her friends she was the only one to have suffered such an experience.

However, analysing the Qingdao media and Qingdao government websites indicates that such discrimination on gender grounds, particularly relating to pregnancy, goes beyond the case reported by respondent five. Towards the end of 2006 an article appeared in the previously cited, Qingdao-based *Peninsula City Paper* that gave the impression of a larger problem (BDDSB, 2006). The article details a labour arbitration court case in Laoshan district where a female employee accused her employer of forcing her to clean the toilets after she informed them that she was pregnant, her employment contract stating that she was in a management post. Although this case does not state if the firm was an FIE or not, the article reports the experiences of other pregnant mothers in the audience including Mrs Wang, who was fired by her FIE employer allegedly for becoming pregnant, a situation that the article claims is a common occurrence (*ibid.*). The lawyer for the pregnant lady involved in the case said that although pregnancy may be the true motive for the termination of an employment contract, companies usually find another excuse – such as a minor disciplinary offense – to disguise their actual reason (*ibid.*).

As well as in the media, reports of issues arising between pregnant staff and FIEs can be found on Qingdao government websites. The Qingdao Human Resources and Social Security Bureau website details a case from 2008 where a foreign firm in Qingdao seemingly agreed to renew an employee's contract until they discovered she was pregnant, at which point they used the reasoning that the old contract had been completed and they did not wish to renew after all as grounds for terminating the employment relationship (QDHRSS, 2008).

The employee took the FIE to the mediation and arbitration courts on the grounds that the new Labour Contract Law of 2008 prevented the company from terminating an employment relationship during the "three periods" of pregnancy: pregnancy, confinement and breast-feeding periods. Even if the employment contract expires during one of these three periods, the employment contract expiration date has to be amended to be in line with the end of the nursing phase (*ibid.*).

Although the main issue in this reported case centres around whether or not an employer, FIE or otherwise, is allowed to *not* renew or continue a contract when a female employee is in one of these three phases of pregnancy, it is interesting to note that the FIE did not take the attitude of retaining the employee's services and offering her maternity leave even though she had been working for the firm for several years. This indicates a discriminatory attitude towards female employees (*ibid.*).

Despite these negative reports of discrimination towards female employees, fieldwork did reveal examples of some FIEs supporting flexible working for mothers that wished to return to work. One interview conducted was with the American owner of a new, small-scale FIE centred on the training and consultancy industry; he had employed a new mother as one of his sales representatives and was fully accommodating towards her needs for flexible hours (Int-14, Fieldwork 2010).

Analysis of the qualitative evidence across the interviews, questionnaires, media and government websites shows that unfortunately there is an underlying theme of discrimination on grounds of gender within certain FIEs, mostly centring on pregnancy. The theme was weakly expressed across the data, and by no means should be taken as a general picture of Qingdao FIEs, but it is extremely important for all to note that this issue does exist.[148]

A second theme that emerged relating to discrimination was that of racism, an issue that was more strongly expressed than that of gender discrimination.

Discrimination Based on Race

Racism is not always highly overt or 'aggressive' but rather can sometimes be more passive in nature. Either way, it is an unpleasant characteristic to have within a firm and whilst it was not widely recorded by participants it nevertheless did arise.

What people interpret as racism is not always universal; issues that one person may find to be clearly racially motivated may not be perceived as such by another person. One such example is highlighted by respondent two, a Han Chinese person working as part of five-man FIE where the owner was South Korean and the remaining three employees were

[148] We are not suggesting that such discrimination is unique to FIEs or to China; academic literature unfortunately gives us evidence of sexual discrimination in other parts of China (Lee, 2007: 63, 149) and in developed nations such as the UK and USA (Borjas, 2008: 365-405).

Chaoxian minority (朝鲜民族) Chinese.[149] When asked directly as to whether or not there was discrimination within the FIE, he responded:

> "No. [Having no discrimination] was also a prerequisite for me [in] selecting a company [to work for]. If a company does not have respect [amongst the workers] then it is definitely a very rubbish company with very rubbish leaders" (Res-2, Fieldwork 2010)

However, when asked to discuss the main pros and cons of working in the FIE as he saw it, one negative emerged that seems to indicate discrimination on grounds of race:

> "[The negative is that] the promotion opportunities are few [because] there are definite restrictions 'foreigners' [i.e. Chinese people]. Even if [you are] extremely excellent, [you are] still not able to receive the same treatment. It is very difficult to get in to the upper management layer" (Res-2, Fieldwork 2010)

It could be the case that the word used when asking whether or not there was discrimination in his firm (歧视)[150] has extreme connotations to him, and that the described scenario of limiting Chinese workers from the upper echelons of management even if they are highly skilled just did not fit his understanding of discrimination. This reminds us that whilst the strongest theme across the data relating to discrimination was certainly a refusal of its existence, there may be cases where the discrimination is too 'minor' to be interpret as such.

Interestingly, this dynamic specifically related to Han Chinese, Chaoxian minority Chinese and South Koreans was voiced by another participant. Respondent fourteen worked in a South Korean-invested FIE that manufactured headdresses, materials for clothes and small handicrafts. As well as reporting significant pay differences based on race – the South Korean employees being on much higher salaries owing to them being based on South Korean wage structures, and the Chaoxian minority also being on higher pay than the Han Chinese – she also reported a general attitude of mutual antipathy between all ethnicities:

> "South Korean workers look down on the Han Chinese, the Han Chinese look down on the Chaoxian minority, the Chaoxian look down on the Han Chinese because they see themselves as South Korean. Salaries also [are discriminatory], South Korean

[149] From discussions with Chinese and Korean friends during fieldwork, the author learned that the Chaoxian minority have strong cultural links with the Korean peninsula, the minority's language being very similar to Korean, and are mostly located in the regions of China near the land border with North Korea. For wider information on ethnic Koreans in China, see Kim (2003), which shows an increase in ethnic Koreans in Qingdao in the period of 1982 to 1990 (2003: 106).

[150] Selecting the word *qishi* (歧视) to describe discrimination was done so based on several conversations with Chinese colleagues, assistants and friends. It was decided that it was the most accurate representation of what the researcher wished to investigate.

> salaries are higher than the Chaoxian workers' [salaries and] Chaoxian incomes are greater than the Han Chinese [incomes]" (Res-14, Fieldwork 2010)

When discussing incomes we must of course remember that it is likely that the some of the ethnicities will generally be employed in different roles and so can naturally be expected to command different salaries, the Han Chinese presumably being predominantly involved in the manufacturing side of the operation as oppose to the management side. However, respondent fourteen had nine years experience in the FIE, exercised responsibility for export orders and overseas trade, and still felt a pay discrimination based on ethnic grounds. She also noted that the South Korean boss would occasionally use offensive language about the Chinese and clearly discriminate on racial grounds, such as coming in to the office and "Chinese people are dirty, China is awful" (Res-14, Fieldwork 2010).

Respondent fourteen did note that the boss was becoming more and more aware of the cultural differences between the Chinese and the South Koreans, and of the workers' needs; the boss had made a recent effort to enrich the workers' lives by purchasing them books, music and even televisions. Whilst noting improvements, it is still the case that there exists underlying racial tension – seemingly in all directions, not just of foreigners directed towards Chinese – that lead to discrimination on grounds of race within some FIEs.

