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Faculty of Business, Economics and Social Sciences

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Graduate School of Economic Globalisation and Integration

# **The Effect of Chinese Outward Foreign Direct Investment on Labor Protections in China**

Inaugural dissertation submitted by WANLIN REN in fulfillment of the requirements for the degree of Doctor rerum socialium at the Faculty of Business, Economics and Social Sciences of the University of Bern.

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The faculty accepted this work as dissertation on February 25, 2021, at the request of the two advisors Prof. Dr. Damian Raess and Prof. Dr. Manfred Elsig, without wishing to take a position on the view presented therein.

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## **Abstract**

This PhD project focuses on an important aspect of China's embrace of globalization – the fast-growing area of Chinese outward foreign direct investment (OFDI) – and examines its effects on labor protections in China over the last two decades. Much Chinese OFDI during this period has been concentrated in advanced economies where labor protection regulations and practices are stronger, and this novel economic phenomenon of Chinese OFDI may diffuse Western labor protection regulations and working conditions from Chinese OFDI destinations back to China.

This thesis comprises four main chapters. Chapter I provides background and introduces the general research questions at the heart of the PhD thesis. It reviews the historical path taken by the Chinese economy since Reform and Opening Up in the 1980s and discusses the existing literature on labor protections on China. It also defines key terms used throughout the dissertation.

Chapter II focuses on China's development over the past 20 years, particularly the rapid growth of OFDI and the effects of this new economic phenomenon on labor protections. It presents four hypotheses about the effects of OFDI on labor conditions in China, and then tests them with data from 31 provinces of China. The empirical analysis demonstrates that the association between Chinese OFDI and labor protections is not straightforward, though workplace occupational safety and health conditions have improved. Other types of labor diffusions may encounter political resistance from the Communist Party of China and the All-China Federation of Trade Unions (ACFTU).

Chapter III explores the effects of Chinese OFDI on labor protections by analyzing one form of China's OFDI investing in Western Europe: Mergers and Acquisitions (M&As). It tests the hypothesis that as the amount of Chinese M&A-type OFDI enters European economies that have higher labor protection standards and practices than China, labor protections in China may increase and start to close the gap between China and Western European countries. Based on regressions with bilateral data generated from Thomson Reuters' SDC Platinum Dataset on M&As and labor protection outcome variables, there is some support for the hypothesis that labor regulations are improving in China. But there are no clear evidence to indicate changes in practical working conditions like wages and working hours.

Chapter IV presents more detailed, firm-level case evidence on the linkage between Chinese OFDI and diffusions of labor protections. Five Chinese firms with different conditions of OFDI (the type of ownership, investment destinations, M&As) were investigated. Results show that labor diffusions are more likely for private firms that pursue M&A-type investment in advanced economies. Mandatory compliance pressure, economic incentives for improving competitiveness, and learning effects are the main diffusion mechanisms. Labor diffusions are particularly visible in areas such as occupational safety and health conditions. Evidence on the impact on industrial relations, e.g., Western-type trade unions emerging in China, is limited. The case studies also suggest that the Chinese authorities and state-owned enterprises are actively pushing back to reduce potential labor diffusions through the OFDI channel.

## **List of Abbreviations**

ACFTU	All-China Federation of Trade Unions
ASEAN	The Association of Southeast Asian Nations
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China, South Africa
CEVT	China Euro Vehicle Technology AB
CIPS	Chartered Institute of Procurement & Supply
CME	Coordinated Market Economy
COVID-19	Coronavirus Disease 2019
CPC	Communist Party of China
CSR	Corporate Social Responsibility
ERP	Enterprise Resource Planning
FKTU	Federation of Korean Trade Unions
ICT	Information and Communication Technology
IIA	International Investment Arrangement
ILO	International Labour Organization
IMF	International Monetary Fund
IPE	International Political Economy
IPO	Initial Public Offering
ISO	International Organization for Standardization
LME	Liberal Market Economy



M&As	Mergers & Acquisition
MNC	Multinational Corporations
MOFCOM	Ministry of Commerce, the People's Republic of China
MOHRSS	Ministry of Human Resources and Social Security, the People's Republic of China
NGO	Non-Governmental Organization
OEM	Original Equipment Manufacturer
OFDI	Outward Foreign Direct Investment
PTA	Preferential Trade Agreement
RMB	Renminbi (Yuan), ¥
SAFE	State Administration of Foreign Exchange, the People's Republic of China
SASAC	State-Owned Assets Supervision and Administration Commission, the People's Republic of China
SDC	Thomas Reuter's Securities Data Company Platinum Database
SDGs	United Nations Sustainable Development Goals
SME	Small and Medium Enterprise
SNSF	the Swiss National Science Foundation
SOE	State-Owned Enterprise
SOP	Standard Operating Procedure
TFP	the Total Factor Productivity
WTO	World Trade Organization

## **Preface**

### **Purpose of the thesis**

Since the 1980s, China's economic growth has been swift. When China joined the World Trade Organization (WTO) in 2001, the pace of its involvement and integration into the global economy accelerated (Chang, Fleisher, & Parker, 2001). While China had been self-sufficient and had a Soviet Union-style central planned economy before it established its Reform and Opening Up policy since the late 1970s, today it is moving towards a market-based open economy. One feature of China's fast-growing economy in the last two decades is its increasing global outward foreign direct investment (OFDI). The Global North has been the main source of foreign direct investment (FDI) for decades, but since the 21<sup>st</sup> Century, China has supplied an increasing amount of global capital. Yet, research on this novel trend has been sparse until recently.

This dissertation examines the effects of China's increasing role as a global capital supplier on labor protections within its borders. Labor protections include laws, regulations, standards, and practices to protect the benefits and rights of Chinese workers. Its rapid economic growth has turned China into "the world's factory." "Made in China" is a phrase known to all, thanks to hundreds of millions of Chinese factory workers. The treatment, benefits, and rights of these workers have attracted significant attention from economists, politicians, media, NGOs, and scholars around the world. Their interest is not surprising, because the conditions of Chinese workers affect the global economy through supply chain networks. Even more important, if Chinese workers exert political pressure on the Communist Party of China (CPC), they might significantly challenge the authoritarian Party-State regime in China. The Party thus makes enormous efforts to repress labor unrest in China and to retain its legitimacy and control. They fear "the Sword of Damocles" that brought down the communist regime in Eastern Europe—the scenario that China's labor movement might follow Poland's path in the late 1980s, so China is vigilant against political threats from independent labor movements.

Recently, scholars have paid increasing attention to the upward pressures on labor protections via trade and investment in developing countries. David Vogel (1995) suggested a "California Effect" as international trade passed on the best practices, norms, and standards of



developed economies to developing economies through exports from the Global South to the Global North. FDI is another diffusion channel: multi-national corporations in the Global North (MNCs) channel inward FDI to developing countries, which may improve standards and practices as developing countries learn, comply with, and adapt these improvements.

Could this pattern also apply to OFDI? What effects could this new economic trend of OFDI have on China? Will OFDI become a new diffusion channel, introducing international labor norms, concepts, standards, and practices to China through capital flows and people-to-people-level interactions? How might increasing exposure to foreign labor protection norms, values, standards, and practices change the views and behaviors of Chinese investors and employees? Could OFDI spur China to adopt foreign labor protection standards and practices at home, if China learned about them through their efforts to comply and compete? This thesis answers these questions by systematically analyzing the relationship between Chinese OFDI and labor protections in China. Specifically, I investigate the potential diffusion of labor protections from the destinations of Chinese OFDI (especially the Global North) to China and ask if OFDI, along with other recognized domestic factors, might improve domestic labor protections in China.

This PhD thesis contributes to the existing literatures on international political economy (IPE) and labor studies in China by focusing on the effects of OFDI on labor protections. Earlier IPE literature mainly focused on describing the effects of inward FDI from the Global North on labor protections in developing countries. Here, I extend the scope of my inquiry to OFDI from China, an emerging economy in the Global South. Unlike most labor studies on China, which tend to focus on domestic conditions (e.g., migration from the countryside to the urban area, reform, and transformation from a socialist welfare system to a market-based economy, the changing status of state-owned enterprises [SOEs]), I analyze labor protections in China through the lens of the new trend of OFDI. To the best knowledge of the author, no one has studied the effect of Chinese OFDI on labor in China, and this thesis attempts to address this gap.

## **Research design**

In order to investigate the relationship between OFDI and labor protections in China, I chose to design my study as a comprehensive and complementary review that includes macro-,

meso-, and micro-level data collection and analysis. The study includes both large-N quantitative analysis and small-N qualitative analysis based on data collected from original and secondary sources. All data for the large-N analysis come from secondary sources, including official statistics on OFDI and other economic variables released by ministries and provincial governments in China, the ACFTU's annual statistic yearbook on trade union labor outcome variables, statistics on working hours and wages from the ILOSTAT dataset, the CBR Leximetric dataset on labor regulation index thanks to the support from my supervisor Prof. Damian Raess, and Thomas Reuter's SDC Platinum financial dataset on M&A transactions of Chinese firms.

For the small-N qualitative analysis, I organized many site visits and conducted interviews in the field between 2018-2019, both in China and investment destinations in Western Europe. My fieldwork focused on collecting firm-level and industry-level data to better understand the obstacles and possibilities for diffusion of labor practices and protections. Since a discussion of labor matters may include sensitive information and reveal business secrets, and could even be politically dangerous, field research turned out to be challenging. In particular, interviews in China had to be conducted knowing the reluctance of many interviewees to be answering my research questions. I had to make sure not to reveal information about the persons interviewed. This limited the collection and use of data.

The local research partner of Zhejiang University in Hangzhou, China, significantly supported my fieldwork interviews in China, most of which were in Beijing, Shanghai, Zhejiang, and Guangdong. Trade unions in Sweden helped me conduct my fieldwork in Europe. I interviewed managers and senior directors of Chinese firms participating in OFDI activities, regular Chinese employees with ex-pat experience, local ACFTU officials and representatives at the firm-level, scholars of labor studies in China, human resource specialists on labor laws and regulations in China, trade union representatives in Europe who engaged with Chinese investors and ex-pats, and experts from international organizations.

Chapter I begins with a review of relevant discussion about labor relations in China and the potential effects of FDI on labor. Then I describe the relevance, significance, and contribution that this thesis makes to the literature. It also defines key terms that I use throughout the thesis.



Chapters II to IV are empirical. Chapter II presents a meso-level analysis of the relationship between provincial-level Chinese OFDI and labor protection outcome variables, taking a large-N quantitative analysis approach.

Chapter III uses OFDI data on mergers and acquisitions (M&As) to test for potential diffusion of labor protections to China when the investment destination located in an advanced economy. This chapter runs a more restricted macro-level large-N quantitative analysis.

Chapter IV takes a micro-level view, using firm-level observations to investigate the effects of OFDI on labor protections. It takes a small-N qualitative analysis approach by focusing on five Chinese firms that invest abroad. The case study highlights the effects that different conditions of OFDI can have on the potential diffusion of labor protections, including the type of ownership for investing firms (private vs. SOE), M&As versus Greenfields, and investment destination (advanced economies vs. developing countries).

### **Summary of key findings**

Both the large-N quantitative and small-N qualitative analysis suggest that diffusions from investment destinations back to China have begun to affect labor practices in China via the OFDI channel. Diffusion proceeds through several mechanisms, including mandatory compliance with labor regulations, voluntarily adaption due to competitiveness concerns, and learning effects. As OFDI increased, occupational safety and health conditions improved and Chinese workers seem increasingly aware that they can defend their rights, evidenced by a growing number of labor disputes in China. Chinese firms and employees that involved in OFDI activities have also accumulated knowledge about labor protections in Western economies. But OFDI has had little effect on practical working conditions in China, like working hours and wages. OFDI also triggers the Party and the All-China Federation of Trade Unions (ACFTU) to increase their presence in China's workforce, legitimacy and control over Chinese workers, though these efforts may not be as effective as authorities expect.

Several background conditions of OFDI may change the magnitude of labor diffusions. The likelihood of diffusion is stronger for Chinese OFDI investing in the Global North than in the

Global South. Private firms from China are more likely to accept and adapt foreign labor protection measures and practices than SOEs. The M&A type of OFDI is more effective than Greenfield investment because M&A expose Chinese owners to foreign labor protections through acquiring the established production sites abroad.

In conclusion, increasing OFDI from China to the rest of the world, especially to advanced economies, may diffuse labor protections back to China. But it is still too early for Chinese OFDI to have lead to significant effects, and China may be too complex for the effects of labor diffusion through OFDI to exert changes on labor protections in China. The Party and ACFTU are aware of that the labor movement might be empowered through this channel and are taking preventative efforts, like establishing the “Great Firewall.” Indeed, China could be a hard case of foreign influence through the OFDI channel given the strong Party-State authoritarian regime and labor diffusions from the channel of OFDI may not take place in the short run. Researchers will need to observe the effects of OFDI over a longer period to fully evaluate its effects on Chinese labor conditions. My study is a first step in that direction.





## Chapter I: The Review of the Chinese economy and labor protections

Fundamental economic reforms have changed China dramatically over the last four decades, developing a backward, poor, self-isolated, agricultural economy into a prosperous and industrialized manufacturing nation that has embraced the world through globalization. One important feature of China's fast-growing economy is its increasing global outward foreign direct investment (OFDI). But before describing the effects of OFDI on labor protections in China, it is necessary to review the history of China's economic development path since the 1980s. Rapid economic development has been accompanied by dramatic changes in labor protections in China, so I review the evolution of labor protections in China, including changes in the employment system, the gradual dissolution of the old "*Danwei*" system and the "iron rice bowl" employment relationship,<sup>1</sup> and improvements in legal frameworks for labor protections.

After reviewing China's economic development path and changes of labor protections since the 1980s, I discuss the existing literature on labor studies in China or on China, identify research gaps, and highlight the contributions made by this thesis, including its contribution to political science studies. In the last part of this chapter, I define key terms on labor protections used throughout the thesis.

### 1.1 Development of the Chinese economy since the 1980s

#### 1.1.1 The beginning of reform in the 1980s

Almost all of China's recent economic achievements began in the late 1970s<sup>2</sup>. The death of Chairman Mao Zedong on September 9<sup>th</sup>, 1976 marked the end of a chaotic and ideology-driven era. The decade-long Cultural Revolution (1966–1976) severely damaged China's political and economic system. By the late 1970s, China's economy was impoverished, and millions suffered from famine. China had just begun to industrialize, and most people still worked in rural agricultural sectors. Internationally, China isolated itself from the global market, particularly

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<sup>1</sup> The "*Danwei*" system and the "iron rice bowl" employment relationship were the main forms of employment in China before the market reforms of the 1980s. Section 1.2 of this chapter gives more detailed information on them.

<sup>2</sup> The main source for this section comes from Coase & Wang's (2012) book *How China Became Capitalist*.

alienating itself from the West. There was almost no foreign trade (import or export),<sup>3</sup> or any foreign capital investment in China.

Deng Xiaoping, the leader of the “second-generation of leadership in China,”<sup>4</sup> took charge of the Communist Party of China (CPC) in 1978. One of China’s most significant achievements under Deng’s leadership was the famous “Reform and Opening Up” policy, which fundamentally changed China’s economy – and indeed the entire society – over the next four decades. The Third Plenum of the Eleventh Central Committee of the CPC (December 18–22, 1978) was a watershed in China’s history. The outcome document of this meeting, *the 1978 Communique*, shifted China’s development path from Mao’s revolutionary ideology to market-based reform and economic liberalization. *The Communique* shifted the basis of the CPC’s legitimacy from the revolution against capitalism and imperialism (the West) to developing the country economically and raising living standards for all Chinese people. From 1979 onward, the Party admitted China’s economic conditions were poorer than those of advanced Western countries. China’s leadership was determined to develop its economy and achieve “four modernizations” over the long term; it committed to modernizing (1) agriculture, (2) industry, (3) defense, and (4) science and technology sectors. The Party often repeated the “four modernizations” phrase to the public during the early stage of reform, setting the tone of the development process. “Reform” described the gradual establishment of a market-based liberal economic system to replace the central planned state economy. “Opening Up” meant economic integration with the global market, and especially with advanced economies through trade (export) and attracting inward FDI investment in China.

In the 1980s, changes and reforms in the state sector (SOEs, *Danwei*) were minor, but the private sector boomed. Usually, economic reforms took a “trial” or “preparation” approach, which means that the CPC allowed certain parties to experiment with reforms in selected regions/sectors. If the outcome was positive, then it would allow or encourage similar reforms nationwide. The Party adopted this approach to retain full control and ensure the stability of the overall situation.

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<sup>3</sup> In 1977, China’s total foreign trade was only USD 14 billion.

<sup>4</sup> The CPC established the People’s Republic of China in 1949. Mao was the “first generation of leadership” until he died in 1976. Deng succeed Mao in 1978 (“second generation of leadership”). After Deng retired in 1992, Jiang Zemin took power (“third generation of leadership”). In 2002, Hu Jintao came to power (“fourth generation of leadership”). In 2012, Xi Jinping took power, so China is now in its “fifth generation of leadership”.



