

# About fdi in china - labor

[Business](#)



FDI in China: Literature Review Historical overview and origin: Foreign Direct Investment (FDI) in China has been one of the greatest achievements of the recent decades, whereby the country successfully managed to surpass almost all the developing countries in attracting maximum FDI over a relatively short period of time in a short duration of time. From a humble beginning of 100 foreign-owned firms in the year 1979, China rapidly catapulted to a position of one of the most attractive destinations for foreign investment. By the year 1998 the number grew to as many as 280, 000 (Facts and details, 2012). Figure 1: Source: Castells, 2010: 319 A significant reason for the radical increase in inward FDI in the country is attributed to the large scale economic reforms and open-door-policy adopted by it. According to these policies, Special Economic Zones were created in four major cities in China, in the year 1979. The key objective behind this strategic move was to gain experience and expertise of international technologies as well as management skills and boost the country's economy in the process (Wei, 1995). This move was followed by opening up of fourteen other cities to foreign firms in the year 1984 whereby concessions were offered to foreign firms to lure them into investing in the SEZs which included provision of special facilities for funding and infrastructure development (Yeh, 2000). As a consequence of such persistent efforts on the part of the Chinese Government more and more cities were made accessible to the foreign firms, thus successfully reducing unemployment and promoting economic growth. With increased attention from the international investors, and the economic reform policies China managed to attain membership in the WTO thus officially marking its entry in the international club (such as IMF, and World Bank). This further helped the country in

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garnering more attention from international investors (Howell, 1993).

Current scenario: According to the Ministry of Commerce FDI investment in China comprises of over 50% of the country's exports and imports (Dowling, 2008; Ministry of Commerce, 2012). According to the statistics made available for the year 2012, China emerged as the largest FDI recipient attracting about 59.1 billion US dollars beating U. S. which managed to attract 57.4 billion U. S. dollars worth of investments for the same year (China Daily, 2012). The country was able to attract the maximum amount of inward FDI due to its sheer size as well as its ability to offer various investment opportunities due to its rapidly growing domestic market. Also, the radical shift of its focus from increasing its GDP to striving for a more balanced form of development proved to be a highly effective strategy, as is evident from the growth in FDI in the recent years (See Appendix, Fig. 1).

FDI in China: Impact on Labor and Employment During the late 1990s China provided major incentives for labor intensive and resource intensive industries such as the service sector as well as manufacturing sector. However post 1990s the government changed its strategy and introduced economic reforms which intended to provide a boost to the capital intensive and technology-intensive industries in a bid to attract more inward FDI. The strategy succeeded and as a result China managed to attract major FDI from developed countries such as the United States, Japan, as well as Europe (Garnaut, Song, and Woo, 2009). Such drastic change in the industrial structure proved to be highly beneficial in terms of attracting FDI however, it also significantly affected the labor market. Due to the shift from labor-intensive to capital and technology intensive industries, there was a marked increase in unemployment rates in the country (Chen, 2012). The

unemployment rate in the country was calculated to be 4.32 per cent in the third quarter of the current year. The labor force participation rate was 58.39 per cent for the month of September, 2012 (National Statistics, 2012). The highly decentralized economic environment of China provides a highly favorable platform for foreign firms. However at the same time it raises concerns regarding employment rates in the country. Regardless of the issues faced, China is highly likely to continue attracting FDI inflows and strengthen its economy in the process. China, which overtook Japan's position to claim the title of the world's second largest economy, has been grappling with labor unrest in the recent years. The booming trade and commerce in the country fuelled largely by the availability of low-cost labor has been hit hard by the recent spate of events involving labor rebellion highlighted by worker suicide and strikes. The key reason behind such strikes is believed to be the deplorable working conditions in most of Chinese factories, Foxconn being no exception (The Guardian, 2012). Figure: Source: <http://factsanddetails.com/china.php?itemid=367&catid=9&catid=60>

According to a report by China Labor Watch (2012) the Chinese workers are made to put in excessive work hours as overtime of about 100 - 130 hours per month on an average which rose to 150 - 180 hours per month during peak seasons. The number of hours put in as overtime was found to be way above the prescribed legal limit thus taking a toll on workers health. The problem was further compounded with the fact that most of the laborers received low wages. On an average a Chinese worker receives about \$200 per month, despite working in dangerous and hazardous working environment and with no social or work insurance to compensate for on-the-job injuries. References: Castells, M., (2010). End of millennium: The <https://assignbuster.com/about-fdi-in-china-labor/>

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