A final form of racial discrimination noted in the qualitative data is not necessarily hostility between races but rather a proactive defence of the way in which the foreign investors are represented, which seems to leave the Chinese staff feeling that more care is given to the presentation of the foreign nationality rather than how the Chinese are presented. Respondent one, with much experience working in South Korean FIEs in manufacturing, said the following about her previous firm in which she had a senior domestic purchasing role:

> "[The South Koreans'] protective mentality towards their own race is too strong, including in translated materials" (Res-1, Fieldwork 2010).

Although she does not overtly state any feelings of resentment in this statement, the fact that she stated it at all and that she responded as such in the 'discrimination' questions suggests that she clearly feels the bias is unfair, with one race being treated more preferably than another – hence, discrimination by race.

Summarising the evidence, we have noted that although discrimination was a weak theme running throughout the data, there are two areas in which it is sometimes present: discrimination relating to race and discrimination relating to gender. Although all the examples of discrimination discussed above originate in South Korean-invested or Japanese-invested firms, it is extremely important that we do not interpret this as discrimination only occurring in those nationalities of FIE. As has been stated previously, the sample of respondents was unavoidably skewed towards South Korean and Japanese firms, and the sample is not meant to be taken as a representative of all the population of FIEs in Qingdao.

The data merely serves to highlight the range of issues that exist within FIEs, further research can then focus in on these issues and investigate to what extent such problems exist.

5.8 Perceptions of Overall Pros and Cons of FIE Employment

One of the final areas touched upon in the interviews and questionnaires focused on asking respondents to think more holistically about their experiences in FIEs in general, and to summarise the main advantages and disadvantages of employment within an FIE as they saw it. Some of the themes that emerged were highly reflective of the more detailed analysis that has been conducted above. For example, identifying the FIE roles as very high pressure that leave little time for oneself was a near-ubiquitous 'con' stated across the sample, although it was occasionally balanced with reference to the comfortable salary or benefits:

> "The advantage [of working in an FIE] is that the salary is high, the disadvantage is that there is no regular clocking on or clocking off work time" (Res-11, Fieldwork 2010)

> "Advantage is the high salary, disadvantage is that the work time is long and the holidays are few" (Res-1, Fieldwork 2010)

Perhaps echoing the previous theme that was discussed in the 'discrimination based on race' section, which focused on the difficulty of a non-foreign employee to achieve promotion to higher levels of management within an FIE, one respondent noted:

> "…but [the disadvantage] is that to an individual's development it is not a good choice, it is very difficult for an individual to achieve success in an FIE" (Res-7, Fieldwork 2010)

There were several points that were expressed that were positive and unique to FIEs, themes that centred on either learning new languages or business cultures.

> "The advantage is that you can come in to contact with people from a different culture and have the opportunity to study a new language" (Res-14, Fieldwork 2010)

> "[The advantage is that you can] study many advanced management ideas and concepts, and the open-minded thinking" (Res-3, Fieldwork 2010)

In one instance the language used indicated that the respondent clearly had an idea of a hierarchy of management styles in her mind. Respondent five, who we have seen reported a discriminatory experience relating to her pregnancy whilst employed in a secretarial role in a Japanese-invested FIE, stated:

> "Considered [that I] would be able to learn from many foreign, advanced management experiences. I did not realise that this company was completely Chinese style management" (Res-5, Fieldwork 2010)

Given her negative attitudes towards the firm that arose from her experiences detailed in section 5.7, the comment above seems to suggest that she is associating Chinese management style with a company that she sees as being negative in their treatment of the workforce, thus implying she has a hierarchy of preferred management styles within which to operate.

A weak theme arose within the data that suggested some of the participants find the interpersonal relations easier in foreign firms, implying that they felt working in a domestic firm required time and effort to be put towards maintaining interpersonal relations. Respondents ten and twelve, the former from a USA-invested WFOE in the hotels and catering industry and the later working in a Danish-invested WFOE in the logistics industry, both used an identical phrase to describe an advantage of FIE employment as they saw it:

> "The advantage is that interpersonal relationships and interactions are simple" (Res-10, Fieldwork 2010)

> "The advantage is that interpersonal relationships and interactions are simple, [you] do not need to handle many complex interpersonal relationships" (Res-12, Fieldwork 2010)

The responses seem to imply that perhaps interpersonal relations in non-FIEs can sometimes be frustrating, requiring effort and attention to maintain.

Finally, one respondent mentioned that he saw the main advantage of FIE employment, particularly in the Japanese FIE in which he worked, as being employment stability – although this was contrasted to being forced to host many social occasions (Res-15, Fieldwork 2010).

In summary, we can see that the overall negatives surrounding employment in FIEs tend to centre on the roles being high pressure, long hours, and limited opportunities for rest. When asked as to the advantages as the participants perceived it, the strongest ideas arose relating to FIE-unique attributes, for example having the opportunity to study new management techniques or simply cultures and language. Discussions occasionally focused on the nature of interpersonal relations in FIEs being more straight-forward, the implicit assumption being that those in non-FIEs are more complex and frustrating.

5.9 Labour Disputes in Qingdao

During the fieldwork stages, as the themes of high pressure roles and possible cases of discrimination emerged, it was decided that efforts should be made to briefly investigate levels of labour disputes in Qingdao in order to get gauge the general level of dissatisfaction amongst the workforce in Qingdao.

There are limitations to such an analysis. First, collecting data on labour dispute levels[151] at a localised level is difficult to do owing to the sensitive nature of the topic. By and large, labour dispute statistics are not published other than at a very general level (such as in the *China Labour Statistical Yearbook* (中国劳动统计年鉴)). Second, even if data is acquired, it will likely be for all disputes rather than those relating solely to foreign-invested enterprises. Nevertheless, it is worth reviewing the dispute information that it was possible to gather during the fieldwork stages as highly localised data was acquired, data that can be compared and contrasted to our previous detailed analysis of Qingdao's FDI inflows.

In the *Qingdao Labour and Social Security Yearbook 2007* we can isolate dispute levels for the districts and cities that provided information in their relevant sub-sections of the book (QDLSSHNJ, 2007: 57-92). Within this yearbook there is a lack of an established formula of required data submitted by each district and city to the central Labour and Social Security Bureau, meaning that there is not a fully comparable set of figures provided by each location.[152] However, we can extract a significant level of detail from the text, data which is listed in **table J**. The data in the table all relates to levels recorded in 2006, only to cases registered that year, and is for all labour disputes rather than those solely occurring in FIEs.

[151] Note, we are discussing labour disputes here specifically, not to be confused with statistics available on wider social unrest and mass protests such as is reported by, for example, Shirk (2007: 52-64) or Tanner (2004).
[152] See Chapter Four, footnote one hundred and six, for a discussion on this source.