One of the first major steps of the “trial” approach was creating “special economic zones” in several cities of China’s eastern coastal provinces. By the beginning of the 1980s, the CPC had designated four southeastern coastal cities as Special Economic Zones: Shenzhen, Zhuhai, Shantou, and Xiamen. Each would serve as a laboratory for experiments, testing market economy principles like the support of private sectors and entrepreneurs, the abolition of existing state sectors, development of foreign trade and export-oriented industries, and introduction of foreign investment (inward FDI). Shenzhen, a small village near Hong Kong, became one of the most successful special economic zones, with the highest concentration of FDI from developed countries and regions (mainly Europe, the USA, Japan, Taiwan, and Hong Kong) (Coase & Wang, 2012). Based on the initial success of the four Special Economic Zones, in 1984, the CPC designated 14 more cities along China’s Eastern coastline as “coastal open cities” where firms and foreign investors enjoyed preferential policies on land acquisition, taxation, and administrative support. In 1988, this list expanded to encompass the whole of Hainan province, the Yangzi River Delta, and the Pearl River Delta. By the end of the 1980s, China had opened its doors to the global market and the average gross domestic product (GDP) was growing at a rate of more than 10% per year.

#### 1.1.2 Deepening reforms in the 1990s

During the early stage of economic reforms in the 1980s, there were ongoing political debates in China. Should China reclaim its identity as a communist state like the Soviet Union, or gradually shift towards a Western-style liberal market economy? Ongoing economic reforms were temporarily suspended after the June 4<sup>th</sup> 1989 Tiananmen Square incident in Beijing. The collapse of the communist bloc in Eastern Europe and the Soviet Union shocked CPC leadership and the Chinese public. The sudden end of the Cold War opened serious questions about the path China’s development should take and its future direction was uncertain. Fast-paced changes in international circumstances halted economic reforms in China between 1989 and 1992, and the nation also suffered from economic sanctions imposed by Western countries after the Tiananmen Square incident.

Deng again stepped forward in 1992, before he finally retired from leading the CPC, and he reaffirmed the necessity and importance of economic liberalization. During his historical tour to the Southern part of China (including a visit to Shenzhen, the most successful example of the “Reform and Opening Up policy”), he insisted that China should continue its economic reform and



liberalization program and keep moving towards a market-based economy. Deng's strong determination and political support ensured that economic reform would accelerate.

First, China opened more cities and areas to foreign capital, led by the Pudong New Area in Shanghai — now one of China's most modern financial centers. The Shanghai Stock Exchange, within the Pudong New Area, opened for public trading in the early 1990s, making a significant reform of China's financial market. Controls and limitations on inward FDI were further reduced in 1992, when foreign enterprises were granted more rights to autonomy and allowed to participate in SOE reforms through mergers, leases, or acquisitions. In 1992, inward FDI to China was up 384% from the previous year, rising another 92% in 1993, to USD 11.4 billion (Gallagher, 2005).

Second, state sectors were thoroughly restructured. In the 1990s, reforms primarily targeted SOEs, with the goal of eliminating the “dual system”<sup>5</sup> in China. Massive reforms were implemented in 1997, after the Fifteenth Congress of the Party in 1997. Gallagher (2005) summarized this wave of SOE reform with the slogan, “*Hold the Big, Release the Small*”: many small and medium-sized SOEs would be privatized and their workers laid off to reduce redundancy and make the remaining SOEs more efficient. China's northeastern provinces (Liangning, Jilin, Heilongjiang) suffered most in this wave of reform; layoffs were massive because manufacturing SOEs (like steel and machinery) were their main industries.

Third, Party leadership expanded economic reforms and set out to establish “a socialist market economy” after the Fifteenth Party Congress in Fall 1992. The CPC carried out systematic structural reforms to reduce market distortion and inefficiency across the country, mainly focused on market price, taxation, and social welfare. Price reform was instituted in 1994 with the intent to abolish price control and distortion. Before 1994, China had a dual-track pricing system: the prices for raw materials and goods like rice and oil were often fixed, while the price of other products floated, based on the market. From 1992 on, China significantly reduced the list of price-controlled goods and abolished all price control in 1996, achieving price liberalization. Tax reform also began in 1994, with the goal of setting up a simplified value-added tax-based system to replace a complicated multi-tiered system based on turnover (Coase & Wang, 2012). A new

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<sup>5</sup> “Dual system” here refers to the parallel existence of two separate economic systems: one by state sectors of SOEs, the other by non-state sectors of private firms, joint ventures, and foreign investing firms.

tax regime between provincial and central governments improved tax collection and revenue distribution. The social welfare system also changed significantly: a medical care insurance system was established, education was marketized, and a new social security system replaced the existing pension system. In short, China further reformed and liberalized its markets in the 1990s and survived the 1997 Asian Financial Crisis with far less damage than other Asian economies in Southeast Asia and South Korea. All these reforms contributed to China's accession to the WTO in the new millennium.

#### 1.1.3 Development in the 2000s, after the 2001 WTO accession

China's accession to the WTO in 2001 spurred its engagement with the global market. China's total trade-to-GDP share surged from less than 40% in 2001 to more than 60% in 2007. Net inflow FDI also continued to grow, from USD 47 billion in 2001 to USD 171 billion in 2008, just before the global financial crisis. In addition to increasing foreign trade and inward FDI, at the beginning of the 2000s, China launched its "Going Out" strategy, which encourages Chinese SOEs and private firms to actively seek business opportunities abroad through outward FDI. The strategy's objective is to increase China's competitiveness and productivity by obtaining advanced technologies, business know-how, and resources on the global market.

While the Chinese economy has increasingly engaged in the global economy, domestic reforms also entered a new phase since the 2000s, including major reforms in SOEs. The CPC made strove to build a "harmonious society" that would address social unrest caused by reforms and economic liberalization. In the 1990s, the CPC had massively privatized and reduced SOEs, but in the 2000s it shifted its strategy for the remaining SOEs. It created the State-owned Assets Supervision and Administration Commission (SASAC) to consolidate and strengthen the competitiveness of 120 large-scale SOEs, especially in strategic sectors like infrastructure and finance. While it shed less productive and smaller-scale SOEs in the 1990s, the CPC did not want to eliminate all state sectors completely, and it insisted that retaining competitive SOEs was an important feature of a "socialist market economy with Chinese characteristics." The remaining SOEs were reformed through an initial public offering (IPO) of large SOEs on stock markets in Shanghai, Shenzhen, and Hong Kong to increase the financial capacity of these firms. This approach strengthened the competitiveness and even monopoly positions of Chinese SOEs. The IPO process created several giant SOEs in the global market, based on market values, like the Sinopec (petroleum) and the Bank of China (finance).



Hu Jintao, the leader of the “fourth generation of the leadership” of the Party, invented the concept of a harmonious society in the early 2000s to address the social challenges presented by China’s rapid and massive economic reforms. As the country became more industrialized and layoffs left SOE employees unemployed, social unrest among the public increased. Massive numbers of workers in China migrated from rural areas to urban regions, in search of job opportunities. In the 2000s, the most pressing issues included unemployment and poverty among laid off SOE employees, unequal treatment of migrant workers and their families in urban regions, and environmental pollution caused by industrialization. The Party tried to address these concerns by highlighting its leadership role to build a harmonious society in solving these issues. China spent more on social welfare in this period and began to build up its “stability maintenance” force<sup>6</sup> and technologies (like the “Great Firewall” internet blockade) to maintain control over Chinese society.

In late 2012, President Xi Jinping became Party leader, which marked the slowdown or reversal of economic reform and the liberalization process of the Deng era. Xi launched campaigns to increase Party control over every aspect of Chinese society. Power was concentrated in the hands of a tight group of leaders or balanced “*on the shoulders of Xi himself*” (Brødsgaard, 2018; Lutgard, 2018). Kevin Rudd, former Australian Prime Minister and experienced China expert, argued in a public speech that “*Keeping the party in the power and never yield to any argument that it should transition to more democratic forms of governance*” is Xi Jinping’s national priority.<sup>7</sup> Since Xi took control, there has been a growing discussion in China about *Guo jin min tui* (国进民退) — advancing and strengthening SOEs while retreating from private firms and reducing their numbers<sup>8</sup>. The Party often emphasizes the importance of a powerful state sector and thriving SOEs because it believes they will safeguard the security and sustainable development of China’s “socialist market economy.”

Another feature of the Chinese economy since the 2010s has been the speedy expansion of service sectors. While China’s early reform saw an increase in manufacturing, the tertiary

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<sup>6</sup> This effort included expanding the police and armed police force at the grassroots level and increasing the number of community-based security personnel who can immediately report social unrest.

<sup>7</sup> The full text of Rudd’s speech on China at November 26, 2019 is here: <http://kevinrudd.com/2019/11/26/future-directions-for-australia-china-directions/>

<sup>8</sup> See <https://www.wallstreetcn.com/articles/3420236> See also <https://www.bbc.com/zhongwen/simp/chinese-news-45522113>



industry in China grew rapidly in the mid-2000s and provided far more jobs than manufacturing.<sup>9</sup> By 2019, almost half of Chinese workers (47.4%) were employed in tertiary industries.<sup>10</sup>

Table 1.1 shows the 40-year path of China's transformation from a poor, agriculture-dominated, inefficient, and isolated economy to a prosperous, industrialized, and open market economy. Though there were debates and doubts about the future direction of the Chinese economy, this ancient country has now established the foundation and principles of the market economy — a great achievement for any country over such a short period of time.

Table 1.1 China's economic development 1978–2018

<i>Year</i>	GDP (Billions, current US\$)	GDP per capita (current US\$)	Total Trade (Billions, current US\$)	FDI Net Inflow (Billions, current US\$)
<b>1978</b>	149.5	156.4	20.5	0.00008
<b>1992</b>	426.9	366.4	165.5	11.4
<b>2001</b>	1339	1053.1	509.7	47.1
<b>2008</b>	4594	3468.3	2563.3	171.5
<b>2018</b>	13895	9976.7	4622.4	155.8

Source: World Development Indicators, the World Bank Group; National Statistics Yearbooks, China.

## 1.2 Development of labor protections in China

Labor protections in China changed significantly during its rapid economic liberalization and growth, especially the employment relationship. The All-China Federation of Trade Unions (ACFTU), the only official trade union in China and the Party's arm on labor protections, also shifted its functions and priorities after the economic transformation. Here, I briefly review the history of the employment relationship and adjustments made by labor authorities in China between the beginning of the 1980s through the 2000s.

<sup>9</sup> See [http://paper.people.com.cn/rmrb/html/2017-03/29/nw.D110000renmrb\\_20170329\\_1-11.htm](http://paper.people.com.cn/rmrb/html/2017-03/29/nw.D110000renmrb_20170329_1-11.htm)

<sup>10</sup> Data source: Ministry of Human Resources and Social Security's (MOHRSS) statistics from 2019.  
<http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/202006/P020200605320753518399.pdf>

### 1.2.1 The development of the employment relationship

Before Reform and Opening Up, China had no private sector and there was no contract-based employment relationship in China. In urban areas and in SOEs and other public entities (like schools and hospitals), the *Danwei* system governed employees, who were covered by a socialist employment relationship called the “iron rice bowl.” *Danwei* means “unit” and it has referred to firms or other entities that employ workers since the People’s Republic of China was established in 1949. After the private sector was eliminated, all Chinese workers worked for their *Danwei* in SOEs, schools, hospitals, or government offices. Their *Danwei*(s) then supplied all necessary compensation, social welfare, and benefits to workers, including salary, housing, catering, medical service, and schools for children. The phrase “iron rice bowl” (an unbreakable bowl containing China’s staple food) is a metaphor for a support system that will never break down. Kuruvilla et al. (2011) defined this employment relationship as a socialist network that “*guaranteed workers permanent employment, cradle-to-grave benefits, and a high degree of equality.*”

The socialist production and employment relationship was similar in rural areas, where they belonged to the “People’s Commune” in their villages or towns. The local residence permit system (“*Hukou*” in Chinese) prevented workers from moving between rural and urban areas and confined them to their local area for work and life. Though the “iron rice bowl” and the “People’s commune” were supposed to provide decent working conditions and rewards for Chinese people, they were the main barrier to economic reforms. These systems offered workers low fixed wages, reducing their productivity and efficiency because they had no incentive to pursue innovation or increase productivity.

The reforms that began in the 1980s changed the “iron rice bowl” employment relationship, transforming it into a market-based economy where employers contracted with labor as private firms proliferated in non-state sectors. In contrast to the slow reform of the state sector, the private sectors pushed economic reforms, led by township/village enterprises and private entrepreneurs. Gallagher (2004) highlighted the quick expansion of private sectors and the transformation of China into a market-based economy, citing a famous slogan that appeared in Shenzhen in the 1980s: “*Time is money, efficiency is life.*” This slogan exemplified the contrast with the iron rice bowl system: growing private sectors strove to increase income, productivity, and efficiency.



To transform China's employment relationship, the Party had to create a new legal framework to replace the iron rice bowl. In the early 1980s, it established new labor laws to regulate employment in the non-state sector and in foreign investing firms. But these new labor laws only applied to non-state sectors, whereas the state sector still followed the previous iron rice bowl system. The National Labor Law of 1995 came later; it was a milestone in the legalization process because it formally introduced and implemented a labor contract system throughout China, replacing the iron rice bowl system through legislation (Gallagher, 2004). This 1995 reform broke the "dual system" structure of employment relationships in China. The state sector and employment in SOEs now had to follow the new law and establish a labor employment relationship based on contracts. The 1995 Law also facilitated labor mobility, especially for migrant workers moving from rural to urban areas in search of better job opportunities. In 1996, for the first time in China's economic development process, more than half of the urban workforce was working under contract (Gallagher, 2004).

After the contract-based legal framework was implemented and the massive reforms and privatization dramatically reduced SOEs in the 1990s, China's iron rice bowl system rapidly dissolved. Even the remaining SOEs and public institutions (like schools and hospitals) abandoned the iron rice bowl system. They started introducing labor contracts, rewards, bonuses, and competition schemes into their employment relationships. The National Labor Law of 2008 further strengthened regulations of employment relationships and worker protection. Professor Kai Chang, a leading labor scholar with expertise in China, noted that the 2008 Law was the Party's and the ACFTU's attempt to set up a "pro-labor" legal system (Chang & Brown, 2013). Chang believed that labor's disadvantage would remain when it bargained with capitals in China, because workforce supply was still huge, so China needed a pro-labor legal system like the 2008 National Labor Contract Law to improve labor protections in China over the longer term.

This 2008 law focused on implementing mandatory labor contracts for all employment relationships, since many employers had not provided their workers with formal employment contracts. This new law also emphasized job security, asking employers to give workers open-ended contracts after their first two successive fixed-term contracts expired. It also improved protection for workers if they were fired, requiring employers to pay sufficient severance if they terminated formal labor contracts (Gallagher et al., 2014).



In the last few years of the 2010s, the rapid growth of internet technologies quickly expanded platform-shared internet service sectors in China.<sup>11</sup> Led by Alibaba, Tencent, JD.com, and DiDi (China's equivalent of Uber),<sup>12</sup> these companies challenged the employment relationship by creating many new forms of employment and types of contracts, e.g., food delivery riders and DiDi drivers.<sup>13</sup> Employees who took these new jobs had been employed in manufacturing sectors (Chen, 2018) and the shift to the service sectors presents new challenges.<sup>14</sup> For example, many young people prefer to work in internet platform-shared service sectors, creating worker shortages in the manufacturing sectors.

#### 1.2.2 Labor unrests and adjustments from the government

Over the last four decades, during Reform and Opening Up, many old rules, systems, and practices have disappeared in China. The dissolution of the strict labor protection system and the establishment of a market-based competitive labor system contributed to the surge of labor disputes in China. Many SOE employees, who had been hired within the now-defunct iron rice bowl system, resisted the massive reform of SOEs in the 1990s. In the SOEs affected by reforms, employees often lost their jobs or were tendered buyout offers to terminate their employment relationships (more common in employees over 45 years old). Such practices steeply raised unemployment rates in areas with high concentrations of SOEs. Labor unrest and protests were more frequent in these regions, reflected in an increasing number of collective labor disputes.

Starting in the 1990s, and intensifying after the turn of the century, labor unrest continued to increase. Figure 1.1 illustrates this clear upwards trend by showing labor disputes filed from workers to the ACFTU. Most disputes were confined to workers in private sectors and to foreign invested firms in the eastern coastal area of China. Many of these disputes were sparked by migrant workers who moved from rural to urban regions and wanted equal treatment, and workers who wanted better wages.

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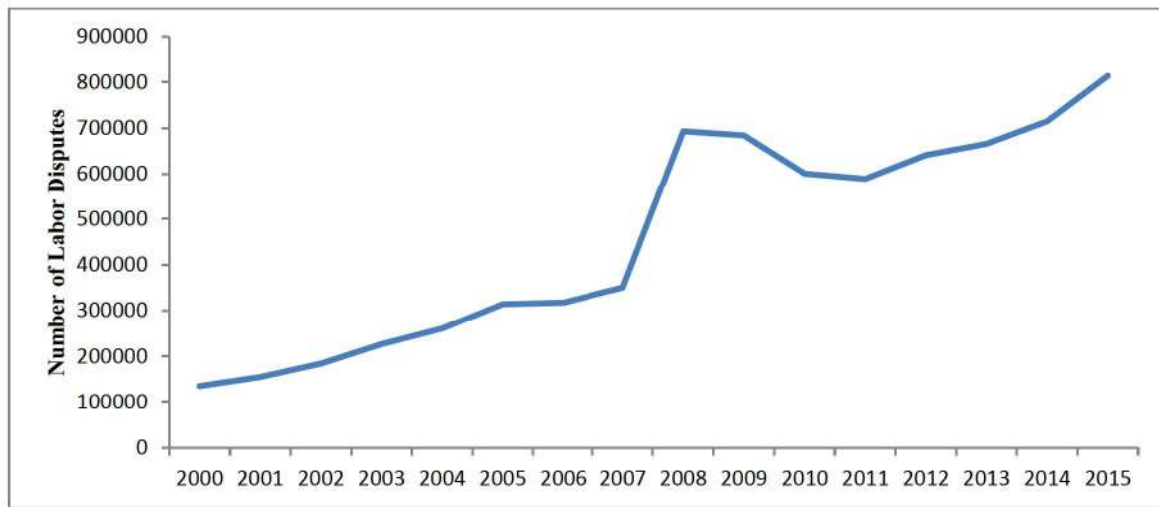
<sup>11</sup> See [http://www.xinhuanet.com/english/2017-12/25/c\\_136851120.htm](http://www.xinhuanet.com/english/2017-12/25/c_136851120.htm)

<sup>12</sup> Alibaba, Tencent, and JD.com are China's three giant e-commerce corporations. DiDi is the dominant urban commuting app, like Uber but with a more functions.

<sup>13</sup> Didi drivers in China are like Uber drivers in other countries.

<sup>14</sup> More analysis of the growth of Internet and platform companies and the effects of this growth on labor supply in manufacturing sectors in China can be found in this media report: [http://www.sohu.com/a/296599833\\_378279](http://www.sohu.com/a/296599833_378279) (last accessed on February 22, 2019).

Figure 1.1 Labor disputes in China in the past 20 years



Source: The Chinese Trade Unions Statistics Yearbook.

Indeed, many labor unrests caused by the surge of labor disputes were related to discrimination in the urban region against the increasing number of migrant workers moving from rural regions. Migrant workers suffered from unequal treatment compared to urban residents in terms of labor contracts, wages, and other social welfare factors such as pensions, social security insurance, and medical care. The famous *Sun-Zhigang Incident*<sup>15</sup> in 2003 was a high-profile case that highlighted such discrimination (Hand, 2006).

Besides migrant workers, the increasing demand for better compensation and working conditions also contributed to the growing number of labor disputes in the 2000s. Two high-profile examples gained great attentions during this period: the Foxconn “jumping to suicide” incidents, and the strike at the Nanhai Honda factory in the Pearl River Delta (Meng & Zhang, 2015). Workers at Foxconn suffered from intensive overtime working schedules and some

<sup>15</sup> The Sun-Zhigang Incident refers to the death of a 27-year-old man named Sun Zhigang in the spring of 2003, which triggered a series of concerns and discussions on the status, treatments, and rights of migrant workers moving from rural regions to urban areas in the Eastern part of China. Sun moved from Hubei province (in central China) to the Pearl Delta Region (Guangzhou) to pursue better working opportunities in early 2003, but local police in Guangzhou found in March 2003 that he had not obtained a temporary residence permit. This was a violation of China’s residence registration (*Hukou* in Chinese) system, which had controlled the internal migration between urban and rural areas since 1950s. Sun was then treated as an “illegal migrant” and detained in a police station, where he died two days later. The incident raised significant public concerns about the rights of migrant workers and since then the Chinese government started to change policies to offer better treatment for migrant workers working and living in urban cities. See Hand (2006) for detailed information and implication of the Sun-Zhigang Incident.



workers chose to commit suicide by jumping from the roof of the factory to protest the overtime practice. At the Nanhai Honda factory, 2000 workers in that Japanese joint-venture factory, primarily migrant workers, demanded higher wages through a surprise strike (Friedman, 2014). The strike lasted for around half a month and ended with an agreement with the negotiation and persuasion by local government officials.

In response to the increasing pressure from the worker side, the only official trade union in China, the All-China Federation of Trade Unions (ACFTU), started to expand its presence and control over workers to “maintain a stable employer-employee relationship.” The ACFTU is one of the rare institutions to survive China’s economic reform and liberalization. This powerful institution was established during the revolutionary era in the early 20<sup>th</sup> century with the mission from the Party of representing and protecting the rights of all workers. To deal with emerging disputes that may potentially threaten the “stability and safety” of society, the ACFTU, together with other governmental agencies, have made great efforts to promote a labor dispute mediation and arbitration system across China to reduce tensions between employers and workers (Brown, 2014; Lee, Brown, & Wen, 2016). Specific measures include the promotion of the knowledge of mediation and arbitration system to workers, and the expansion of offices and staffs to handle mediation and arbitration requests. In practice, the ACFTU sometimes play a role as the third-party mediator between firms and workers and the ACFTU can put pressures to firms to make concessions, usually through alignment with larger political campaigns such as the reduction of poverty, boosting economic growth, and building a harmonious Party (Lee, Brown, & Wen, 2016). Meanwhile, the ACFTU also plays a vital role in maintaining the Party’s ruling position (Pringle, 2011; Friedman, 2014) and its “legitimacy” as the only official trade union in China through internal reforms on sectoral collective agreements, labor inspections, and capacity building on trilateral negotiations.

### **1.3 Labor studies on China**

The extensive labor studies on China tackle the topic from a variety of scopes and perspectives. Based on the determinants of labor policies and reforms, there are usually two different approaches. The first approach focuses on the impact of domestic factors within China



and analyzes how those domestic determinates drive changes or reforms of labor policies in China. The second approach considers exogenous influence from outside as the determinants of labor policies and reforms in China. Foreign economic influences, primarily trade and inward FDI from advanced economies to China, have been considered as important factors that affect domestic labor protections in China.

In addition, there are some comparative research pieces on labor protections in China and they compare China with other countries in the region or countries with similar transition experiences from communism to capitalism, usually involving further debates on whether China could follow the path of those compared economies. In this literature review section below, I present the main literature on labor studies in China categorized by their different focuses.

#### 1.3.1 Domestic determinants

With China's massive economic liberalization, labor protections for Chinese workers also changed significantly throughout this process. In the literature, domestic determinants attract significant attentions for scholars to understand and analyze the transition of labor protections in China. Market, the state, and Chinese workers are identified by Kuruvilla et al. (2011) as three forces that drive changes and dynamics of labor protections in China.

Economic reforms and the growth of a market-based economy to replace the previous planned economy has been considered by scholars as a key determinant, or more precisely, a starting point to analyze labor protections in China. Friedman (2014) begins his analysis of labor unrest in China from the perspective of the commodification of labor and marketization process since the reform-era. Lin (2011) shows the impact from market pressures in shaping employment relationships of China's oil industry with increasing informalization practices. Zhang's (2017) sectoral analysis on the dissolution of the "iron rice bowl" system in China's automobile industry provides a detailed example to illustrate how market forces, such as the role of corporate management policies, gradually restructure and replace the previous "iron rice bowl" permanent employment in automobile firms.

The decision-making process, policies, and institutions of the Party and governments on labor protections are considered as another key domestic determinant for labor studies in China. Gallagher (2005) analyzed China's labor reforms by highlighting the role of two institutions in implementing the government's labor policies: The first is the evolvement of the legal framework

that supports the freedom of contracts with clear minimum requirements; The second is the establishment of grassroots-level ACFTU units to mitigate collective demands from the worker side. Gallagher (2005) also shows that the Party's determination to push for the restructuring of the public sector in the 1990s led to massive SOE reforms and the end of the "iron rice bowl" system.

Many scholars have seen the 2008 Labor Contract Law as a comprehensive and institutional solution taken by the Party and the ACFTU to mitigate labor challenges and better manage labor relations in China (Gallagher, 2005; Wu & Sun, 2014; Lee, Brown, & Wen, 2016). The law promotes a model of labor dispute mediation and an arbitration system (Brown, 2014). Li and Freeman (2014) find empirical evidence that shows that the government's effort in promoting the 2008 Labor Contract Law had improved labor conditions for migrant workers, at least in the short run.

Pringle (2011) and others (Zenglein, 2008; Friedman, 2014; Estlund, 2017) focused on the role and effects of the ACFTU, the most important domestic institution from the government side, and investigate how it affects labor protections in China. Pringle (2011) presented the challenges faced by the ACFTU at both the central and grassroots level and summarizes reforms and other efforts made by the ACFTU to address the increasing labor unrest (either successful or not). He further argued that the Party and the ACFTU have colluded with Chinese capitalists, as they can achieve economic development by suppressing demands from workers. Others have found that the ACFTU did make great efforts to reform itself in order to better handle labor disputes, although there are many limitations that prevent it from gaining trust from the workers' side (Ma, 2011; Friedman, 2014; Estlund, 2017). Estlund (2017) further examined the role of another labor institution in China, the Worker Congress System<sup>16</sup>, and suggested that this system could play a stronger and promising role in dealing with labor unrest in China in the future.

The grievance and demands from the Chinese worker side have been considered as another vital determinant of labor protections in China, particularly driven by migrant workers moving from rural to urban areas. Solinger (1999) and others (Chan 2001; Choi, 2003) showed

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<sup>16</sup> In principle, the Worker Congress System in China is similar to the German's Works Council as an employee representation institution. In practice, the Worker Congress System in China is merely another symbolic institution with no practical functions, because it is the ACFTU that controls all workers. Estlund (2017) discusses theoretical possibilities if the Worker Congress System in China could affect labor relations in China, but only with preliminary exploration.



the challenging conditions faced by migrant workers in the early stage of economic liberalization of the 1990s. Hand (2006) in particular analyzed the impact of the *Sun Zhigang Incident* in 2003 and the increasing public awareness after that incident in support of better treatment of migrant workers. Lee (2007) was skeptical that the existing labor authorities might not be able to mitigate resistance from migrant workers despite the reform and effort from the ACFTU.

The 2010 Nanhai Honda factory strike incident in the Pearl River Delta region was heavily discussed and analyzed by scholars to highlight the growing activism from Chinese workers to express their demands and defend their interests (Chan & Hui, 2012; Friedman, 2014; Gallagher, 2014). Gallagher (2014) points out that with the demographic change in China, the trend of labor shortage in China is increasing. This trend could entitle Chinese workers with more bargaining powers against firms and the Party to express their demands. Friedman (2014) focuses on the cause and impact of the growing labor unrest in China. He provided a comprehensive review of labor unrests in China following the deepening reform and commodification development since the 1990s. He described the increasing labor unrest in China as an “insurgency trap” that could push for labor reforms or even a collapse of the existing labor institutions in China. This phrase means that the ruling Party and labor institutions in China suffer from increasing unrests and conflicts from the worker side and may ultimately challenge the Party’s political leadership position among Chinese workers. Similar empirical findings of an increasing number of strikes from the Chinese worker side on better working conditions have been presented by Elfstrom and Kuruvilla (2014) and they argue that Chinese workers are more assertive in demanding high wages and respects from their employers in recent years.

### 1.3.2 Inward FDI and labor protections in China

Among exogenous influences, inward FDI, primarily originating from MNCs in developed countries and the overseas Chinese community (such as Hong Kong, Macau, and Taiwan), has been considered by international political economy scholars as one of the key determinants that could affect labor protections in China. Fetscherin, Voss and Gugler (2010) provided a comprehensive review of the economic impact that inward FDI brought to China. They found positive spillover effects from inward FDI to domestic Chinese firms in areas of productivity, technology transfer, wages, domestic market competition, employment, and training of skilled workers (Lin, 2011).



The impact of inward FDI on labor protections in China is not straightforward. Due to ideological reasons, inward FDI entering China usually takes the form of joint ventures to avoid debates on capitalism versus socialism inside China. Also, the joint venture format can facilitate technology transfer and benefit local Chinese firms (Zebregs & Tseng, 2002). The impact on China's labor protections by inward FDI was seen critically by the Chinese authorities and treated like an "experiment" that could be changed if needed. Gallagher (2005) investigated the impact of inward FDI on labor protections in China to highlight the different labor paths that China experienced. Her work thoroughly presents the role and impact of FDI in China's overall economic liberalization and opening process since the 1980s and she found that, in earlier stages, the government imposed many restrictions on inward FDI to limit its impact on labor conditions. Gallagher found that, over time, inward FDI plays an important role in opening the Chinese economy and leading reforms on labor relations. One key argument from Gallagher is that, with the presence of foreign MNCs in China, the competitive pressures in domestic firms in China gradually increased and this new force triggered and facilitated domestic reforms and transformation that changed China profoundly.

The promotion of grassroots official trade union organizations within firms that receive FDI has been observed and discussed as an example of China's reaction against labor diffusions caused by inward FDI (Gallagher, 2005; Friedman, 2014). Gallagher viewed this effort as an attempt by the ACFTU to avoid been marginalized. She also finds evidence that the insertion of Chinese trade union units into firms with foreign investments, mostly on human resource management team, allowed the Party and local governments to have some control and influence over foreign capitals. Most Western MNCs have shown concerns with the unionization campaign by the ACFTU, only Japanese firms have shown greater acceptance and pursued a cooperative relationship with the Chinese authorities (Gallagher, 2005).

Also, many studies have analyzed the impact of the source countries of inward FDI to China. Some have found that Western and Japanese MNCs have stronger spillover effects than overseas Chinese investors from Hong Kong, Taiwan, or Macau. Moreover, Western firms have also brought the concept of corporate social responsibility to China (Christmann & Taylor, 2001; Buckley, Clegg, & Wang, 2007). In addition, MNCs from countries with stronger trade union presence and collective employee representation (e.g., Sweden) are found to be more likely to embrace the establishment of trade unions in their subsidiaries in China, compared to MNCs from

other countries (e.g., South Korea) with weaker trade union density and collective agreements (Kim, Han, & Zhao, 2014).

While inward FDI has been considered a predominate determinant of exogenous influence on labor protections in China, few research contributions address the role of trade openness and labor in China. The discussion on labor impacts caused by trade related to China often uses the “race to the bottom” analogy and focuses on the so-called “China Shock” that could deteriorate labor conditions in advanced economies, leading often to job cuts (Feenstra & Sasahara, 2018; Caliendo et al., 2019). Mosley and Uno (2007) investigated the impact on labor comparing trade and FDI, and they find that trade competition creates a “race to the bottom” pressure that reduces labor rights in developing countries, whereas FDI can positively affect labor rights. By contrast, Neumayer and Soysa (2005) find that both trade openness and FDI have positive impacts on labor rights as they both reduce the use of child labor in developing countries. Some scholars follow the “race to the bottom” argument to address the exploitation of Chinese workers within export industries (Chan & Siu, 2010). However, there seems not to be a specific study in the existing literature that investigates the overall influence of foreign trade openness on labor protections inside China, though the above-mentioned large N study (e.g., Mosley and Uno, 2007) includes China.

### 1.3.3 Comparative analyses involving China

Besides domestic and exogenous determinants, there are some comparative analyses between China’s development path on labor and other countries. Debates in the literature focus on whether China may follow the path of other countries after economic liberalization. The comparisons are usually either between China and other former communist economies in Eastern Europe, or China’s neighbors in the East Asian region. There seems to be a consensus that China differs significantly from those former communist countries in Eastern Europe and the Eastern European path is not replicable in China. Clarke and Pringle (2009) compared trade union representations in China and Russia and highlighted the strong Party-State leadership in China as a main barrier to prevent independent worker activism. Friedman (2014) believes that China would not follow the more pluralistic political path in Eastern European countries because of China’s distinct rapid economic development and industrialization process.



Many Asian countries share a similar economic liberalization (export-led) and political transition path of labor movements, as they moved from autocratic systems to more democratic systems (Deyo, 1989). Comparative research of China and Taiwan (Friedman, 2014) or South Korea (Song, 2014) has focused on the impact of democratic transitions in the late 1980s on labor movements. Song's (2014) study of Korea's institutional reforms on labor protections shows the impact of exogenous factors (international economic openness) on domestic labor politics and could be a reference for China. Friedman (2014) disagrees with Song's argument that South Korea could serve as an example for China because he posits that the democratic transition in South Korea during the late 1980s would be quite unlikely in today's China. Vietnam has also been considered as a comparative case to China because both countries share a similar Party-State socialist regime while implementing economic liberalization policies (Chan & Norland, 1999; Evans, 2018). Research finds that the Vietnamese government and the official trade union (VGCL) show more tolerance to underground labor movements and strikes (Chan, 2011), or even support strikes against foreign firms (Clarke, 2006). However, Friedman (2014) argues that the Chinese state shows much stronger resistance against any independent labor movements than Vietnam authorities, which making it less likely for China to follow Vietnam's path accepting changes to labor policies.

## **1.4 Relevance and contribution of this thesis**

### **1.4.1 Contribution to the literature**

This thesis complements above literature by adding an aspect that has been overlooked so far. It studies the indirect effect on domestic labor protection by Chinese OFDI. It asks how does increasing investment by Chinese firms overseas impact on labor protections at home. Most labor studies of China have focused on domestic factors rather than OFDI as potential drivers for change. Studies on domestic factors usually discuss the evolution of domestic political structures and institutions that could affect labor conditions. Domestic determinants and changes, including changing political structures, the effects of the dissolution of the iron rice bowl system and SOE reform, the Party and the ACFTU's institutional responses, and new challenges posed by migrant workers, are common topics of discussions about labor studies in China, but OFDI is rarely mentioned.