Table J: Labour Dispute Statistics for Qingdao by Location, 2006

	Cases Received	Mediated Pre-hearing	Cases Heard		Cases Resolved			Other Information
				People		By Mediation	By Arbitration	
Shinan District	492	145	347	485	-	138	163	-
Shibei District	279	-	275	279	195	122	74	-
Sifang District	175	-	-	-	-	-	-	-
Licang District	-	-	136	-	136	-	-	Labour Inspection Teams (劳动监察) investigated 364 other cases, of which 361 resolved
Laoshan District	-	-	368	416	368	153	215	-
Huangdao District	-	-	-	-	-	-	-	-
Chengyang District	370	-	370	-	344	182	-	Labour Inspection Teams (劳动监察) investigated 1438 other cases, involving 9,000 workers, all of which resolved
Open Economic Zone	790	-	790	-	790	407	-	Among cases received and resolved, 16 group cases involving 2,100 workers
Tax Free Zone	24	-	24	-	24	-	-	-
Jimo City	241	-	-	-	-	-	-	"Quelled" and "tackled" 20 cases of strikes and foreign capital absconding; **5 cases South Korean FIEs absconding**
Jiaozhou City	280	-	-	-	272	-	-	-
Jiaonan City	438	-	438	-	429	271	-	-
Pingdu City	179	-	-	-	185	-	-	-
Laixi City	476	-	-	-	-	-	-	-

Source: QDLDSHNJ, 2007: 57-92

Before conducting our comparison of labour unrest with FIE presence, first we shall reiterate some of the relevant points from Chapter Four. From our analysis of data in section 4.7 in Chapter Four we noted that 2006 was the peak year of FIE employment across Qingdao, identifying Chengyang district, Huangdao district, Jiaozhou city and Jimo city as the locations experiencing the most growth in FIE employment from 1996 to 2006; Chengyang district accounted for almost one quarter of a million FIE employees out of the 915,023 FIE employees in 2006. Analysis of fixed assets per employee in each location revealed that four locations were relatively more labour-intensive in terms of FIE operations, those being Chengyang district, Jimo city, Jiaozhou city and Laixi City. Comparing FIE employment levels to overall employment levels in each location, acknowledging the data limitations we argued that in Chengyang district FIE employment likely comprised a significant percentage of overall employment levels in 2006. By contrast, in the four central districts (Shinan, Shibei, Sifang and Licang districts) the level of FIE employment was very low in absolute terms.

With the evidence from Chapter Four in mind, let us now assess the data in **table J**. The first thing that we should note is that the highest levels of cases submitted to the Labour Dispute Arbitration Courts (LDACs) (劳动仲裁委员会)[153] were to the 'open economic' zone (开发区) LDAC. Unfortunately, statistical limitations prevented us from analysing the 'open economic' zone in Chapter Four.

The next locations with highest recorded case levels (for new submissions in 2006) are Shinan district, Laixi city and Jiaonan city, in that order. Of these areas, only Laixi arose in our previous analysis and did so as being an area with relatively labour-intensive FIE investment. Chengyang district, the area of highest FIE employment in 2006 and of relatively labour-intensive investment continually from 1996 to 2006, is fifth on the list.

This ordering may not be one-hundred percent accurate owing to missing data from Huangdao district, Laoshan district and Licang district, but working on the basis of the data we have it seems that the areas with large FIE employee presence are not those recording the highest levels of labour disputes.

[153] There are two 'levels' of LDAC in Qingdao; each city and district has its own court, including the Tax Free zone and the 'open economic' zone, and then there is a central, more senior, Qingdao LDAC: 劳动仲裁委员会[市级]. By comparing the statistics with other data in the QDLDSHNJ (2007) that we shall review shortly, we can infer that the cases discussed here do not include those that were passed on to the higher, city level court. According to the *Qingdao Labour and Social Security Yearbook*, fourteen LDACs across both levels were established in 2005 (2007: 45). We can assume that one of these is the central, Qingdao LDAC, the other thirteen being somehow distributed across the five cities, seven districts, Tax Free zone, and the 'open economic' zone.

Recalling the discussion on migrant presence in Shinan districts in Chapter Four, we could hypothesise that the high levels of labour disputes that have arisen there have predominantly arise from the abuse of migrant workers, possibly in industries such as construction, but there is no solid evidence for this. All we can argue from the facts in front of us is that in the year of highest FIE employment presence across all of Qingdao, 2006, the levels of labour disputes reported do not correlate with the FIE employment location patterns. This could mean one of two things: either the FIE employees are under the same pressures and strains as other workers but are less able to access the system of mediation and arbitration; or that there are, on *average*, less pressures and strains facing those in FIE employment than those in non-FIE employment. Neither of these extreme scenarios is likely to be one-hundred percent correct, the true picture likely lying in between the two.

There is certainly evidence to show that the FIEs use – either as the accused or the accuser – mediation and arbitration courts. First, as **table J** highlights, some districts reported having to deal with cases of foreign capital absconding and the labour unrest that followed. Second, there is evidence from the higher, city level LDAC (劳动仲裁委员会[市级]) that foreign firms engage with the system.

Unsuccessful attempts were made to interview an official from the central mediation and arbitration court face-to-face, but the researcher was able to get a list of questions to a willing participant in the court. The respondent said that the central court now deals with around 3,000 cases per year (as of 2010), that the case numbers had been increasing year-on-year recently, that cases are mostly brought by the workers, and that pay and labour contract issues were the primary reasons for case submissions. When asked about foreign firms coming through the central court, the respondent said that out of all FIEs that engage with the system, South Korean, manufacturing FIEs are the most predominant ('Central Arbitration Court Employee' Source, Fieldwork 2010).

Within the *Qingdao Labour and Social Security Yearbook* there is a summary of the overall situation of labour disputes in Qingdao for 2006, with some reference to 2005 levels (QDLDSHNJ, 2007: 45). Combining this with a similar summary for 2009 that the researcher was able to acquire from a contact that used to work in Qingdao Labour and Social Security bureau ('Ex-QDLSS Employee' Source, Fieldwork 2010), we are able to compile **table K**, which shows us two things. First, that the breakdown of case numbers for mediation and arbitration cases registered in 2006 at lower levels that *did not* proceed to the central, city level court roughly tally but are not identical to those we can calculate from **table J**, which reminds us again to take extra caution before relying on these figures as concrete statistics.[154] Second, it shows that

[154] Summing the total number of cases registered at cities and districts as shown in **table J** gives 3,744 cases for 2006, which does not include the cases for Licang, Laoshan or Huangdao districts.

the number of cases registered in eleven months of 2009 were already around two-hundred and forty percent of the levels recorded in 2006.

Table K: Number of Labour Disputes Registered at All Levels and City Level, Select Years

	Qingdao, Both Levels, 2005		Qingdao, Both Levels, 2006		Qingdao, Both Levels, 2009 (Jan-Nov)	
		# City Level		# City Level		# City Level
Total Cases	6,674	1,726	5,181	1,454	12,392	2,798
of which Group Cases	176	20	144	4	-	-
Workers involved	16,165	-	11,841	3,587	-	-
of which in Group Cases	9,386	-	6,636	2,137	-	-
Total Resolved	-	-	4,957	1,212	12,186	2,808
by Mediation	-	-	2,245	424	6,518	1,595
by Arbitration	-	-	2,245	619	5,092	1,072
Rejected after initial hearing	-	-	466	168	-	-

Source: QDLDSHNJ, 2007: 57-92; 'Ex-QLSS Employee' Source, Fieldwork 2010

Regarding the doubling of registered cases, we can reasonably assume that the increase is related to the passing of the Labour Contract Law (劳动合同法) in January 2008. Evidence from a variety of sources confirmed that there were considerable efforts to inform workers of their rights under the new law:

> "[The number of cases has increased because] the Labour Contract Law has been hugely publicised, resulting in people having a much greater understanding [of their rights]" ('Central Arbitration Court Employee' Source, Fieldwork 2010)

In an interview with a senior associate of a large, international law firm, the interviewee said that the Labour Contract Law had clearly contributed to the increased numbers of disputes recorded post-2007. He reported that he had seen strong efforts to publicise the law, for example via the television and the internet, and also noted that knowledge spreads easily, meaning if one employee of 1,000 sues, the rest will no doubt find out about the case and its reasoning (Int-5, Fieldwork 2010).