The rapid increase of OFDI from China to the rest of the world marks a new economic trend of the 2000s — a product of the “Going Out” strategy. The scale of Chinese OFDI has increased since the 2008 global financial crisis. Because this novel phenomenon has not yet been connected to labor protections in China, few scholars have raised the possibility that OFDI from China might affect domestic labor protections. In her 2018 work on the labor conditions of Chinese expat workers in Zambia, Lee (2018) connected Chinese OFDI and labor, but she focused only on a comparison of working conditions of Chinese workers in Zambia in SOEs and private firms. Her research addresses the different treatments of Chinese workers caused in domestic firms.

Most research in international political economy has focused on the Global North’s influence on labor protections in the Global South, but rarely looked in the reverse direction. Both trade and FDI are major channels for diffusing labor-related norms and practices. These diffusions and other compliance pressures from advanced economies are described as upward forces that impel progress in developing countries. For example, trade and FDI that flows from developed economies to the Global South may reduce child labor exploitation (Davies & Voy, 2009). The same forces may drive wages up and build capacity in developing economies (Davies & Desbordes, 2015). Mosley presented a “climb to the top” story about FDI (Mosley & Uno, 2007), suggesting that more FDI may improve working conditions, help developing countries implement the rule of law, and increase the rights of laborers because foreign investors from the Global North are more concerned about labor rights.

Vogel's concept of the "California Effect" also stipulates a positive impact of trade. His work on product standards describes the upward pressures that globalization exerts on developing countries. Vogel’s work shows how demand from the consumers and activists (NGOs) in advanced economies may push firms from the developing world to upgrade or comply with higher environmental standards so they can export more easily their products to advanced economies. But this literature is limited to the effects of trade, mainly on exports from the Global South to the Global North.

There are rarely any research analogy extend the “California Effect” analogy to outward FDI from the Global South to the Global North, perhaps because of so far relatively limited FDI flows from the developing world to developed economies. Nevertheless, some scholars start to

explore the “investing up” dynamics and to investigate potential social impacts caused by FDI originating from the Global South to invest in the Global North. Most research is focusing in this respect on questions related to environmental protection, such as the diffusion of good practices on environmental protection through the FDI channel from less-developed countries to advanced economies (Zeng & Eastin, 2019). But few has extended the research to labor rights or to labor protections in China.

The rapid expansion of China’s OFDI has shifted the trend of global capital flows, opening up an opportunity to test if the “California Effect” and “investing up” pattern apply to OFDI from the Global South to the Global North. China was a capital receiver in the 1980s; since the 2000s, it has become a capital supplier. In 2017, China was the third largest OFDI-sourcing country, based on OFDI stock value (UNCTAD, 2018). Active investment by Chinese firms, particularly those investing in advanced economies through mergers and acquisitions, can in theory increase the exposure of Chinese to labor protection norms and practices via investment decisions By Chinese MNCs. Since these firm-level exposures and interactions could open a channel for labor diffusion, this deserves a closer look. Systematically analyzing the effects of OFDI on labor protections in China might also teach us more about Chinese OFDI, which we still know little about.

#### 1.4.2 Social and political relevance

Studies of China’s rapid economic growth and labor relations exhibit and explain phenomena that have profound social and political implications for China. On social aspects, as Friedman (2014) describes in his work on “the insurgency trap,” the rise of China and the concentration of global production and manufacturing network for reveal the uniqueness and importance of China for the global economy. Any major change in labor conditions for Chinese workers could have strong effects for the rest of the world. If there is a surge of labor confrontation between workers and the regime, it could severely damage the global production network and supply chain to the degree that exceeds the disruption caused by the COVID-19 pandemic. The better we understand the politics of labor protection in China, the better we can anticipate future changes in China.

More broadly, the state of labor relations in China and the conditions for Chinese workers deserve a careful review because China is the most populated country in the world with the



largest labor force. Gallagher (2005) described that the prevailing capitalist developmentalism in China is implemented by a strong Party-State-led apparatus and repressive tools vis-a-vis workers. Outside-in induced changes to labor conditions could have profound implications to shape the existing status quo among employees, firms, and the Party in China. The importance of Chinese workers for the Chinese society and the global economic system makes this thesis a highly social relevant research endeavor in the IPE literature.

As briefly mentioned in the literature review Section 1.3.3 above, studies on labor in China also have strong political relevance as they contribute to the ongoing discussion of the relationship between economic liberalization and political democratization processes. The end of the Cold War and the transition of many former communist countries towards market economies triggered intensive debates on this topic (Fish & Choudhry, 2007). Many argue that economic reforms can facilitate democratization as the liberalization pluralizes powers from the authoritarian regime and creates political oppositions (Asland, 2000; Frye, 2000). Others disagree and believe that economic liberalization may not necessarily lead to democratization processes because economic liberalization could reduce welfare, increase inequality, and strengthen the authoritarian regime (Hout & Gerber, 1998; Appel, 2004). In addition, some argue that economic liberalization may lead to a “bureaucratic authoritarianism” that combines interests from MNCs and local elites to exclude the majority from political engagement and influence (O’Donnel, 1973; Collier, 1979).

Applying this debate to China, the successful economic development in China over the last four decades co-exists with an “odd” Party-State authoritarian regime. This strange combination survived the third wave of democratization and marketization (Burawoy, 2008), and was strengthened by increasing economic power and advanced technologies like digital surveillance. The neoliberal “Washington Consensus” dominated the post-Cold War era, and China remained one of the few countries in the international system where a communist regime retains power in a political system inherited from the Leninist Soviet Union. The relationship between economic liberalization and political democratization has not been visible in China and predictions of Chinese democratization have materialized over the last three decades after the Tiananmen Square incident.



Research on China's economic development and its effects on labor protections could help explain why these predictions have failed. The Polish experience of democratization, led by the Solidarity trade union, created deep concerns and fears among the Party leadership. Deng explicitly asked the Party to learn from the Polish experience in 1989 (China Labour Bulletin, 2003). Since then, the Party has sought to suppress independent labor movements and freedom of association. The combination of tighter political control with a continuously expanding economy suggests China is an unlikely candidate for political liberalization after economic development. Under these circumstances, exploring the effects of OFDI as a potential new diffusion channel of labor protections in the context of China's political situation should be revealing. Because of its novelty, OFDI may be a new conduit for international influence on China, at a time when many other sources are blocked, filtered, or censored by the regime. Still, given the current political condition and the little chance for massive political liberalization in the near future, China remains as a hard case for changing labor protections as a result of OFDI.

Although I cannot provide a comprehensive review, address in detail all above debates in my thesis, I hope to contribute to the accumulation of knowledge that may inspire and assist researchers who want to better understand China and how integration through investment may or may not impact the Chinese society. The increasing global importance of the Chinese economy, the rapid growth of Chinese OFDI, and the massive size of the Chinese workforce make clear the necessity of charting China's future development path and analyzing its effects on the international political economy.

### **1.5 Labor definitions in this thesis**

Before moving to the next chapters, I need to define key terms I will use throughout the thesis: The definition of Chinese OFDI is relatively straightforward and it is based on MOFCOM's report: OFCI captures the investment held by domestic Chinese firms (excluding Hong Kong, Macau, Taiwan) in foreign firms which are beyond a 10% defined threshold in terms of stock shares, voting shares, or other equivalent rights<sup>17</sup>. The amount of OFDI is measured by US\$ amount. While OFDI is an important concept in this thesis, the other main concept relates to

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<sup>17</sup> See MOFCOM's Statistical Bulletin of China's Outward Foreign Direct Investment.

the term labor. Below, I explain in more details different labor-related notions that I use throughout the thesis.

#### 1.5.1 Labor protections

Labor protections focus on a dynamic interaction among authorities, firms, and workers that reach agreements about protecting workers' rights (Lowe, 1921). In response to the labor demand from the capital in an unregulated market, Polanyi (1944) proposed that the labor side needs the protective power of "*a variety of mechanisms including social legislation, factory laws, unemployment insurance, and trade unions.*" Labor protections combine laws, regulations, institutions, and practices to ensure the working population meets an affordable living standard (Botero et al., 2012). Silver (2003) reviewed the development of labor movements, focusing on the effects of globalization.

I follow the development of the context of labor protections in the literature and define the term "*labor protections*" as the established social protection schemes for Chinese workers at home. More precisely, labor protections in this thesis refer to a system that protects workers' rights in industrial relations (trade unions, collective bargaining and agreements), occupational safety and health, wages, working hours, and other relevant aspects. For the rights of industrial relations, I follow the ILO core conventions of No. 87 on the freedom of association and No. 98 on the right to organize and collective bargaining to investigate the practice of these rights in China, or more specifically the relationship between the official trade union in China – the ACFTU, and Chinese workers. Throughout the thesis, labor protections refer to a broader combination of labor-related rules, regulations, laws, institutions, practices, norms, and conditions in China.

#### 1.5.2 Labor conditions

The term *labor conditions* describes specific and detailed aspects of labor protections implemented in daily work. I investigate four main groups of labor conditions and discuss them in the next three chapters.

The first set of conditions under the rights of industrial relations focus on trade union representation. Employees can organize themselves and form or join trade unions and collectively express demands to employers. Governments also get involved in this process through their labor institutions, regulating and participating in the negotiation process. In China, the rights of



industrial relations I discuss are primarily focused on the ACFTU, since I study the effects OFDI may have on ACFTU's governance and its operations within China. I also investigate potential exposures and interactions between the Chinese side and foreign trade unions at investment destinations as Chinese OFDI increases.

The second set of conditions are those of occupational safety and health, which ILO defines as "*the science of the anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and well-being of workers*" (Benjamin, 2008). Occupational safety and health conditions include both legal regulations and implementation measurements that ensure safe and healthy working environments for all workers.

The third set of conditions is related to working time. In China, the Labor Law<sup>18</sup> states that the regular work week is 44 hours, with a minimum of one day off per week. Overtime work is also regulated, with a maximum cap per month. Implementation of this regulation varies significantly in China and across sectors. Working time conditions describe actual working hours for workers in China.

The fourth set of conditions relates to wages. Workers exchange their labor input for monetary rewards. Wage conditions include wage level and growth rate and include both regular salary and overtime premiums.

### 1.5.3 Labor practices and labor outcomes

Kucera and Sari (2019) describe labor practices under the scope of labor laws. They use the term "in law" for *de jure* regulations and laws on labor. In comparison, they use the term "in practice" for *de facto* regulations and laws implemented on the ground. Essentially, labor practices focus on the implementation of *de jure* laws and regulations. Gallagher (2004) defined capital labor practices as "*measures that commodify labor power and marketize the labor relationship, making it amenable to monetization and exchange*" to address the practical measures implemented on the ground.

Following the *de facto* approach and the address of practical measures in the literature, I use the term "*labor practice*" or labor protection practices in this thesis to describe practical ways of implementing labor protection laws and regulations during the production process and daily

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<sup>18</sup> [http://www.gov.cn/flfg/2007-06/29/content\\_669394.htm](http://www.gov.cn/flfg/2007-06/29/content_669394.htm)



operations. Labor protection laws and regulations are implemented and executed through practical measures. For example, ACFTU's leadership position is bolstered by many specific approaches in trade union representations in China, including the structure and network of ACFTU's presence at the grassroots level, the process for selecting ACFTU officials and representatives, and the priorities set for ACFTU cadres. Labor practices in occupational safety and health aspects include measures at the production site to meet required standards or regulations, e.g., wearing protective equipment, production conditions in the factory hall (air conditioning, heating, etc.), or the design and arrangement of emergency exits. Labor practices and measures on working hours may include the implementation of overtime working hours against employees' willingness. Labor practices and measures on wage include if the employer pays workers' salaries on time as requested by laws and regulations, or they delay payment.

*Labor outcomes* are the specific measurements or indicators of labor practices. I assess labor outcomes empirically through regressions and my results show the effect of OFDI on labor protections, e.g., the number of injury rates reported by ACFTU is a specific labor outcome that can be used to measure occupational safety and health working conditions.





## **Chapter II: OFDI and Labor protections in China – An Empirical Analysis**

China enters the 21<sup>st</sup> Century with the accession to the World Trade Organization in 2001. This marks a significant economic achievement for the Chinese economy since the launch of “Reform and Opening Up” four decades ago. The “Going Out” strategy was also initiated at the beginning of the 2000s and it encouraged more Chinese firms to explore international markets through outward foreign direct investments. The CPC held on to political control and power over all domestic issues. After 2012, President Xi further consolidated the Party’s control in China.

How do new economic developments, especially OFDI activities, affect domestic labor protections in China? Do labor practices and regulations from investment destinations diffuse back to China and shape domestic labor conditions and practices? How do the Party and the ACFTU adjust their mandates and goals in reaction to OFDI?

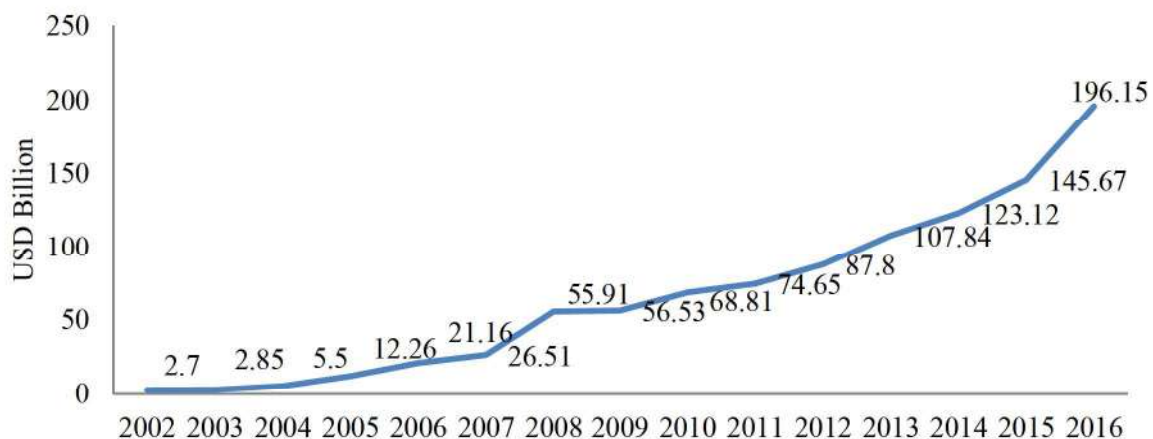
This chapter looks for answers in a large-N analysis of a provincial-level dataset, asking the question, “Are OFDI and changes in labor protections in China associated?” Section 2.1 provides background information on the development of Chinese OFDI and sums up the political situation. Section 2.2 reviews the literature on labor diffusion and the effects of FDI on labor protections. Section 2.3 is a theoretical discussion of the mechanisms by which norms and practices about labor may filter back to China from Chinese OFDI destinations. Section 2.4 proposes four specific hypotheses about diffusion from OFDI. Section 2.5 describes data and estimation strategies. Section 2.6 reports the empirical result and then discusses it. Section 2.7 summarizes these findings.

### **2.1 Economic and political developments in China**

China’s foreign trade and investment grew quickly, and China is now an active participant in and beneficiary of globalization. China’s accession to the WTO in 2001 and the “One Belt One Road” initiative since 2013 placed it among the world’s largest traders and made the country increasingly attractive to investors (Xiang, 2020).

For many years, the Global North supplied almost all the capital and dominated FDI, but since the early 21<sup>st</sup> Century, the outward flow of Chinese capital increased dramatically. By the end of 2018, China was the world's third largest OFDI-sourcing country measured by OFDI stock value, and the world's second largest OFDI-sourcing country in 2018 based on OFDI flows. According to the Ministry of Commerce (MOFCOM) of the People's Republic of China,<sup>19</sup> China accounted for more than 14% of Global OFDI that year. Chinese firms, whether SOEs or privately owned, actively engage in OFDI activities, including M&As and Greenfield, especially after the 2008 global financial crisis, which opened opportunities for Chinese firms to buy valuable assets in advanced economies. After the crisis, many firms in the Global North were in difficult financial situations, while Chinese firms were in better conditions. A good example of this is Geely's purchase of Volvo; Ford suffered substantial losses in 2009 and decided to sell Volvo for cash.

Figure 2.1 OFDI from China by Flow



Source: Report on Development of China's Outward Investment and Economic Cooperation 2016, MOFCOM.

The ambitious One Belt One Road initiative was Beijing's latest institutionalized initiative to spur investment of Chinese capital abroad. To mark the project's fifth anniversary in 2018, China hosted a historical Forum on China–Africa Cooperation, inviting the heads of state of 53 African countries<sup>20</sup> to Beijing, where President Xi announced China would provide another

<sup>19</sup> MOFCOM Press Release 12/09/2019 <http://www.mofcom.gov.cn/article/ae/ai/201909/20190902898777.shtml>

<sup>20</sup> These 53 African countries all have diplomatic relationships with the People's Republic of China. The only African country that did not participate in this Forum was Eswatini (Swaziland) because it recognized Taiwan instead of Beijing.