A senior partner from a large, Qingdao-based law firm put forward the argument that the internet explosion in Qingdao had contributed to the awareness of the Labour Contract Law amongst workers, making them aware of their strengthened rights, thus increasing conflict numbers (Int-6, Fieldwork 2010). Related, the 'open economic' zone reports that it conducted a month-long campaign in 2006 to raise

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Subtracting the number of 'Qingdao city' level cases from total cases shown in **table K** gives 3,727 cases (5,181 – 1,454) for 2006 at the city and district level, non-central level, courts.

awareness of labour regulations and protection laws, using the television, print media and the internet to get the message across (QDLDSHNJ, 2007: 77). We can assume this willingness to promote awareness extended to the new Labour Contract Law, which they most likely publicised through 2007.

In our previous analysis in Chapter Four, we hypothesised that in 2007, awareness of the imminent passing of the Labour Contract Law may have contributed towards the sudden shedding of labour in the FIEs, FIE employment dropping sharply in 2007 over 2006, and continuing to decline in 2008 and 2009 (see section 4.5). The evidence certainly seems to suggest that efforts were made to greatly raise the profile of the Labour Contract Law as it was passed, and we can logically assume that business circles – which had been asked to provide feedback on earlier drafts – were aware of the law and its implications beforehand. We also argued in Chapter Four that the Labour Contract Law – alongside the Global Financial Crisis – could be a contributory factor to the fall in fresh FDI flowing in to Qingdao in 2008 compared to 2007, and its continued decline in 2009. Although we cannot say what percentage of the labour dispute cases reported in either of the tables relate to FIEs, the evidence suggests that the significant increase in labour dispute cases registered is largely due to the new Labour Contract Law; this implies, therefore, that the law could reasonably be argued to be a discouraging factor to new investment that are more labour-intensive in nature, relying on cheap, flexible labour for their competitive edge.

High levels of labour disputes would cause all investors to look more closely at the workforce available in Qingdao, searching for the reasons behind the disputes before investing so that they may know if they will face a problem with labour activism or if the reported disputes are common to enterprises with specific characteristics.

Qingdao officials discuss the issue of labour disputes specifically related to FIEs in one section of the *Qingdao Labour and Social Security Yearbook* (QDLDSHNJ, 2007: 53). In dealing with strikes, disputes, bosses escaping/fleeing, they urge all relevant departments in Qingdao to pull together to resolve situations as quick as possible, their language indicating the seriousness with which they see the problem. Two cases are cited of bosses from two companies illegally absconding – from Qingdao Gold Star Sports Equipment (青岛金星体育用品) and the East Prosperous Clothing Company (东昌服装公司) – to which the official response seems to be for workers to be reallocated to other factories:

> "…towards [this problem of] not being able to help find a place [and settle down] the rural workers, [we should] positively co-ordinate the labour demand in related enterprises to find appropriate placements [for the workers]" (QDLDSHNJ, 2007: 53)

The section goes on to recommend daily inspections of certain FIEs in order to remain on top of the problem and to avoid any surprises.

Authorities in Chengyang district are clearly worried about labour unrest and disputes arising from enterprises disappearing overnight and leaving unpaid wages and debts in their wake; as cited in Chapter Four, 2006 saw the district authorities conducting a survey on the foreign investors renting in their district in order to ascertain their exact financial situation (QDLDSHNJ, 2007: 71-2).

From a national, non-FIE specific perspective, Qiu Jianguo of the Education and Training Centre within the Ministry of Human Resources and Social Security writes in the ministry's January 2010 issue of their monthly magazine China Labour Protection (中国劳动保障) that every day, dispute levels are rising nationally (Qiu, 2010: 43-44). He isolates five key factors that he believes give rise to labour disputes, including the interests of labour and capital not being aligned, enterprises having limited knowledge of the law, and enterprises not obeying the law when writing contracts (referring to the post-2008, Labour Contract Law environment). He refers to the extreme difficulties faced by some SMEs in China owing to the Global Financial Crisis, saying that some enterprises attempt to pass on the losses to the workforce, leading to labour disputes (*ibid.*).

In terms of resolving labour disputes that do arise in Qingdao, similar to what Ching Kwan Lee highlights in her work concerning labour disputes (Lee, 2007: 177), instead of relying solely on arbitrated decisions when disputes are registered with the appropriate authorities, strong efforts are made to make parties come to a mediated, 'voluntary' solution (QDLDSHNJ, 2007: 47; 'Ex-QDLSS Employee' Source, Fieldwork 2010). In a similar vein to the idea of two sides negotiating a solution, one method to considerably alter the lives of workers across Qingdao – including within FIEs – and that could hopefully militate against disputes would be to expand the idea voluntary, negotiated solutions to the competing interests of capital and labour via the promotion of collective bargaining.

Collective bargaining is a sensitive topic in China because the idea of empowering workers to stand their ground collectively against the pressures from the enterprise management could potentially have unwanted side-effects. The term 'collective bargaining' (集体谈判) is itself sometimes controversial, with officials preferring 'collective consultation' (集体协商), implying less confrontation (Pringle, 2011: 118).

Whatever the terminology, Tim Pringle's latest research on the All China Federation of Trade Unions (ACFTU) reports some fascinating cases, including where the ACFTU branch in Xinhe town used a collective bargaining approach between business and the workforce to pacify the "sophisticated labour militancy" of the skilled labourers (2011: 114-132). Pringle's research shows that, at least in some locales, when the

Party can be convinced of the benefit of backing union's efforts to more actively represent the workers' interests in order to resolve worker unrest, it will do so.

In Southern China, the historical focal point of foreign investment from the beginning of reform and opening period, there are also attitudes expressed in favour of collective bargaining. A leading official in Guangzhou, Chen Weiguang, who is both chairman of the Guangzhou Federation of Trade Unions and vice-chairman of Guangzhou City People's Congress, discusses collective bargaining in the wake of the high profile Honda strikes of 2010,[155] saying that he is "strongly in favour" of collective bargaining[156] at an industry-wide level, wanting it specifically for the automobile sector in Guangzhou when conditions are "ripe" at the city level (Lüthje, 2011).[157]

At a more central level, Chang-Hee Lee – the ILO's Senior Specialist on IR and Social Dialogue based in Beijing – reports that the central authorities are showing much interest in collective bargaining as a possible way to increase social stability (Int-1, Conducted 2011). Added to this, he reports, is the fact that they are aware that collective bargaining will help boost wages, which will then facilitate growth in domestic consumption – an economic aim of the Central authorities (*ibid.*).

William Brown, who has written extensively about many facets of industrial relations and who has been invited by various elements of the central government authorities in Beijing several times to share his knowledge, confirms this desire to engage with the idea of collective bargaining, believing there to be a growing tolerance of collectivism and local worker organisations (Int-8, Conducted 2011). He reports that the 'spontaneous' riots and demonstrations in recent years, co-ordinated through social-media, texting and so on, that are apparently leaderless (most likely for fear of repercussions arising from being the main representative) are a headache for the authorities for several reasons; one key problem is that if there is not a main worker representative, who should the management negotiate with?, and a second problem is how should the authorities encourage worker representation and 'empower' the workforce without causing potential threats and challenges to the state (*ibid.*).