US\$60 billion to financially support African countries.<sup>21</sup> China's total trade was \$5 trillion and its OFDI over \$60 billion<sup>22</sup> in countries in the Belt and Road area.<sup>23</sup> Outsiders may doubt, speculate about, suspect, or criticize this initiative, but many agree that China's massive political and economic agenda to increase outward Chinese financial flows is an indication of its comprehensive economic and political determination to change the global order (Andornino, 2017).

In response to economic, social, and political changes, the CPC leadership selected Xi to lead them in 2012. Since Xi took power, he has emphasized the need to strengthen the Party's central leadership position in China at every level. When he meets with Party officials, he often mentions the "historical lessons" China must learn from the collapse of the Soviet Union. In Xi's most recent speech to senior leaders of the All-China Federation of Trade Unions (ACFTU),<sup>24</sup> he asked ACFTU leaders to prioritize "strengthening the Party's leadership" among Chinese workers. Xi stressed that the ACFTU must consolidate and ensure the Party to retain its primacy among Chinese employees, which placing a "top-down" political pressure on the ACFTU to reform by strengthening its representation among workers. Top-down reforms are initiated or led by high-level government officials (Chang & Brown, 2017). In China, top-down describes Party and ACFTU efforts and strategies that originate with its leadership. Xi underlined the political implications of the ACFTU's active presence among the working population when he said that implementing the CPC's agenda was an essential and political task of the ACFTU. The success of Poland's solidarity labor movement in bringing down the communist regime hangs like a "Sword of Damocles" over the ACFTU and the Party is seriously concerned that the Polish scenario might play out in China.

The ACFTU has reiterated its sole legitimacy as the voice of workers — no non-Party organization can represent labor in China. The ACFTU collaborates with other public authorities (e.g., police) to safeguard stable industrial relations conditions.<sup>25</sup> The regime has no tolerance for

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<sup>21</sup> See <https://www.focac.org/chn/>

<sup>22</sup> See [http://www.gov.cn/xinwen/2018-08/27/content\\_5316913.htm](http://www.gov.cn/xinwen/2018-08/27/content_5316913.htm)

<sup>23</sup> Southeast Asia, Central Asia, Middle East, Eastern and Western Europe, and Africa.

<sup>24</sup> Xi's remarks to the new ACFTU senior leadership in October 30, 2018:

<http://www.acftu.net/template/10041/file.jsp?cid=222&aid=97216>

<sup>25</sup> There is a network of six authorities that can immediately respond to labor-related incidents (strike, protest, etc.). These are the Department of Public Security, Office on Maintaining the Stability, MOHRSS, Labor Inspection Bureau,

any emerging non-Party leaders of social movements or public discussions. The ACFTU's political agenda is to strengthen the Party's leadership and control, and to do so, it has tightened restrictions on NGO activities and the media control, and limited freedom of expression on social and civil topics (Brady, 2017). After it implemented new NGO legislation and registration requirements in 2017,<sup>26</sup> many NGOs working with labor at the grassroots level have ceased to function (Feng, 2017). Scholars found that NGOs that previously advocated labor rights in the Pearl River Delta no longer offer labor services like teaching workers about their legal rights. They have either halted operations or shifted their attention to other less sensitive (better tolerated) social issues, like migration, children's education, and women's empowerment (Zhou & Yan, Forthcoming).

## 2.2 Literature on the effect of OFDI on labor protections

I explained in the literature review section of Chapter I that most researchers consider domestic factors to be the source for changes in labor protections in China. The Party's top-down reform of SOEs, its dissolution of the iron rice bowl system, growing numbers of migrant workers moving from rural to urban regions, growth of labor unrest after industrialization, and evolution and adjustments of governmental institutions have all been examined as factors and addressed extensively in the literature. Scholars have also suggested that international forces drive change in domestic labor protections, especially Gallagher in her 2005 analysis of the role inward FDI played in triggering and facilitating reforms and changes in China's employment relationships and labor institutions.

But a gap in the literature needs to be filled by a study of potential diffusion and upward pressure on China via the channel of outward FDI. In the following sections, I will first review the literature related to the concept of the "California Effect", a major body of research that explored upward diffusions from the Global North to the Global South through trade. Then I will existing review research on upward diffusion pressures that extend from trade to FDI, and related research that links FDI and labor protections.

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Public Complaints and Proposals Administration, and the ACFTU. I learned this in an interview with a manager from a labor consulting firm in Beijing (May 2018).

<sup>26</sup> See [http://www.npc.gov.cn/npc/xinwen/2017-11/28/content\\_2032719.htm](http://www.npc.gov.cn/npc/xinwen/2017-11/28/content_2032719.htm) for the new regulations on registering foreign NGOs and restrictions on their activities in China since 2017.



### 2.2.1 The “California Effect” and labor diffusions through trade

Vogel’s (1995) “California Effect” explains the diffusion of higher standards from developed to developing world via exports from the Global South to Global North. First introduced in 1995, the theory describes a pattern of norm diffusion through trade from countries with higher regulations and standards to countries with lower ones. The mechanism behind this norm diffusion is the stronger preference of consumers and activist groups in developed countries for products that meet higher standards. If firms from the developing world want to enter and compete in advanced economies, they must address these preferences by complying with the higher norms and standards implemented in the advanced market. Vogel’s research first focused on environmental standards and he found empirical evidence to support his arguments.

Malesky and Mosley (2018) suggest that firms from the developing world might be similarly motivated to improve their labor-related practices. They argue that by voluntarily adopting higher labor standards and better practices, firms from the developing world can raise their market shares and profits by directly responding to consumer preferences in the advanced market, or a higher markup described by Malesky and Mosley. Governments in the Global North also place pressure on less developed countries to comply with higher standards through trade agreements, which facilitate the diffusion of labor protections to the developing world. Recently, the trend towards adding labor-related clauses to preferential trade agreements (PTAs) between developed and developing countries reflects demands from trade unions and NGOs in the developed world for improving labor rights (Lechner, 2016; Raess, Sari, & Dür, 2018). Both the European Union and the United States actively promote the inclusion of labor clauses in PTAs along with increasing attention to induce developing countries’ compliance with the labor obligations (Hafner-Burton, 2009; ILO, 2016).

Though China has so far ratified only 15 PTAs, mainly with other developing countries and regional trade partners, international pressure from advanced economies to insert labor clauses may change China’s labor protections over the long run, especially since China intends to embrace globalization more deeply and will complete more PTAs in the future.<sup>27</sup> An outcome from the negotiation of the EU-China Comprehensive Agreement on Investment concluded by the end of 2020 is the commitment from the Chinese side to ratify the International Labour

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<sup>27</sup> See President Xi’s speech at the World Economic Forum Davos 2017 for China’s commitment to globalization.  
<https://america.cgtn.com/2017/01/17/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>

Organization (ILO)’s fundamental conventions on forced labor, which is the latest sign of upward pressure from the Global North to China via treaties on labor protections.

### 2.2.2 FDI and labor diffusion

Scholars have discussed the effects that inflow FDI from developed countries have on labor protections in developing countries. The arguments can be broadly categorized into two different “schools”. The first is the “race to the bottom” school: inward FDI weakens social welfare, labor rights, and regulations as competition exerts downward pressures in countries that seek to attract more inward FDI by lowering labor standards (Silver, 2003). The second is the “climb to the top” school: increases in inward FDI improve working conditions, encourage developing countries to implement the rule of law, and increase labor rights (Mosley & Uno, 2007) because foreign investors from advanced economies are more concerned about labor rights than local firms and can push host governments to improve labor protections. International organizations like the ILO, the media, and NGOs from the Global North can monitor labor conditions on the ground to ensure inward FDI has a positive effect (Richards et al, 2001; Neumayer & de Soysa, 2006; Howard-Hassmann, 2010).

Mosley (2010) compared the effects of trade and FDI on labor rights and argued that FDI has a more positive effect than trade. The climb to the top idea is also found in the IPE literature that focuses on the convergence between liberal democratic political structures and global development (Held, McGrew, Goldblatt, & Perraton, 1999) through economic integrations.

As mentioned in Chapter I, some literature on labor protections in China finds evidence to support Mosley’s climb to the top argument. Since the 1980s, inward FDI from developed economies has flowed into China, contributing to the gradual dissolution of China’s earlier employment relationships. It also encouraged China to strengthen its legislative framework on labor protections. Social values and norms like CSR traveled to China with inward FDI (Fetscherin, Voss, & Gugler, 2010). But there is a lack of studies that empirically analyze the observed increasing trend of outward FDI from the Global South to the Global North. This chapter focuses on the effect of this economic variable on potential upward diffusions back to the Global South and examines the effects of OFDI from China on domestic labor protections over the last fifteen years.



## **2.3 Theories on labor diffusions through OFDI**

### **2.3.1 Diffusion mechanisms**

Research shows that trade and FDI can improve labor rights in developing countries by reducing child labor (Davies & Voy, 2009), increasing wages, and upgrading skills (Davies & Desbordes, 2015). Vogel presented evidence that environmental standards diffuse as trade flows from developing to developed countries (Vogel, 1995). Building on Vogel's (1995) California effect and Mosley and Uno's climb to the top arguments (Mosley & Uno, 2007), I argue that labor protections may diffuse back to China in the aftermath of Chinese OFDI. International labor protection norms, regulations, standards, and practices, e.g., banning products produced in sweatshops or with child labor, improving working conditions, and changing political norms to, e.g., support freedom of association, could diffuse to China via Chinese OFDI, especially Chinese OFDI to advanced economies.

The international political economy literature on upward labor diffusion usually describes trade and FDI as diffusion mechanisms. Some literature focuses on the role of firms and governments in the diffusion process: firms adopt higher labor standards and better practices because it wins them more consumers, or because they must comply with higher standards to gain market access. Governments from the Global North also facilitate upward labor diffusion in developing countries because their public, media, and NGOs exert strong domestic pressure to, e.g., include labor clauses in bilateral and multilateral trade agreements.

The public policy literature discusses specific diffusion theories in detail, usually focusing on governments instead of firms. Four diffusion mechanisms widely discussed by scholars are coercion, economic competition, imitation, and learning (Shipan & Volden, 2008; Volden et al., 2008; Gilardi & Wasserfallen, 2019). Coercion usually refers to coercive actions taken by one government or state to influence another one, like sanctions. Economic competition diffuses improvements through economic interests and motives, as when governments compete to lower taxes and attract inward FDI (Boehmke & Witmer, 2004). Imitation describes the tendency for one state to copy another's behavior so it can gain the same advantages. Learning is a process of improvement through seeing another state's progress and adopting their practices. Unlike imitation, learning requires thought and understanding the consequences of adopting new strategies, while imitation can be done by rote.

Conceptualizing labor diffusion mechanisms via OFDI back to China is inspired by the international political economy literature on upward labor pressures and public policy literature on policy diffusion. Firms are the key players in labor diffusion mechanisms in political economy literature, while the focus is on governments in public policy literature. I will elaborate three labor diffusion mechanisms — mandatory compliance, competition, and learning effect — that may drive upward labor diffusion outcomes as China increases its share of OFDI to the rest of the world.

### 2.3.2 Mandatory compliance

All countries have legislative and regulatory policies to safeguard labor rights, but compliance pressures are much stronger in advanced economies. Workers usually have rights to freedom of expression and association, collective bargaining, and strikes. The public, NGOs, and media actively monitor business activities to see if firms are compliant. One way investment destinations can exert pressure on Chinese OFDI firms is to ensure that non-compliance hurts business. Chinese firms must obey local laws and regulations because violating local labor regulations and laws could have serious negative consequences for firms, e.g., fines, protests from local workers, and even bans on entry to the investment destination.

These consequences may force firms to obey labor laws and regulations, leading Chinese firms to adopt higher labor protection regulations. This mechanism is similar to coercive as one government uses force or threats to change another government or firm's behavior (Most & Starr, 1980). Though not every firm will follow all laws and regulations, the emphasis on compliance with labor protection standards and practices in OFDI destinations could still influence Chinese investors to diffuse these practices back to China. Compliance pressure forces Chinese firms to engage with international labor protection standards and practices, which may be significantly different from those at home. Implementing compliance measures could gradually shape Chinese awareness, attitudes, knowledge, and understanding of labor protections. Forced compliance could drive diffusion because the Chinese investor needs to understand the rules and regulations to comply with them.

Diffusion via mandatory compliance can be illustrated with the example of working hours. Working hours, especially overtime hours, are strictly enforced and monitored in many countries. Chinese firms and workers may be used to long working hours because China has one of the



highest average working times in the world (Mishra & Smyth, 2013), but when Chinese firms invest abroad, they must comply with regulations at the investment destination. In the telecommunications sector in China, overtime work is so common it even has a name: the “996” practice.”<sup>28</sup> But when they engage in OFDI at an investment destination, Chinese investors and employees may quickly find that they are not permitted to work as much as they did at home; strict regulations and rules may cap maximum overtime hours. Violating these regulations could result in heavy fines and protests from local firms/workers. Compliance with regulations that limit working hours may open an opportunity for Chinese firms and employees to reconsider their attitudes and preferences about overtime working, introducing them to new ideas they would not have encountered at home.

When Chinese companies must pay attention to compliance requirements and try to understand regulations and practices abroad, they are expanding both their knowledge of and exposure to labor protections. Many new concepts and practices may diffuse to Chinese firms through these types of forced interactions; merely by complying with labor regulations, standards, and practices abroad.

### 2.3.3 Competition

The California Effect on exporting firms from developing countries describes a process by which firms voluntarily adapt to gain a competitive advantage. Malesky and Mosley (2018) propose a concept they call “higher markup,” which further illustrates the economic incentive this mechanism offers. Consumers, NGOs, and governments in the advanced market strongly prefer products and services produced or provided with better labor conditions. The competition mechanism depends on incentivizing firms to voluntarily adopt better labor standards and practices, so that they can meet the preference for labor protections among consumers in advanced markets. Voluntarily adoption helps firms benefit from higher markups and enhances competitiveness. Diffusion of labor protections would be gradual; as standards are raised in less developed countries, the level of labor protections would converge with that in more developed countries.

It is common for MNCs and industrial associations to adopt private standards and practices to reduce risks related to violating labor rights (Malhotra et al, 2018). MNCs have led

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<sup>28</sup> “996” is shorthand for a work schedule that runs from 9 a.m. to 9 p.m., 6 days per week.

an effort to emphasize the importance of ethics and labor protections throughout their supply chains by strengthening their CSR efforts (Kolk & Tulder, 2004). Adopting higher CSR practices could improve firms' reputations and make them more attractive to consumers. Research shows that adopting internationally recognized CSR standards (like the Global Reporting Initiative) and codes of conduct help MNCs manage risks and maintain a positive public image (Husted, 2005).

OFDI from China to the world could facilitate labor diffusions by driving voluntarily adaption through competition. In the past, it was mainly inward FDI leading by MNCs from the Global North to address labor protections in their CSR reports. Evidence suggests that when inward FDI flows from MNCs like IKEA to China, it creates a positive spillover effect to ethics, the environment, and labor production through industrial linkages and supply chain management (Li, Xue, Truong, & Xiong, 2018; Zhu & Lai, 2019). But the influence of MNCs may be limited to their own subsidies and supply chain networks. Without OFDI, many Chinese firms may not see how important and beneficial it is to voluntarily adopt higher labor standards.

As OFDI from China increases, Chinese firms face demands and have incentives to adopt international standards on labor protections. Chinese investors may also see the benefits in adopting higher CSR standards and goals, like reporting CSR and meeting the United Nations Sustainable Development Goals (Nachbagauer & Waldhauser, 2019). Global supply chain management practice, particularly procurement, offers other opportunities for voluntarily adoption. Before OFDI, most Chinese firms only had experience with managing domestic supply chains and procurements because they operated primarily within Chinese territory. OFDI now asks Chinese firms to engage more with global suppliers and buyers. Better integration into international supply chain networks is a strong motivation for Chinese firms to invest abroad. Many Chinese companies participating in OFDI are voluntarily adopting the Chartered Institute of Procurement & Supply (CIPS) certification to manage their own procurement and supply chain and raising their labor standards so more closely match international expectations.

CIPS is the most widely accepted international procurement certification institute and adopting it benefits the OFDI operations of Chinese firms. CIPS emphasizes labor rights in its mandatory training course, "Ethical Procurement and Supply," which emphasizes respect for the ILO's conventions on freedom of association and expects those it certifies to align with other labor protection positions, like ending forced, compulsory, and child labor, and granting workers



equal treatment. CIPS also expects firms to cooperate with NGOs (the Third Sector) that monitor and supervise corporate activities.<sup>29</sup> Only those who complete this mandatory training can progress through the levels of CIPS's procurement certification exams. When Chinese firms engaged in OFDI adopt the CIPS standard, labor protections may diffuse back to China when these firms ask their home sites to also meet with this international standard.

#### 2.3.4 Learning effect

Learning effect drives diffusion when people accumulate enough experience, knowledge, and information to change their beliefs (Levy, 1994; Dobbin et al., 2007). In the scope of OFDI and labor protections, the learning effect in OFDI and labor protections refers to a situation when Chinese firms accept and adoption standards, procedures, practices, and norms or values absorbed through the OFDI from China to foreign countries.