[155] See the Lüthje (2011) article and Pringle (2011: 113) for more details on the 2010 spring/summer of labour activism at Honda and elsewhere.

[156] Although we are unable to access the original Chinese for the interview conducted by Boy Lüthje with Chen Weiguang and are relying on his translations as to whether Chen said 'collective bargaining' or 'collective consultation', it is highly likely that given the interviewer's expertise – Senior Fellow at Frankfurt Institute of Social Research, specialising in economic transformation and labour in China – that he has translated the 'collective bargaining' from 集体谈判.

[157] A legal update by Baker and Mckenzie in April 2011 reports on Carrefour Shanghai establishing an Employee Representative Council (ERC) and engaging in "collective bargaining", resulting in it signing the first collective contract in the history of the company (2011a: 2).

To summarise, this brief sub-section has shown that labour dispute levels reported by location breakdown for 2006, the year of highest FIE employment across Qingdao so far, do not seem to correlate with FIE employment patterns. As argued, this could be due to difficulties facing FIE employees in accessing the labour dispute system,[158] or could be a result of FIE employees, on average, not facing conditions that give rise to labour disputes as much as those employed in non-FIEs.

One could extend the 'difficulty of access' argument to hypothesis that at a village and township level, local authorities make efforts to protect FIEs from labour disputes in order that the investment environment does not earn a bad reputation that then discourages further investment – a hypothesis that would need further research to test. From our evidence, we do know that cases concerning FIEs do proceed through the LDAC system, with South Korean, manufacturing FIEs comprising the largest number of FIE cases. We have also seen clear evidence as to the impact of the Labour Contract Law on dispute levels registered across Qingdao, with reports of strong efforts being made by the authorities to promote this law and raise awareness about the rights that workers have.

5.10 Chapter Five Summary

Within this chapter we have used the views of Chinese FIE employees – ex- or current – to provide a qualitative insight as to the range of attitudes and opinions that exist in Qingdao towards working in FIEs.

After reviewing some general attitudes expressed towards FIEs in the media both nationally and in Qingdao, we moved on to focus on the interview and questionnaire data. Acknowledging that the participants of the research were not factory-floor workers in labour-intensive FIEs and that, therefore, there may be a different set of attitudes and themes emerging in their answers compared to the ideas raised in research by scholars such as Anita Chan (2001) and Ching Kwan Lee (2007), we reported an overarching set of seven themes, each which comprised a rich variety of attitudes within it. The seven overall themes isolated were: the appeal of FIEs; the motivations for continued employment in an FIE; training and development opportunities within an FIE; the working environment; worker-management relations; perceived culture differences; and discrimination (both racial and sexual).

When looking at the range of answers that arose relating to why employees chose to work in their respective FIEs and what motivated them to continue their employment relationship, although there were some themes that emerged that

[158] We can imply that there were difficulties facing access to the LDAC system from the fact that the Chinese authorities passed a new law, the Labour Mediation and Arbitration Law, effective on 1st May 2008, which greatly increased access to the system (Pringle, 2011: 49). However, it is hard to justify why FIE employees would have faced more barriers to access than non-FIE workers.

were FIE-specific factors, such as being able to study a foreign management technique, the answers tended to focus on factors that are not exclusively FIE factors: salary, promotion, job security and job satisfaction.

Discussing training, we saw that some of the participants had the opportunity to partake in structured training programmes, but that this was not a strong theme, answers tending instead to report no training.

The working environment discussions mostly centred on ideas of high pressured work environments.

With worker-management relations, we saw a broad range of experiences from those who reported friendly, co-operative environments through to those who reported clear hostility.

Exploring culture differences we saw how attitudes to work were clearly seen to be different, as were attitudes towards one's personal matters at work, implying the lack of any personal bridge between the foreign and domestic workers within certain FIEs.

Finally, we reported how there are sometimes cases of sexual and racial discrimination that are of concern: one respondent detailed her case of being fired after becoming pregnant, and examining media and governmental sources confirmed that this unfortunately exists beyond her personal example.

Asking the participants to summarise their attitudes in terms of advantages and disadvantages of being employed by an FIE as they saw it, we saw how their negative centred on the roles being high pressure, long hours, and limited opportunities for rest. This compared to the advantages of having the opportunity to study new management techniques or simply cultures and language, which we can say are FIE-specific attributes. A theme also emerged across the interviews and questionnaires relating to the simplistic (favourable) nature of interpersonal relations within FIEs, the implicit assumption being that those in non-FIEs are more complex and frustrating.

Finally, the chapter briefly addressed labour disputes levels in Qingdao. Acknowledging the difficulty in obtaining information on labour disputes at a city level, we nevertheless were able to paint a detailed picture of dispute locations in 2006, in terms of newly registered cases that year. Comparing this to the FIE employment layout, 2006 being the highest level of FIE employment to date, we saw no obvious pattern of correlation. From this we argued that either FIE cases do not form a majority of the LDAC cases even though FIE employment is a sizeable proportion of total employment in certain locations, or that there are differences in

ability of workers in FIEs to access the LDACs – although it seems curious that FIE employees would face more obstacles to access than other workers.

This chapter has provided us with a qualitative, detailed, micro-level analysis of the range of attitudes that exist amongst more white-collar workers towards FIEs, complementing our more macro-level investigation of the FDI statistics. The chapter does not suggest that issues such as discrimination or high-pressure working environments are unique to the FIE populous in Qingdao, but stresses that they are found in such enterprises.

Chapter Six with now look at the key points from Chapters Four and Five together, concluding the dissertation.

Chapter Six: Conclusions

The overall aim of this dissertation was to *explore and detail the experiences of Chinese FIE employees in Qingdao during the 1996 to 2009 period*. The literature reviewed in Chapter Two assisted us in breaking down this overall research topic and framing three, focused research questions that could be more directly answered via fieldwork. Within Chapters Four and Five we reported the results and analysis of the quantitative and qualitative research (respectively) conducted in order to answer these research questions. We shall now conclude this thesis by revisiting the research questions detailed in Chapter Two, showing how the conclusions drawn in Chapters Four and Five answer each of these individual questions, before drawing to a close by discussing the overall contributions of this dissertation and suggested areas for further research.

> *Research Question One*
>
> *At the most localised level possible to analyse, what have been the trends and patterns in Qingdao's utilised FDI across the 1996 to 2009 period in terms of: the sectors of investment; the nations investing; the investment vehicles preferred; the capital-intensity of investments; and FIE employment levels?*

Research question one is largely addressed in Chapter Four. Succinctly put, we saw how a significant percentage of utilised FDI that entered Qingdao in the 1996 to 2009 period was of South Korean origin, was directed in to creating WFOEs within the relatively more labour-intensive manufacturing sub-sectors, and overall has accounted for a significant percentage of the total FIE workforce across Qingdao in that period.

Analysing employment data we saw how manufacturing clearly dominates in terms of FIE employment, accounting for nearly ninety percent of total FIE employment across Qingdao in 2006. Statistical limitations prevented a direct analysis of sector investments by each nationality of investor, but side-by-side comparisons of the strong trends in South Korean and manufacturing FDI inflows allowed us to reasonably conclude that a large percentage of the South Korean FDI is directed in to manufacturing.