The main motive for learning is the desire for increased productivity and growth. Matthews' "Linkage, Leverage, and Learning" framework (Matthews, 2006) is useful for understanding how Chinese firms that invest abroad are motivated by a desire to be more productive, to learn more about management, and to reach a broader market (Luo & Tung, 2007; Madhok & Keyhani, 2012). This is especially true of firms that invest in advanced economies because Chinese firms can pay less to buy strategic assets, without heavy investment in research and development. Most Chinese firms are in an early stage of development because they have only had thirty years to evolve. They want to learn from the rest of the world, and especially from well-established and experienced firms in advanced economies. Through OFDI, Chinese firms meet foreign colleagues who can teach them how to be more productive; what they learn when they are abroad may diffuse back to China and improve labor management and practices. Zheng and Edwards (2007) show that Chinese expats are knowledge transfer agents who diffuse best practices from foreign branches back to parent firms in China. Learning-driven diffusion is more likely to have practical effects before it has institutional or regulatory effects. These practical effects include working conditions, occupational safety and health measures, and human resource management.

Labor protection practices are usually connected to human resource management; training in these practices may increase productivity by improving performance (Ataullah, Le, & Sahota,

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<sup>29</sup> See the link for more information on the CIPS training course, "Ethical Procurement and Supply".  
<https://www.cips.org/en/learn/e-learning/ethical-procurement-and-supply/>

2014). For example, there is empirical evidence that management practices can significantly improve productivity and increase the value of brands. Well-designed management practices and the capacity to meet cultural and geographic challenges abroad increase the likelihood of the successful business operations, and at the same they increase labor productivity (Bloom & Van Reenen, 2011). Competitive and better-managed firms provide workers with better working environments and work-life balance (Bloom, Kretschmer, & Van Reenen, 2009). Firms from developing countries, including Chinese firms, have suffered from insufficient or lower management skills (Bloom & Reenen, 2010). There is a consensus among Chinese entrepreneurs that international firms (mainly from Europe and the USA) are better at reaching a balance between protecting labor and increasing productivity. There is some evidence that OFDI has helped Chinese firms understand, learn, and then copy practices and arrangements from abroad. For example, firm-level investigations revealed that an outcome of learning through OFDI was that Chinese firms established a standardized internal human resource system and adopted more workplace safety protocols for the production sites in China.<sup>30</sup>

Geely,<sup>31</sup> a leading Chinese acquirer of M&A in Western Europe, created a “Leadership Training Program” for newly arrived Chinese expats in Sweden. The program introduced Chinese employees to the European working environment, local community, and informed them about other social and legal issues that differed from its home sites in China. Geely’s Chinese team accumulated knowledge and experience about international management through learning and understanding — they now knew a lot more than they had when they began their M&A of Volvo in 2009. We can consider Geely’s successful research and development laboratory in Germany at 2018 to be an output of a learning process that began almost a decade earlier: Geely became more competent in international human resource management systems by integrating after its M&A and learning from Sweden. Other Chinese firms may also benefit from the learning effect, which could open a pathway for diffusing labor protection practices from developed economies back to China.

If firms learn more about international labor standards and practices through OFDI, it could trigger governments and labor institutions in China to learn and adapt best practices from abroad. Thelen’s (2004) “conversion” theory postulates that the goals, functions, and purposes of

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<sup>30</sup> Described in detail in Chapter IV.

<sup>31</sup> Information is from my interview with Geely’s staff in Sweden (July 2019).



an established institution continue to evolve when domestic labor conditions change. When the Chinese government and labor institutions encounter alternative labor practices in developed nations via OFDI, this could catalyze their realization that Chinese labor protection policies no longer guarantee the stability of the employee-employer relationship. Chinese institutions would then need to learn and reform to increase their welfare delivery capacity and social management skills. In the Eastern part of China, there is evidence that social policies diffuse at the local government level. Local governments learn and adopt the concepts and practices of sustainable economic growth so they can accommodate worker's continuous demands (Shi, 2009). As learning accumulates through M&As, Chinese employees in those firms may generate new demands, which could, in turn, push labor authorities to learn.

The three channels I described – mandatory compliance, competition, and learning effects – could all diffuse labor upward through OFDI, from investment destinations back to China.

#### 2.3.5 Resistance to diffusion

But increasing engagement and exposure to foreign labor protection norms and practices may also push China to tighten its control on labor protections at home to counter diffusions from abroad, especially diffusion pressures that question the laws and regulations in place.

China's current political situation does not follow some predictions by liberal scholars that democracy and economic liberalization will converge to create a liberal democratic political system (Held et al., 1999). China's political system has not shifted towards democracy, even after almost 40 years of economic liberation and integration into the world economy. Instead, economic development has stabilized the CPC regime (Gallagher, 2005) and enhanced its legitimacy as the sole ruler of China because it has successfully raised living standards (Holbig & Gilley, 2010). Repression of civil rights activists has intensified over the last few years. The crackdown on freedom of expression is evident in the increase of internet censorship. The state media continues to encourage the people to worship Chairman Xi and his Party leadership<sup>32</sup>. Many grassroots labor NGOs and lawyers who expressed the grievances of Chinese workers have been silenced (Estlund, 2017).

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<sup>32</sup> See this media report from Radio France Internationale <http://cn.rfi.fr/%E4%B8%AD%E5%9B%BD/20171027-%E6%B3%95%E6%96%B0%E4%B9%A0%E8%BF%91%E5%B9%B3%E7%9A%84%E6%96%B0%E6%97%B6%E4%BB%A3%E6%B2%A1%E6%9C%89%E8%87%AA%E7%94%B1%E7%A9%BA%E9%97%B4>

Streeck (2009) argues that it is hard to formulate a universal political development path because specific geographies, traditions, and history create unique social structures. This may explain why China has run counter to Western expectations. The culture, traditions, and history of the CPC have emphasized its “successful leadership” in creating and building the “New China,” and the Party demands that workers support the current CPC regime. The regime refuses to reduce its control over Chinese workers and will use every means at its disposal to defend the Party’s ideologies and doctrine on labor. External labor norms that diffuse back to China through OFDI may face stiff opposition from the Party.

In response, China might choose to establish a “Great Firewall” of labor protections to prevent further diffusion of labor protections to China. In industrial relations literature, a “firewall” is a regulatory or administrative barrier created by authorities or institutions to protect certain social partners against threats or changes (Behrens & Jacoby, 2004). But the “Great Firewall” (意识形态安全防火墙) in this thesis is an analogy from the rapid development of internet technology over the past 20 years in China. China’s Great Firewall is a sophisticated internet censorship technology and system following the rapid development of the Internet (Griffiths, 2019).

The CPC leadership sees citizens who have access to foreign websites and foreign information as potential threats who might challenge the Party’s political position. After a series of political events, including international human right pressures to boycott pressures the 2008 Beijing Olympic Games, Tibetan resistances, and the March 2008 uprising, and the “July 5<sup>th</sup> 2009 Incident” in which Uyghurs rioted in Urumqi, China formally banned access from domestic territories except for Hong Kong and Macau to a list of foreign websites<sup>33</sup>. The list has grown, and the Chinese public is almost fully blocked off from the international Internet community. The Party and ACFTU could set up a parallel Great Firewall to defend the Party’s labor doctrines, cutting off any linkages that diffuse foreign labor concepts and norms into China and circumventing any California Effect within its territory<sup>34</sup>. I discuss possible resistance to this kind of Great Firewall in Chapter IV.

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<sup>33</sup> Like Google, Twitter, Youtube, Facebook.

<sup>34</sup> The Chinese phrase “Great Firewall” (意识形态安全防火墙) has been frequently repeated by both the central and grass-root level governments in China in recent years by. See links below:



Mosley mentioned the possibility of a “China Effect” that could cancel out the “California Effect” (Mosley, 2010). She was referring to other developing countries that received more inward South-South FDI, but China might play out this scenario, especially in terms of shutting down discussion of labor rights that it views as too political. Evidence supports the claim that China has repressed labor-related international corporate social responsibility standards and it will redefine global norms and rules, so they do not contradict the Party line (Bartley, 2018). The CPC has already used the new NGO regulation to cut links between domestic civil groups and their international partners, possibly a “boomerang” reaction to reduce external pressures (Keck & Sikkink, 1998) and protect the ACFTU’s central leadership at home. The boomerang theory describes the mechanism by which domestic civil society and NGOs reach out to foreign counterparts and international civil society then pushes their governments to pressure the home state to meet the requests of domestic NGOs. By cutting the connections between domestic civil groups and international activists, the CPC severed channels that transmit any external pressure, reducing the influence of the “learning effect.”

To systematically examine the effects of OFDI on domestic labor protections in China and to test the possible scale and extent of diffusions, I outline below four hypotheses on three sets of labor outcome variables: occupational safety and health; labor peace; and the political control exerted by the ACFTU on Chinese workers. One additional hypothesis focuses on the effects of these labor outcome variables in Eastern China, which is relatively more exposed to OFDI than other regions.

## 2.4 Hypotheses

### 2.4.1 Occupational safety and health conditions

According to the race to the bottom argument, the “Made in China” label signifies the poor working conditions in China, where local workers suffer from dangerous or toxic occupational safety and health conditions and insufficient social welfare. During the first decade of the 21<sup>st</sup> century, China did see a surge of occupational injury incidents, especially in the

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[http://www.leizhou.gov.cn/xwdt/lzyw/content/post\\_210398.html](http://www.leizhou.gov.cn/xwdt/lzyw/content/post_210398.html)  
<http://news.dahuawang.com/shantou/content/202003/22/c65140.html>  
[http://www.gstheory.cn/dukan/hqwg/2017-08/23/c\\_1121528832.htm](http://www.gstheory.cn/dukan/hqwg/2017-08/23/c_1121528832.htm)  
<http://www.xinhuauebao.com/2018/0816/3611.shtml>

mining and manufacturing sectors (Wang et al., 2011; Liu, et al., 2016; Shi & Xi, 2018). The lack of communication between workers and managers and the lack of representation from the worker side in safety management are key factors in creating dangerous working conditions (Chan, Chen, Xie, & Walker, 2014). Public awareness and concerns about working safety and health increased after those incidents, as did pressures on the State Administration of Work Safety,<sup>35</sup> which takes the responsibility on occupational safety and workers' health. Some researchers found that top-down pressure from the government improved the health and living conditions of Chinese workers over the last several years (Nie, Otterbach, & Sousa-Poza, 2015).

Public concern and pressure motivate government officials and ACFTU cadres to improve occupational safety and health measurements, and they are likely to welcome all methods of improving domestic occupational safety and health conditions, including those imported from abroad through OFDI. In this scenario, resistance to labor diffusion is negligible because public concern poses minimal political risks. The ACFTU does not intervene directly in these cases. Instead, it prefers to outsource solutions to medical and public health experts. For example, public health scholars and the ILO's Beijing branch proposed and developed an occupational safety standard to protect healthcare workers from bloodborne pathogens with minimal participation and consultation from the CPC and ACFTU.<sup>36</sup> When occupational safety and health conditions are not politically sensitive, it is easier to introduce improvements.

While Chinese workers do not suffer as much from poor occupational safety and health conditions as they once did, OFDI can still positively influence China to improve its domestic working safety conditions (Eyraud & Lee, 2008). Providing safe working conditions is a high priority for firms in most countries, especially those in Europe and the USA<sup>37</sup> (McDonald, 2008; Locke, Rissing, & Pal, 2013; Locke, Rissing, & Pal, 2013). Even in developing countries, local workers and governments are more cognizant of occupational safety and health than Chinese workers at home. The pure pursuit of output and ignorance of safety measurements found in Chinese firms, as Lee (2018) called it, the "*ability to eat bitterness*,"<sup>38</sup> surprised and shocked

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<sup>35</sup> After March 2018, the State Administration of Work Safety became the new Ministry of Emergency Management. <http://www.chinasafety.gov.cn/>

<sup>36</sup> This example is based on the process of drafting GBZ/T 213—2008: The Implementation Note for Guideline for Prevention and Control of Occupational Exposure to Blood Borne Pathogens. I obtained this information from an interviewee during my fieldwork in Beijing (October 2019).

<sup>37</sup> For Europe, see <https://osha.europa.eu/en/safety-and-health-legislation/european-directives>.

<sup>38</sup> Lee quotes this phrase, originally spoken by a Chinese manager in Zambia.



African workers when Chinese OFDI engaging in Zambia. “Eating bitterness” describes Chinese acceptance of extremely poor working conditions, much lower than in some developing countries. OFDI activities may help Chinese firms engage with, understand, and learn foreign values and adopt better occupational safety and health practices. Once Chinese firms realize the usefulness and benefits of improving occupational safety and health conditions, they will raise their standards and protection practices, reduce risks, and be more productive.

A recent Fuyao case highlighted occupational safety and health condition gaps between China and the USA, and the way of diffusion back to Fuyao’s factories in China.<sup>39</sup> The events took place at Fuyao Group’s production site in Ohio (Fuyao is a Chinese firm that producing auto glass). After Fuyao acquired American factories in Ohio via OFDI, American workers were surprised to see newly arrived Chinese managers and workers continuing to work on assembly lines while they were being maintained or repaired. The American workers thought this was dangerous and that the company disregarded the worker’s safety, but Chinese companies are more focused on output and efficiency than on protection and safety risks. The Chinese side was surprised to learn about the Americans’ disapproval, because in China it is common practice to continue working on assembly lines while they are being maintained or repaired. After the initial confrontation, the Chinese management team changed its practices to match the American protocols at all its production sites, in the US and China, demonstrating the positive effect OFDI can have on occupational safety and health conditions.

The Fuyao example illustrates a diffusion channel and suggests it is possible for China to improve its occupational safety and health conditions through OFDI. If the government is willing to reduce work-related accidents and injuries, more international exposures via OFDI may improve China’s domestic occupational safety and health conditions.

*H1: As provincial level of exposure to Chinese total OFDI increases, workplace occupational safety and health conditions improve at the provincial level in China.*

#### 2.4.2 Labor peace

Since market-based reforms began and the iron rice bowl system was dismantled, most labor disputes in China have been handled and discussed in an institutional framework that includes the ACFTU, the Ministry of Human Resources and Social Security (MOHRSS), and

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<sup>39</sup> See <https://new.qq.com/omn/20171231/20171231A0BA54.html>

public security authorities (e.g., local police). Although collective incidents<sup>40</sup> and civil society movements like the 2010 Honda Strikes (Friedman, 2014) and the 2011 Wukan village election (Hua, Hou, & Deng, 2015) attracted significant domestic and international attention, the Party's leading institutions generally maintain stability and peace without serious clashes.

Labor unrest in China has a variety of motives, including wages, temporary versus formal employment status, and overtime work practice, but disputes are usually linked to wages and compensation, and they are often settled by financial solutions (Lee, 2016). The famous Nanhai Honda strike in 2010, which Friedman analyzed (2014), is a good illustration of this point. The first request that came from the workers organizing the factory strike was that the factory increases their wages by RMB 800 per month. In the end, the strike was resolved with an agreement to increase monthly wages by RMB 500.

OFDI from China to nations abroad may empower Chinese employees to raise their voices and organize collective demands to submit to their employers, increasing friction in industrial relations. Many advanced and developing countries have active trade union organizations and NGOs concerned with labor rights. OFDI could open a path for Chinese employees (especially expats) to directly engage and interact with labor activists and learn foreign practices in industrial relations, especially when OFDI flows to developed economies in Western Europe where collective bargaining and worker associations are very common.

Most Chinese managers and staff do not know about or have experience with industrial relations issues outside of China, especially the norms and practices of collective bargaining and collective agreements. Inside China, terms that sound similar refer to practices implemented within the Party and ACFTU framework; these operate very differently from labor organizations abroad. Chinese companies must learn how to handle worker representatives and how to deal with collective labor demands.<sup>41</sup> Incompatibilities, misunderstandings, or conflicts may result from different understandings of industrial relations, as when Swissport employees faced off against HNA Group management to negotiate the renewal of collective agreements in

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<sup>40</sup> A "collective incident" is an unapproved gathering of people who decide to express their concerns or defend their rights; the Chinese government sees these as major challenges to social stability. See the CPC's definition here: <http://cpc.people.com.cn/BIG5/134999/135000/8105920.html>.

<sup>41</sup> An example from Latin America was the Shougang mining project in Peru. [http://www.chinagoingout.org/africa\\_business/shougangmimiershiniandelaozijiufen/](http://www.chinagoingout.org/africa_business/shougangmimiershiniandelaozijiufen/)



Switzerland,<sup>42</sup> or when Fuyao Group managers tried prevent the United Automobile Workers from establishing a trade union organization at their factories in Ohio, USA.<sup>43</sup>

If Chinese employees begin to engage with and gradually understand bargaining practices abroad, they may adopt some of these practices back home when they seek to defend their labor rights. The learning channel of labor diffusion might empower Chinese workers in their domestic industrial relations, as the awareness of employees increases; this is likely to increase the number of labor disputes. OFDI might also give Chinese workers more bargaining power because firms must send Chinese expats abroad. This new demand from the workforce may motivate Chinese workers to demand better employment conditions, again increasing labor disputes. The ACFTU records individual and collective labor disputes across the nation in its annual statistic yearbooks. It defines individual labor disputes as any dispute filed only by one individual compliant against his/her employer. It defines collective labor disputes as any dispute filed jointly by more than thirty individual complaints. If the number of disputes increases as OFDI increases, this may be a sign that OFDI diffuses ideas that empower domestic workers.