As far as was possible a sub-sector analysis of the manufacturing FIE employment figures was conducted and revealed that in the 1996 to 2005 period the fastest growing sectors in terms of job creation were the relatively more labour-intensive sub-sectors, sub-sectors which were also responsible for the largest share of FIE employment in absolute terms.

The concentration of FIE employment in labour-intensive manufacturing was shown to be unstable, with manufacturing FIE employment falling drastically by over one quarter of a million jobs – over thirty percent – in the three years from 2006 to 2009; sub-sector analysis could only account for around three-fifths of the job losses, and based on the one-off listing of most sub-sectors in the QDTJNJ 2005, we reasoned that some of the 'hidden' sectors could relate to the manufacture of 'stationary, education and sports goods', as well as of 'handicrafts'.

The sub-sector analysis showed that whilst *relatively* speaking a majority of the manufacturing sub-sectors experienced losses across the 2006 to 2009 period, in *absolute* terms we saw the 'leather, fur, feathers and related' sector shed over 45,000 jobs by 2009 from its peak of almost 106,000 jobs in 2005, and the 'textile wearing apparel, footwear and caps' shedding over 34,000 jobs across the same period. The drastic reduction in size of FIE employment in the 2006 to 2009 period was largely attributed to the global financial crisis, although it was acknowledged that other factors (such as the LCL) could have influenced employment levels within FIEs.

Turning to the data for specific districts and cities within Qingdao, we were able to calculate an index of capital-intensity – an average of total FIE fixed assets divided by total FIE employment per location. Four locations were shown to be the main concentrations of Qingdao's FIE employment, those being Huangdao district, Chengyang district, Jiaozhou city and Jimo city; the three later locations were shown to comprise relatively more labour-intensive FIE employment.

By comparing our of analysis of inward FDI by nations to FDI inflow patterns to each location we were able to conclude that South Korean investors expressed a strong preference for some of the above locations, Chengyang district being most favoured. This fact, accompanied by our analysis of the capital-intensity of FIE presence in each location gave us further evidence that South Korean FDI – which was shown to be the most significant contributor to Qingdao's FDI over the period in question – was focused on relatively more labour-intensive industries.

The analysis of capital-intensity by location showed that Huangdao district and Laoshan district offered comparatively more capital-intensive employment opportunities, but their combined total of FIE employment only accounted for around eleven to fifteen percent of total FIE employment annually from 1996 to 2009.

We attempted to use the location breakdown data to analyse FIE employment levels versus total employment levels recorded in each location. Data limitations prevented a thorough analysis being conducted but we were able to argue that in Chengyang district, one of the preferred locations for South Korean labour-intensive

investments, there was a particularly high percentage of total employment deriving from FIE employment for the ten year period up until 2006.

In the post-2006 period, when FIE employment was seen to have shrunk considerably, concurrently to the recorded fall in FIE employment levels across all of Qingdao there were growing (or steady) levels of total employment recorded across Qingdao, implying that in terms of job provision FIEs became less and less significant in the 2006 to 2009 period.

We argued that it was likely that some of those FIE employees that had lost their jobs would have found employment in the growing domestic enterprise employment market, although we acknowledged that statistical limitations prevent us from firm conclusions here. We also noted that despite our analysis on levels of capital-intensity of FIE operation across the various locations, we are unable to draw solid conclusions as to *quality* of FIE employment opportunities versus domestic employment opportunities.

One final area that we addressed in terms of FIE employment was that of employment stability. We detailed in section 4.7 how there were reports from both government and media sources of increasing numbers of labour-intensive FIEs illegally withdrawing in the night, leaving behind employees, local authorities and banks with debts owed. The scale of the problem is hard to truly ascertain as there is no reliable account of the number of enterprises involved, but it is reasonable to argue that from the government's reported pronouncements and reactions the situation is considered to be fairly serious. From an employee's perspective it is an extremely negative scenario to face. It was suggested that the argument often made concerning FDI being a more secure form of 'bricks and mortar' investment that cannot flee as easy as so-called 'hot money' portfolio investments is not entirely accurate; small scale FIEs have been shown to be equally 'flexible' in terms of how easy it is for them to rapidly exit the market, albeit without obeying the law.

Research Question Two

What range of experiences do current (or recent ex-) FIE employees report in Qingdao, including (but not limited to): their attitudes towards FIEs; their opportunities for training and development; their perceptions of worker-management relations; and their experiences (if any) of discrimination?

The bulk of the qualitative evidence was reported in Chapter Five, and provides answers to research question two. We began by acknowledging that the participants in our research were not shop-floor workers in labour-intensive FIEs and so, therefore, we were aware of the possibility that the range of experiences reported may be quite different to that reported by scholars that focus more on migrant

workers, such as the literature by Chan (2001) and Lee (2007) reported in Chapter Two.

Analysing the information from the interviews and questionnaires we reported an overarching set of seven themes, each of which had a rich range of variety of attitudes within it. The seven broad themes were: the appeal of FIEs; motivations for continued employment within an FIE; training and development opportunities; perceptions of the working environment; perceptions of worker-management relations; perceived culture differences; and discrimination.

Addressing the first two categories, the reasons for employees seeking to work in their respective FIEs and their motivations for continued employment, answers tended to focus on factors that were not *necessarily* FIE-specific. There was a weak theme expressed towards those wanting to study a foreign management technique, but the stronger expressions related to factors such as: salary; promotion; job security; and job satisfaction.

When asked to discuss their opportunities to develop themselves through FIE training programmes we saw that whilst there were reports of structured training programmes, the stronger theme centred on limited or no training at all. Of those who did report active training, some had received vocational training (accountancy training) and some more general training (management training). Whilst one could argue that training from an FIE on these subjects could encapsulate a unique angle that domestic firms would not be able to offer the employee, we have no concrete evidence either way on the matter. When training programmes were mentioned, they did not correspond more strongly to a particular sub-set of the respondents in terms of job seniority.

Alongside discussions of active, structured training programmes, we reported that it was common for respondents to draw attention to the fact that they could learn from and experience a foreign business culture just by being in the FIE.

In answer to the questions relating to employees' perceptions of their working environments, most discussions and answers centred on ideas of high pressured environments, with long hours and few holidays. We acknowledged that with our set of respondents we were not necessarily going to see expressions of the same themes that have been reported within the literature to date for FIE employees in China. We argued that whilst the literature we reviewed painted a clear picture of the extreme stresses faced by some migrant workers employed in shop-floor roles in labour-intensive FIE operations, we should also acknowledge that other elements of the FIE workforce (those in more white-collar roles) can also face environments that are stressful – albeit to differing degrees – in terms of long hours and limited

opportunities for rest, reminding ourselves that we should not overlook the conditions faced those in less physical FIE roles.

When discussing their experiences of worker-management relations, we saw a broad range of attitudes and experiences expressed. We were able to categorise the responses in to four main sub-themes: those whose worker-management relations could be said to be healthy; those that were more formal / cold relations; those that were domineering in nature (although not necessarily hostile); and finally those that were clearly antagonistic and hostile in nature. These individual themes were not expressed more strongly by any particular sub-set of respondents, such as by certain nationality of investor or by size of enterprise.

From those respondents that indicated they were in a mid-position between the foreign investors and the domestic staff, we saw expressions of anxiety and tension relating to the fact of not wanting to be identified by one side as being too close with the 'other' side, showing that in some cases just the simple act of trying to balance workplace relationships between the foreign and domestic side can be stressful for those in the middle.

Perceptions of cultural differences were explored, prompting respondents along lines of reporting any perceived difference amongst foreign and domestic staff not just in their approach to work but also attitudes towards each other. We saw a strong theme expressed relating to differing attitudes to work and work property – coming from those in a range of managerial positions. We saw how some of the responses could be in part reflective of differing positions of authority in terms of managers and workers having different levels of commitment to their work, but we also saw attitudes expressed that were more likely reflective of cultural attitudes, such as treatment of work property as public property by some Chinese employees and attitudes towards discussing personnel issues at work, implying a lack of personal bridge between the foreign and domestic staff within some FIEs. Obviously these responses were personal reflections on perceived cultural differences, but the fact that common attitudes arose was noted with interest.

The final area addressed was experiences of discrimination within the FIE workplace, which arose in the form of racial and sexual discrimination. Here, as elsewhere, we stressed that we are not suggesting any reported experiences were necessarily unique to FIEs, or unique to China, rather that we are acknowledging their existence in such enterprises.

We noted that the topic was difficult to address owing to differing understandings of what constitutes discrimination, reporting the example of one respondent who insisted his workplace was discrimination-free, only then to describe at a later stage limitations on career progression arising from racial identity.

We reported one case of sexual discrimination – an employee being fired for becoming pregnant – and saw how the topic also found expression in the media, indicating that other FIE employees beyond our sample have shared the same experience. Thankfully, the theme of discrimination found only weak expression across the sample of respondents.

Interviews and questionnaires were concluded by asking respondents to summarise their experiences of FIE employment in terms of the main advantages and disadvantages as they perceived it. The negative factors mentioned were often elements that can be considered as non-FIE-specific, such as roles being high pressure with long hours and limited opportunities for rest. This compared to advantages such as being able to study foreign management techniques or languages, which we can argue are FIE-specific attributes.

One final advantage mentioned in more than one case was the preference for the simplistic nature of interpersonal relations with FIEs, the implicit assumption being that interpersonal relations with non-FIEs are more complex and, perhaps, frustrating.

Research question two enquired as to the range of experiences facing FIE employees in Qingdao today. Given the small scale of the sample interviewed and questioned for our research, and the nature of the sampling method, we must of course stress that such a sample has limited external validity, i.e. it has limited 'generaliseability' across the wider FIE employee population within Qingdao. However, one of the key advantages of qualitative research is to highlight the broad range of themes that exist within a certain population rather than to necessarily quantify the strength of presence amongst said population. To this end, our qualitative sample has given us a detailed insight as to a broad range of experiences faced by white-collar FIE employees in Qingdao, which can then be used to inform further research.

Research Question Three

Based on the evidence and conclusions from research questions one and two, what can we reasonably argue about the experiences of FIE employees in Qingdao in the 1996 to 2009 period?

We have seen that there is a clear bias in the FIE presence in Qingdao in the 1996 to 2009 period: a significant percentage of the utilised FDI in Qingdao across this period was South Korean capital directed in to the creation of relatively more labour-intensive manufacturing WFOEs, accounting for a large percentage of the FIE workforce in the 1996 to 2009 period.

We can argue that being employed is obviously a better option than being unemployed and we have seen that up until 2006, FIEs did provide a significant

number of employment opportunities across Qingdao. From literature on the wider effects of globalisation and from more specific, China-focused literature reviewed in Chapter Two we see how employment can not only provide a salary, but also offers empowerment to certain segments of society, enabling increased levels of economic freedom.

However, counter to this, we saw how anecdotal, China-specific literature painted a desperate picture of the situations faced by migrant workers employed within FIEs throughout the 1990s and the early-2000s, particularly those in Asian-invested, labour-intensive FIEs – precisely the type of FIE that has dominated Qingdao's FIE presence during the period studied in our research. Based on these facts it is likely that the themes expressed in the work of Anita Chan and Ching Kwan Lee (amongst others) would find significant resonance in Qingdao across the same period.

However, it would of course be foolish to suggest that the experiences of all the FIE employees in Qingdao's FIEs across the 1996 to 2009 period were similar to that depicted in the labour studies literature.

Firstly, despite the dominance of the South Korean, relatively labour-intensive FIEs, we have seen that there were other FIE employment opportunities provided, particularly in the period from the mid-2000s onwards.

Secondly, the cases reported in the reviewed literature are likely to be the more extreme cases; it is reasonable to assume that amongst the population of South Korean manufacturing FIEs in Qingdao there are a range of working environments, and we must refrain from making sweeping judgements about the nature of all South Korean manufacturing FIEs based on the reports of the experiences of employees in a selection of enterprises.

Third, the reviewed literature focuses mainly on migrant workers, and it was shown that certain characteristics of migrant workers – such as their lack of local *hukou* registration – made them more prone to exploitation that non-migrant workers during the 1990s to early-2000s. Our analysis of migrant worker presence in Qingdao indicated that for 2000, there seemed to be no apparent correlation between concentrations of migrant presence and of FIE employment, suggesting that non-migrants make up more significant numbers of the FIE workforce in Qingdao, although we acknowledged that this was a narrow snap-shot and more data would be required to draw solid conclusions.

Fourth, if there were extreme levels of workplace tensions, we would expect at least some correlation between dispute levels registered in each locale and the level of FIE presence. The detailed breakdown of dispute levels by location that we were able to reveal for 2006 – the year of peak FIE employment in our analysis period – appeared

to show no correlation with measures of FIE employment concentration and numbers of new cases registered with the local authorities. We argued that this could be indicative of FIE employees facing certain extra barriers to submitting a labour dispute claim than other workers, but that it is more likely FIE disputes simply do not form a majority of the labour dispute cases. Therefore, we can argue that whilst a majority of the FIE employment in the 1996 to 2009 period was in relatively more labour-intensive, South Korean manufacturing FIEs, the experiences of the workers *on average* within those enterprises may not have been as extreme as is depicted in other research. A lack of negative experiences does not, however, imply that employees' FIE experiences were positive *on average* in this period.

Addressing the experiences of employees in terms of opportunities for development within FIEs, we can tentatively conclude that as a majority of FIE employment opportunities were in labour-intensive manufacturing operations, the opportunities to learn new skills and improve levels of human capital for a majority of FIE employees was most likely limited in the 1996 to 2009 period. We can seen through our qualitative research that there are those who do benefit from development opportunities, but we can reasonably conclude that they are in the minority given the sectors that dominate in the FIE workforce.

Alongside the limited contributions to improvement of human capital amongst the FIE employees in Qingdao – acknowledging the caveat that some employment opportunities offer greater potential for development than others – the rapid and drastic reduction in the size of the FIE workforce in the 2006 to 2009 period highlights the instability within FIE employment in Qingdao up until 2006. Significant job losses would have of course generated negative experiences for the (ex-)FIE employees in Qingdao, more so if the job loss was as a result of the phenomenon reported in section 4.7 of FIEs illegally withdrawing overnight. From an employee's perspective, this suggests that as well as limited development opportunities amongst the labour-intensive manufacturing operations that dominated in the 1996 to 2006 era, the 'flexibility' of some investments was such that employment there carried higher-than-average risks of job loss and / or wages unpaid.