*H2: As provincial level of exposure to Chinese total OFDI increases, labor peace in China will deteriorate and labor disputes will increase at the provincial level.*

#### 2.4.3 ACFTU's presence and control

As OFDI increases, so does the chance that labor institutions in China will be influenced, eventually, by external norms and values. Likewise, there may be convergence pressures from abroad to China on political aspects of labor protections, threatening the ACFTU's legitimacy as the representative body for Chinese workers. Labor activists and some scholars believe that the ACFTU will not be able to maintain its leadership and control in China, which will follow a pattern like that of Eastern European countries and eventually achieve the freedom of association and expression the West advocates. If there is freedom of association in China, the state is likely to replicate the process by which in the late 1980s, Polish Solidarity labor movements changed the regime. In this scenario, Chinese workers would abandon the ACFTU and it would disappear.

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<sup>42</sup> See

<https://www.swissinfo.ch/chi/%E5%BD%93%E7%91%9E%E5%A3%AB%E9%81%87%E8%A7%81%E4%B8%AD%E5%9B%BD%E8%80%81%E6%9D%BF-%E7%9B%B8%E7%88%B1%E4%B8%8D%E6%98%93-%E7%9B%B8%E5%A4%84%E6%9B%B4%E9%9A%BE/43607714#comments>

<sup>43</sup> See <http://finance.sina.com.cn/chanjing/gsnews/2017-11-13/doc-ifynstfh6741506.shtml>  
[http://www.xinhuanet.com//fortune/2017-06/26/c\\_129640780.htm](http://www.xinhuanet.com//fortune/2017-06/26/c_129640780.htm)

Though this Westernized scenario is a theoretical sequela of continued engagement with international labor protection norms and practices via OFDI, it is unlikely to play this way, given the current political situation in China. Evidence from China's neighboring economies has undermined the assumption that deeper economic integration and frequent people-to-people exchange lead to political liberalization and democratization. Economic ties between mainland China and Taiwan and Hong Kong have increased in recent years,<sup>44</sup> but mainland China never moves towards democracy that embedded in either Hong Kong or Taiwan. Instead, Beijing pushes Hong Kong and Taiwan to accept the Party-State authoritarian regime, creating dissatisfaction and resentment among residents in Hong Kong and Taiwan.<sup>45</sup> Given this pattern, more OFDI may instead strengthen ACFTU's presence and control as Party and the ACFTU fought for and maintained their legitimacy and leadership among Chinese workers.

The bureaucracy and inefficiency of the ACFTU has alienated itself from the Chinese worker population for years (Pringle, 2011). In the view of most Chinese firms and the public, the ACFTU has limited influence on labor. Chinese workers prefer flexibility and better job opportunities instead of stability (Zhang G., 2018), so they may be increasingly disinterested in joining ACFTU networks and units. It is also expensive for individual workers to join ACFTU membership, costing 2% of their salary. A household survey conducted in 2012 and 2014 by Sun Yat-Sen University <sup>46</sup>shows that most respondents knew little about the ACFTU and did not care much about whether it existed, little about its role or effects.

An increasingly marginalized ACFTU could threaten the Party's political control over Chinese workers. If OFDI diffuses labor practices back to China, especially those that support freedom of association and independent trade unions, it could alarm the Party and ACFTU and remind them of the threat from the West. This alarm might cause the ACFTU to proactively build a Great Firewall, cutting off Chinese firms and workers involved in OFDI activities and preventing labor diffusions. The ACFTU does understand this threat and has tried conversion-type reforms to regain the trust of Chinese workers (Thelen, 2004).

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<sup>44</sup> For Hong Kong, from 1997 sovereignty turnover to China; for Taiwan, from 2008 KMT president Ma Ying-jeou's term.

<sup>45</sup> The most recent example is the Hong Kong protests against Beijing's unilateral political orders, ongoing since the summer of 2019.

<sup>46</sup> Data used in this paper is from the China Labor-force Dynamics Survey (CLDS) by the Center for Social Science Survey at Sun Yat-sen University in Guangzhou, China. The opinions are mine. Please refer to <http://css.sysu.edu.cn> for more information about the CLDS data.



If OFDI diffuses labor protection regulations and practices, the ACFTU may no longer be able to guarantee stable employee-employer relationships when workers demand more labor rights. ACFTU must avoid marginalization, so it must convert itself to match the changing conditions of labor protections in China, including coping with the effects of OFDI. In Eastern China, social policies have diffused at the local ACFTU level, increasing the capacity of welfare delivery and improving social management skills. In some regions, local ACFTU and other labor authorities are adapting the concepts and practices of sustainable economic growth to better accommodate worker's demands (Shi S., 2009). If OFDI motivates ACFTU to reform itself by increasing its capacity, ACFTU's presence could increase in China. ACFTU units could expand to encompass more firms and its membership might increase accordingly.

Reactions from the ACFTU on potential labor diffusions via the OFDI channel could be seen from a broader scope of political situations in China, as the presence and influence of the ACFTU among Chinese workers are highly politically sensitive topics in China. To better understand the relevance and political sensitivity of labor protections in China, I present a brief comparative analysis between China and Vietnam to illustrate political barriers and challenges that could lead to different labor diffusion outcomes.

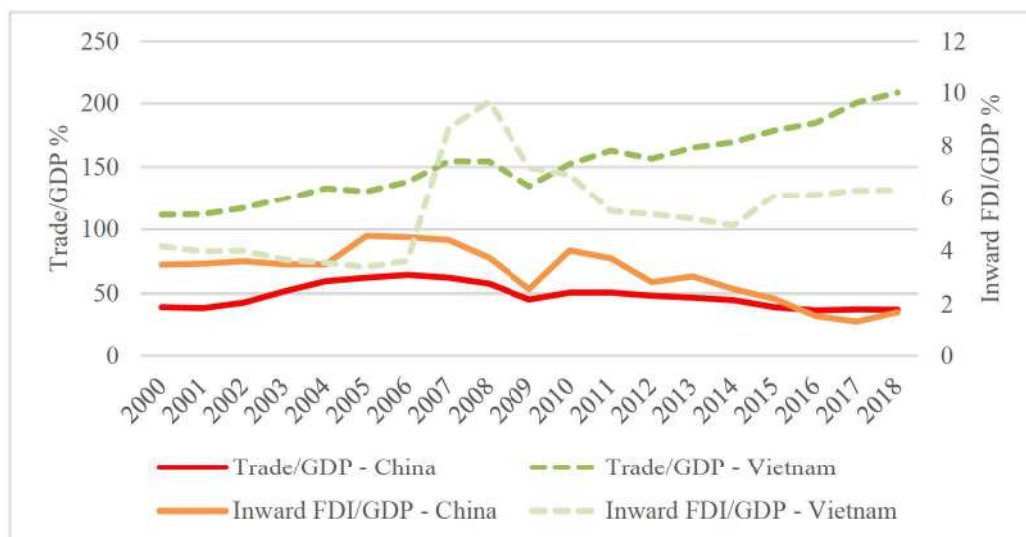
#### Box 2.1 Comparing the Political Situation in China and Vietnam

Comparative analyses argue that China will follow Vietnam in implementing pro-labor reforms, since they have similar stances on economic openness, face the same international upward pressures, and both are ruled by authoritarian Party-State regimes. Evans (2018) shows that Vietnam, an East Asian country with a political system similar to China's, undertook pro-labor reforms to empower workers through external influences, including global buyers, FTAs, and geopolitical changes. But three main factors prevent China from following Vietnam's pro-labor reform path in the near future.

First, Figure 2.2 shows that China is much less exposed to foreign trade and inward FDI than Vietnam, significantly reduced the leverage foreign economic powers can exert on China. China's growing domestic market strengthens the bargaining position of the CPC against foreign countries and renders pro-labor advocacy ineffective.

Second, Vietnam's reliance on foreign trade strengthens the role of FTAs, especially for its major trade partners – the United States and European countries. ASEAN's involvement as a joint party in the FTA further reduces Vietnam's leverage against foreign influence. Consequently, Vietnam gave significant concessions to satisfy demands from its trade partners. For example, under the EU-Vietnam FTA, there are stringent labor provisions and commitments from the Vietnam side in ratifying ILO fundamental conventions. But China's fifteen FTAs are mostly dominated by Chinese economic leverages and there are only shallow labor clauses in those FTAs. This is because for China's trade partners, they have less bargaining power and cannot compete with China's massive market.

Figure 2.2: Dependence on Foreign Trade and Inward FDI



Data source: World Development Indicators, the World Bank Group

Third, the geopolitical situation in Asia after the rapid rise of China pushed Vietnam to seek security alliances with or assurances from the USA and other Western powers (Japan, Australia, Europe), particularly after China militarized over disputed islands in the South China Sea (Stashwick, 2017; Pietrasiak, 2018). This security concern could restrict the repression of labor movements from the Vietnamese Party-State regime in exchange for political supports from the West. In the latest signed EU-Vietnam trade and investment agreement (2019) Hanoi attempted to reduce Vietnam's trade dependence on China by increasing economic ties to Western countries. Since China posed a geopolitical threat, the Vietnamese authority would seek support from the West, and could then appeal and accommodate requests from Western society, making pro-labor reform feasible.



But the CPC in China firmly believes that China is facing growing hostility from the West after the collapse of the Soviet Union and this tendency intensified since the Obama administration's Pivot to Asia strategy. So the CPC, led by President Xi, expands its controls and suppresses any movements not under their control.

This effort also applies to labor protections because the Party crushes grassroots NGOs or any civil society organization that has international connections or receives foreign financial support. Consequently, the external factors that facilitated Vietnam's pro-labor reforms do not exert the same influence in China.

President Xi's political campaigns in recent years, including a crackdown on dissent, human rights activists, and lawyers that began in 2015,<sup>47</sup> has cleared space for the ACFTU to expand its presence and influence and "strengthen the Party's control over workers." Forbidding the freedom of association diminishes the chance that alternative organizations to represent employees (Svensson, 2012). The ACFTU could seize this opportunity to penetrate more firms and attract more workers at the grassroots. Party officials, state media, and the ACFTU leadership tell the Chinese public about the "negative" side of Western trade unions, claiming that these unions feed chaos in the USA, France, or Germany by striking, reducing productivity, and bankrupting firms.<sup>48</sup> These claims may ease the dissatisfaction of Chinese workers and help the ACFTU to promote the "correct" pattern of labor doctrines.

The CPC's top leadership pressures the ACFTU to maintain full political control over Chinese workers. ACFTU's desire to remain central might encourage the organization to increase its presence among Chinese workers after OFDI and perceived labor diffusion threats. ACFTU's recent reforms, including expanding ACFTU units at the grassroots level, and its leadership's emphasis on the terms "collective contracts, agreements, and negotiations," all signal the intent to increase its capacity to meet social challenges (Chan J., 2018). The ACFTU implemented and tested many reforms at the provincial or grassroots level to avoid further marginalization (Estlund, 2017). Its leadership describes the organization's expanded presence

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<sup>47</sup> See this Amnesty International article: <https://www.amnesty.org/en/press-releases/2017/07/china-end-ruthless-crackdown-human-rights-lawyers-activists/>

<sup>48</sup> See this media report on a strike in France that almost shut down the French economy. <http://world.huanqiu.com/exclusive/2017-10/11320665.html>

among Chinese workers as "a battleground fighting against some hostile foreign forces."<sup>49</sup> The Party's insistence on a Chinese definition of success and efficiency may also encourage the ACFTU to defend itself against foreign influences. By advocating official norms and values, the Party and the ACFTU might be able to neutralize new norms or ideas that diffuse to China via OFDI (Ottati & Cologna, 2015), so we may see ACFTU coverage increasing as OFDI to foreign countries increases.

*H3.1: As provincial level of exposure to Chinese total OFDI increases, so will the presence and control of the ACFTU in China at the provincial level.*

The ACFTU's efforts to strengthen its leadership position are most apparent in the manufacturing sectors. The Party sees industrial workers in the manufacturing sectors as active labor movement participants and they are more likely to be collectively mobilized. Chinese manufacturing's global "Made in China" image is evidence of its importance to the Chinese economy and employment. Much Chinese OFDI comes from the manufacturing sectors, which might raise the risk of labor diffusions via OFDI in these sectors. Figure 2.3 shows the financial amount and share of Chinese OFDI entering different sectors. According to the figure, OFDI entering the manufacturing is increasing rapidly in recent years. For example, in 2015, Chinese OFDI in manufacturing sectors grew an astonishing 108.5%,<sup>50</sup> most of it directed to European and the North American markets (Wu, Ding, & Shi, 2012).

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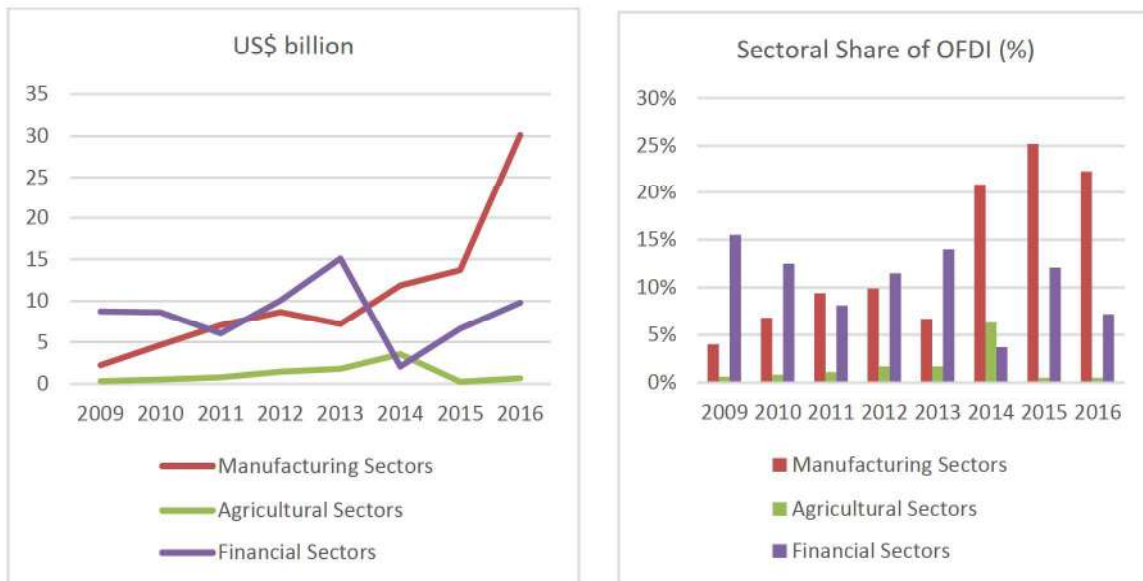
<sup>49</sup> See an interview by the Vice Chairman of the ACFTU, Yubin Li in 2015.

[https://www.guancha.cn/society/2015\\_02\\_28\\_310576.shtml](https://www.guancha.cn/society/2015_02_28_310576.shtml)

<sup>50</sup> Source: MOFCOM's 2016 Statistical Bulletin of China's Outward Foreign Direct Investment.



Figure 2.3 Chinese OFDI Flow by Sectors, 2009 – 2016



Source: MOFCOM's Statistical Bulletin of China's Outward Foreign Direct Investment, from 2009 to 2016.

Chinese OFDI entering the manufacturing sectors is mainly destined for advanced economies. By the end of 2015, in Europe, the stock of Chinese OFDI in the manufacturing sectors was US\$ 16 billion, representing almost 20% of total Chinese OFDI stock in Europe. Similarly, in North America, the stock of Chinese OFDI in the manufacturing sectors by the end of 2015 was US\$ 12 billion, representing 23% of total Chinese OFDI stock in North America<sup>51</sup>. The concentration on the manufacturing sectors could increase interactions between Chinese firms and workers in manufacturing sectors and their counterparts abroad, strengthening labor diffusions. Labor protection standards and conditions, especially social dialogues and collective rights, are more protected in advanced economies than in China (Esping-Andersen, 1990; Hall & Soskice, 2001).

Chinese OFDI that enters manufacturing sectors in the Global North could threaten ACFTU's control and leadership, so the ACFTU may concentrate its resources and efforts in China's manufacturing sectors to defend itself against external threats. Though there have been some recent bilateral exchanges and dialogues between the ACFTU and international trade union

<sup>51</sup> In Europe, the stock of the manufacturing sectors ranks the 2<sup>nd</sup> among all sectors; In North America, the stock of the manufacturing sectors ranks the 1<sup>st</sup> among all sectors. Source: MOFCOM's 2015 Statistical Bulletin of China's Outward Foreign Direct Investment.

organizations from the manufacturing sectors (e.g., with Germany's IG Metall), the ACFTU's engagement may be performative, to relieve external pressure through the appearance of international solidarity. The ACFTU could still build the Great Firewall and expand its presence among manufacturing workers in China, with the intent of severing the channels through which Chinese manufacturing workers might receive international support.