In the post-2006 era, we see a shift in FIE employment levels and composition: FIEs have become comparatively less significant in terms of total employment opportunities; and labour-intensive operations have scaled down employment dramatically and / or have left Qingdao. This shift in composition, meaning that one specific type of investment no longer dominates, means that it is more difficult to use the quantitative data to draw conclusions about the experiences of FIE employees in Qingdao at the macro-level. Using the results from the analysis of our qualitative data, we can conclude that amongst white-collar FIE employees in Qingdao, there are a broad range of issues facing employees, both positive and

negative in nature, some of which are FIE-specific factors rather than general consequences of employment.

Concluding Remarks and Future Research

This dissertation has provided the first detailed examination of the FDI flowing in to Qingdao, and has contributed fresh evidence to the debate on the impact of FDI on employees in a developing nation host economy: we have used a dual methods approach to elucidate the experiences of Chinese employees within foreign-invested enterprises in the city of Qingdao.

By using city-level statistical data we have been able to paint a more detailed picture of the nature of FIEs present in Qingdao over the 1996 to 2009 period, and from this draw conclusions as to the likely experiences of FIE employees in that period.

In addition, the collection of qualitative data ensured that we have a more contemporary flavour of the employment environment, the opportunities and problems facing FIE employees in Qingdao in recent years.

As stressed in the first two chapters of this dissertation, given the variety of economic development and local policies across China, generalising our results beyond Qingdao is risky. However, in terms of wider implications for China – and for similar cities in other developing nations that are attracting FDI – we have provided key evidence to highlight the potential impact on employment levels during difficult economic times if large sections of a city's FIEs are small-scale FIEs concentrated in labour-intensive sectors that have high levels of 'flexibility' in terms of how easily they can withdraw from the local market. This is an issue that policy makers in developing nations must be aware of and, if possible, they should design policy that requires those particular FIEs to be more tied in to the local economy and / or encourages diversification of investments.

The conclusions drawn in this dissertation do have their limitations. For example, we have taken advantage of the dominance of one particular type of foreign investment to draw conclusions about the general experiences of workers in the 1996 to 2009 period, which will of course mask some of the variety in experiences. Being able to conduct large numbers of fieldwork interviews – repeated across a certain time frame – would have enhanced this study.

Furthermore, the qualitative results are exploratory in nature and cannot be used to gauge the strength of prevalence of the themes expressed amongst the wider population of FIE employees – this will require follow-up research.

Building upon this dissertation, more academic attention should be directed towards FIE employment relations within Qingdao, especially given the importance of the city

– as a target investment location and in terms of contributions to Shandong province's economic strength – and given the evolving nature of the inward FDI. In particular, as the nature of the FIE presence in Qingdao evolves, it would be extremely useful to follow the changes – if any – in the FIE experiences of employees, thus giving us much greater understanding of how different types of FDI affects different brackets of employees in a host nation, i.e. adding to the body of evidence concerning the experiences of migrant workers with evidence relating to white-collar employees. This would allow developing nations to make better informed choices relating to foreign-direct investment, attempting to redress the balance so that both capital and labour benefit rather than capital at the expense of labour.

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APPENDIX: Questionnaire Used for FIE Employees

The following questionnaire was distributed to those FIE employee participants that did not wish to meet face-to-face for interviews. The topic guide use for the semi-structured interviews with those employees that were willing to be interviewed was similar in nature to the below questionnaire; for consistency, those interviewed were also asked to complete the questionnaire. Tailored follow-up questionnaires were used in some cases, where interesting answers were given but more detail was required. The Chinese translation was done by the author with assistance from Chinese friends and business-focused language teachers.

采访问题

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***您提供给我的所有信息将匿名发表在我的论文中。**

***我会保证您的身份不被外人所知。**

***我会严格管理您提供的信息。**

***以下所有的问题请自愿回答，如果有不想回答的问题可不予回答。**

***本调查问卷有 23 个问题**

1) 贵公司是什么性质的公司？ 外资企业、合资企业、合作企业、办事处、发展研究中心或其他的（请填写）

2)贵公司的外资方是哪国？ 日本、韩国、台湾、香港、英国、美国或其他国家（请填写）

3)贵公司从事何种产业？ 商业、餐饮业、物流、发展研究中心、服务中心、制造业（如果是制造业，请问制造什么）

4)贵公司大约在青岛成立了多长时间？

5) 贵公司大约有多少员工？（不到 100、100—500、500—1000、超过 1000）

6)您在这个外企工作了多长时间？

6-1) 您一周工作几天？ 【1 / 2 / 3 / 4 / 5 / 6 / 7】

6-2) 您一周平均工作几个小时？【1-10 / 11-20 / 21-30 / 31-35 / 36-40 / 41-45 / 46-50 / 51+】

6-3) 按照公司规定，每年的假期有几天？您年均休假几天？

7)请简单描述您在外企公司负责什么工作？

8)进入公司以前，该公司最吸引你的地方是什么？

9) 如果您在外企公司超过一年，请问是什么原因使您留在这里？

工资、培训、晋升、合同义务或其他（若为其他原因，请简单写明）

10)您在外企公司里接受过任何与工作有关的能力培训吗？

例如：技术方面或与晋升有关的管理培训？

11)对比同行业的外企或国企，您怎样看待这个外企为您提供的工资和福利待遇（公积金、保险、奖金等）？

【很差、比较差、一般、比较好、很好】

（请简单写明是哪个方面）

12)您怎样看待所在的外企里的员工和管理阶层的关系？您的亲身经历是什么？

13) 您是否感觉到中国员工和外国员工之间的文化差异？

这种文化差异是怎样表现出来的？例如：对待彼此的态度、工作态度、对公司政策的态度

14)您所在的外企公司是否存在歧视情况？（如果存在，请简单写明）

例如：对待本地员工、其他的外地员工、对待女员工等有什么特别？

15)对比曾经工作过的公司，您认为这个外企的工作环境如何？

例如：工作压力、工作时间、假期等等

16)您认为在外企公司工作的优点和缺点是什么？

如果您在外企公司经历特别的事件（例如纠纷等），请从第 17 个问题继续回答，如果没有请从第 23 问题继续回答。

17)请简单描述一下您在外企公司经历的特别事件？（例如纠纷）

例如：什么时间发生的问题、您最初是怎样发现这一问题的、您最初的反应是什么等等

18)有第三方介入您与公司之间吗？（例如：工会、职工代表委员会、调解或仲裁委员会、律师事务所等等）。如果有第三方介入，是怎样做的？

19)您是否寻求过第三方的援助？寻求第三方的援助是否方便可行？公司的反应如何？

20)这一事件的影响是什么？（如对您和您的家人以及您未来的事业发展上，有什么影响？）

21)您是怎样解决纠纷的？您想要的结果和可能的结果是什么？

22)您知道类似的事件，其他人发生过吗？（例如：您的家人、同事、朋友等等）

23)如果您还有其他方面的陈述，请写在这里

谢谢您的配合！

如果您有其他的问题或反馈信息，我的联系方式是：0086 158 9887 261

或者电子邮箱：chrisbond99@hotmail.com

APPENDIX: Complete Map of Qingdao City

The map below illustrates the Qingdao administrative regions as explained in footnote fifty-nine of Chapter Three. The image has been scanned from a Qingdao map book, entitled: 青岛地图册 and published by: 山东省地图出版社 in 2008. English labels have been added; district/city borders for 2009 highlighted in red.