*H3.2: As provincial level of exposure to Chinese total OFDI increases, the ACTFU's presence in and control of workers in China's manufacturing sectors will increase at the provincial level.*

#### 2.4.4 Eastern provinces

There are regional differences in economic openness, growth, sectoral allocations, and employment between more advanced Eastern provinces and inland provinces in China, which may affect the rate of labor diffusion. The eastern part of China<sup>52</sup> is more developed than the inner areas, thanks to the earlier Special Economic Zone policy during the “reform and opening up” period. All Special Economic Zones are in the Eastern coastal provinces,<sup>53</sup> so they were the first parts of China to embrace globalization in the 1980s (Xiao, 2018).

The effects of OFDI on domestic labor protections could be more concentrated in these parts of China because so much OFDI comes from these Eastern provinces. Figure 2.3 shows the number of firms involved in OFDI activities in 2016, by the location where their headquarters was registered; many of these firms are in the eastern part of China. Firms from the provinces of Guangdong and Zhejiang account for over 30% of the Chinese firms participating in OFDI.

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<sup>52</sup> In this chapter, I define the Eastern provinces as 10 provinces and municipalities in the Eastern part of China: Beijing, Tianjin, Hebei, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangzhou, and Hainan.

<sup>53</sup> Shenzhen, Zhuhai, and Shantou of Guangdong Province, Xiamen of Fujian Province, and Hainan province were established as special economic zones in the 1980s; in 1984, the 14 “Coastal Opening Cities” were added.



Figure 2.4 Overseas Enterprises Established by Chinese Firms <sup>54</sup>



Source: Report on Development of China's Outward Investment and Economic Cooperation 2016, MOFCOM.

Complex dimensions and significant cross-regional variations in China create gradual and uneven institutional changes (Coase & Wang, 2012), hence the effects of OFDI on labor protection outcomes also vary across regions. Some labor diffusions may first arrive in the Eastern provinces and influence labor outcomes there. These diffusions may spread to provinces in the Middle and Western parts of China, or encounter resistance from the Party and ACFTU and gradually disappear. In either case, signs of labor diffusions are likely to arrive first in Eastern provinces and have the strongest effects there.

The ACFTU representation is a useful example for illustrating the way regional differences influence the effect of OFDI on labor protections. Though the national effects of ACFTU's reactions and efforts to suppress diffusion are unclear, we might find signs of them in the eastern regions where diffusion is first to appear. The arrival of these imported norms and practices may trigger ruling authorities and the ACFTU to take countermeasures. The ACFTU may first seek to strengthen its representation in these eastern regions. For example, the campaign against the "illegal underground trade union" network is most active in the Eastern provinces

<sup>54</sup> "Central Enterprises and Units" refer to firms that are not registered under any province. Instead, these firms, usually SOEs in large scale and in monopoly, are registered and managed directly by the SASAC of the central government. Therefore, these firms do not belong to any provinces.

(Wang K., 2007). The officials and ACFTU branches in inland regions might take longer to reach a similar degree of understanding and react, so we would expect to see the strongest labor diffusion outcomes in Eastern provinces.

OFDI from Eastern provinces is also a proxy for Chinese OFDI entering the Global North, because the leading and most competitive firms from China are in these provinces. Geely, Huawei, Media, all these high-profile Chinese firms investing abroad are based in Eastern provinces like Zhejiang and Guangdong. OFDI from these firms is more likely to flow into advanced economies because the objectives of OFDI for these leading firms usually align with the Global North; they seek, e.g., technology upgrades, strategic assets, and market access are more likely to achieve these business objectives by investing in advanced economies.

OFDI from the Eastern provinces is also more likely to concentrate in manufacturing sectors, increasing the exposure of these provinces to foreign labor protection norms and practices. Key manufacturing firms are in Eastern provinces, for instance at the Yangtze and Pearl River Deltas, and employ a large number of workforces. Concentration on the manufacturing sectors could increase the effects of labor diffusion because the manufacturing sectors are more organized than other sectors and the international standards and practices are often more stringent and higher than those in China.

The goals of OFDI to advanced economies and its sectoral concentration in the manufacturing sectors could increase the effect of labor diffusions in the Eastern provinces, or more easily to be observed. Consequently, OFDI from these Eastern provinces may have stronger effects on improving occupational safety and health conditions and intensifying labor unrest, and where we might expect to see a more aggressive and stronger Party and ACFTU presence.

*H4.1: As OFDI from China's Eastern provinces increases, workplace occupational conditions will improve.*

*H4.2: As OFDI from China's Eastern provinces increases, labor disputes will increase.*

*H4.3: As OFDI from China's Eastern provinces increases, the presence and control of the ACFTU will also increase.*



## 2.5 Data and Methods

### 2.5.1 A brief background on data

Obtaining an objective and independent source of data on China presents a challenge. Economic data in China (GDP growth, taxation, land revenues, and other important variables) are critical indicators for evaluating government officials' performance and can significantly affect their career path (Shi, Chang, & Jang, 2018). Statistics officials may thus collude with local leaders across different government bureaus and agree to underreport negative performance indicators and exaggerate achievements (Chan & Gao, 2012). Externally, the Chinese government wants to show the world that it has stabilized economic growth and complies with international standards (e.g., Intellectual Property Rights Protection), so it feeds the world positive data that is often received with skepticism (Owyang & Shell, 2017). Scholars even argue that the Chinese government often deliberately releases false data on indicators to mislead academic researchers.<sup>55</sup> However, this is hardly any independent data sources covering the whole of China. The annual statistical books released by various ministries, institutions, and agencies are still by far the most comprehensive resources depicting the situation inside China. Therefore, analyzing and interpreting this data can still provide us with useful leads.

For most labor outcome variables, I used data from labor statistics yearbooks released by the ACFTU and MOHRSS. Between 1991 and 2013, the Chinese Trade Unions Statistics Yearbook,<sup>56</sup> produced by the research division of the ACFTU, collected detailed ACFTU unit and membership coverage data at the provincial level. Between 1995 and 2016, the ACTFU published a very similar Chinese Trade Unions Yearbook,<sup>57</sup> from which I extracted the data for 2014-2016. I also included employment variables from the China Labour Statistical Yearbook<sup>58</sup> (1989-2017) published by MOHRSS since it contains employment and trade union data. My full dataset includes about 350 observations for 31 provincial and municipal (Beijing, Shanghai, Tianjin, Chongqing)<sup>59</sup> regions, mainly covering the period 2000-2015. For some variables, data is

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<sup>55</sup> Remarks by Jean-Philippe Béja at the Made in China Summer School 2018: Chinese Laboursapes: Transregional Perspective on Work and Rights, Florence, Italy, 13 July 2018.

<sup>56</sup> See <http://tongji.cnki.net/kns55/Navi/HomePage.aspx?id=N2015050148&name=YZGGH&floor=1>

<sup>57</sup> See

[http://gb.oversea.cnki.net/kns55/oldnavi/n\\_item.aspx?NaviID=4&BaseID=YZRTY&NaviLink=%E4%B8%AD%E5%9B%BD%E5%B7%A5%E4%BC%9A%E5%B9%B4%E9%89%B4](http://gb.oversea.cnki.net/kns55/oldnavi/n_item.aspx?NaviID=4&BaseID=YZRTY&NaviLink=%E4%B8%AD%E5%9B%BD%E5%B7%A5%E4%BC%9A%E5%B9%B4%E9%89%B4)

<sup>58</sup> See <http://tongji.cnki.net/kns55/Navi/HomePage.aspx?id=N2018070151&name=YZLDT&floor=1>

<sup>59</sup> A total of 31 provincial level units, including 27 provinces and 4 municipalities (equal to provincial level).

missing before 2003 but the data set included enough observations to conduct a meaningful empirical analysis.

### 2.5.2 The dependent variables

Dependent variables are labor conditions and labor outcomes. I selected three sets of dependent variables to test my hypotheses: occupational safety and health conditions; labor unrest; and ACFTU presence.

#### 2.5.2.1 Occupational safety and health conditions

To evaluate occupational safety and health conditions in China, I selected the variable *Injury Rates* as the measurement. The variable *Injury Rates* is measured as the share of the number of Injury Rates the ACFTU reported in each province to the total population in a province. Incidents are categorized as "injury" if they occurred during working hours and/or at the workplace. Lower values indicate less frequent Injury Rates among workers and improved occupational safety and health outcomes.

To construct this shared variable of *Injury Rates*, I consulted two data sources. Data on Injury Rates was reported in ACFTU's Chinese Trade Unions Statistics Yearbook. Population data comes from the China Statistical Yearbook. The variable is at the provincial level and covers the years 2002-2014.

#### 2.5.2.2 Labor unrest

Two variables measure labor unrest in China: *Dispute Rates* and *Collective Dispute Rates*. Both variables are weighted by population, so they are shares between the number of disputes and the population of each province. The variable *Dispute Rates* captures all disputes reported by the ACFTU grassroots branches. The variable *Collective Dispute Rates* captures collective disputes filed jointly by more than thirty individual workers. Higher values of these two variables indicate workers' increasing dissatisfaction with their employers, and an increased risk of labor unrest, which would reduce the stability of social partnership between workers and firms. The number of individual disputes and collective disputes come from the Chinese Trade Unions Statistics Yearbook and the Chinese Trade Unions Yearbook (2000-2015).



### 2.5.2.3 ACFTU control

The third set of labor outcome variables focused on ACFTU's presence and control, which I measure with four variables. The first is *ACFTU Units (%)*, which is a share between the number of ACFTU units and the number of total legal entities in each province. The number of ACFTU units measures ACFTU's presence at the grassroots level. If a firm has an ACFTU branch, it indicated the ACFTU's presence. The total number of legal entities is a proxy for all available firms, though this variable also includes nonprofit units like schools and hospitals. Despite this, the shared measurement should still reveal ACFTU's coverage in the society, with higher values indicating more presence and stronger control. Both the number of ACFTU units and the number of total legal entities<sup>60</sup> are reported in The Chinese Trade Unions Statistics Yearbook (2000-2015).

The second variable is *ACFTU Units Manufacturing (%)*, which follows the same pattern as *ACFTU Units (%)*, but it uses the number of ACFTU units in the manufacturing sectors as the numerator. Higher values of *ACFTU Units Manufacturing (%)* suggest stronger control of workers and firms in the manufacturing sectors. Data for this variable also comes from The Chinese Trade Unions Statistics Yearbook (2000-2015).

The third variable is *ACFTU Members (%)*, which is a share variable between the number of ACFTU members and each province's total population. It measures ACFTU's presence based on headcount ACFTU membership in the entire population. Higher values indicate that ACFTU is attracting more members among workers. Data on this shared variable comes from the Chinese Trade Unions Statistics Yearbook and the China Statistical Yearbook (2000-2015).

The fourth variable is *ACFTU Members Manufacturing (%)*, a share variable between the number of ACFTU members in the manufacturing sectors and the total population in each province. This variable measures the ACFTU membership coverage in the manufacturing sectors. A higher value means that more workers in manufacturing sectors belong to the ACFTU membership. Data on ACFTU's membership in manufacturing sectors comes from the Chinese Trade Unions Yearbook (2002-2015).

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<sup>60</sup> The number of total legal entities is extracted from the table "分地区按三次产业和机构类型分法人单位数" in the Chinese Trade Unions Statistics Yearbook.

### 2.5.3 The independent variables

The independent variables I use in my thesis come from outward Chinese Foreign Direct Investment (OFDI). The empirical analysis is based on a specific measurement of OFDI from China: *OFDI stock*. This is the USD amount of total OFDI flowing from individual provinces of China to the rest of the world. *OFDI stock* is the key independent variable in determining the time it takes for labor diffusion from OFDI to influence labor protections in China. The stock measurement captures accumulated effects over time.

Data on *OFDI stock* is reported by the Ministry of Commerce of China (MOFCOM),<sup>61</sup> which has published OFDI stock data at the provincial level (for both provinces and municipalities) since 2003. The time range for *OFDI stock* is 2003-2015.

### 2.5.4 Control variables

There are six control variables in all specifications and these variables could also affect labor outcome variables.

#### 2.5.4.1 SOEs Employment

To capture the effect of state sectors on labor outcomes, I included the variable *SOE Employment*, defined as the share between workers employed by SOEs and the total population. Usually, SOE employees have better labor protections because they are holdovers from the past. The ACFTU also has more coverage in SOEs than in other types of firms in China (Pringle, 2011). Given the size and the importance of SOEs in China, and their strong labor institutions, it is vital to include the effects of SOE on labor outcomes. Higher *SOE Employment* values should be associated with improved occupational safety and health conditions, fewer disputes, and more ACFTU controls. The Chinese Trade Unions Statistics Yearbook reports the data of workers hired by SOEs in all provinces between 2000-2015.

#### 2.5.4.2 GDP Per Capita and GDP Growth Rate

Economic development could also affect labor outcomes: both the size of the economy and the growth rate could be factors, which is why I have included two variables to measure the degree of economic development. The variable *GDP Per Capita* is the annual current Chinese

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<sup>61</sup> See the MOFCOM website: <http://hzs.mofcom.gov.cn/article/Nocategory/201512/20151201223578.shtml>



Renminbi (RMB) value of GDP per capita. The variable *GDP Growth Rate* is the annual GDP growth rate. More advanced provinces with higher GDP and faster growth rate may have better occupational safety and health conditions. Workers in those advanced provinces may be less tolerant of their employers and demand more, so we should expect more labor disputes. The ACFTU may respond to increasing demands from the worker side by increasing its presence and control in more advanced provinces. Data for both GDP variables comes from China's National Bureau of Statistics (2000-2015).

#### 2.5.4.3 Unemployment rate

I controlled for *Unemployment Rate* because an increase in unemployed workers might also increase the number of labor disputes or confrontations. The variable *Unemployment rate* is the share of the registered unemployed workforce in the urban region to the total workforce in the urban region of each province. Higher *Unemployment rate* values should affect labor outcomes on disputes and may increase ACFTU presence. Data for this variable is directly extracted from the MOHRSS China Labour Statistical Yearbook.

#### 2.5.4.4 Inward FDI and Total Trade

To capture the effect of economic openness on labor protections, I included two international economic variables: *Inward FDI* and *Total Trade*. *Inward FDI* is a share variable for each province. The numerator is the accumulated amount of inward FDI flows and the denominator is the GDP. Stock measurement on FDI would be better, since it could reflect effects accumulated over years, but since no reliable source reports the stock value of inward FDI to China at the provincial level, I instead use the accumulation of flows through years to generate an alternative inward FDI stock measurement. Inward FDI can trigger domestic reforms in China (Gallagher, 2005), so I expect higher inward FDI to be associated with better labor outcomes. Data on inward FDI and GDP comes from China's National Bureau of Statistics. I applied the average annual value of the foreign exchange rate between the US dollar and the Chinese Renminbi to convert inward FDI amount from US dollar values into Chinese currency. The variable spans from 2000 to 2015.

*Total Trade* is also a shared variable, between total trade volume (imports plus exports) and GDP. Similar to *Inward FDI*, more trade may increase upward pressure on labor outcomes in China. Data on imports and exports at the provincial level were extracted from China's National Bureau of Statistics in the same manner as for the variable of *Inward FDI*. The variable ranges from 2000-2015.

#### 2.5.5 Methods

I test my hypotheses with a panel data fixed-effect estimator. Standard errors are clustered at the provincial level. The full dataset includes 31 provinces (2003-2015). I test hypothesis H4 with the data from 10 provinces in Eastern China. All variables are logged because most have only positive values<sup>62</sup>. A log transformation results in a better data distribution. The independent variable of *OFDI stock* lags by one year in all specifications to better capture the time it takes workers, firms and the ACFTU to absorb and react to diffusion. Table 2.1 summarizes statistics for all variables. Tables 2.2 and 2.3 report baseline results. I show results of national and Eastern regional data side-by-side to make the comparison easier.

## 2.6 Empirical results and discussions

### 2.6.1 Baseline results

For occupational safety and health conditions, although there is no statistically significant result in Model (1) of Table 2.2 for all provinces, the coefficient is statistically significant and negative on *OFDI* at 5% in Model (2) for *Injury Rates* in Eastern provinces. This shows that workers in those Eastern provinces have fewer injury rates, which might indicate improvements in occupational safety and health conditions. Hypothesis 4.1 is supported by this coefficient on occupational safety and health conditions because this result is statistically significant for Eastern provinces. Hypothesis 1 was not supported because the *OFDI* result was not statistically significant for the labor outcomes of injury rate.

In Table 2.2, the coefficient of *OFDI* on *Dispute Rates* is positive and statistically significant at the 5% level in Model (3), suggesting that increasing Chinese *OFDI* reduces labor peace and increases disputes. I interpret this as: workers learn more via *OFDI* and become more

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<sup>62</sup> I also run specifications with all control variables that are not logged. The main results from the logged specifications hold, such as labor disputes and the ACFTU control.



aware of labor rights and then demand more from their employers. This interpretation supports Hypothesis 2. But the coefficient in Model (4) for Eastern provinces is not statistically significant, thus a lack of support for Hypothesis 4.2.

For ACFTU variables, Table 2.3 shows no coefficient with statistical significance, so Hypothesis 3 is unsupported. We may still be able to learn something from the result: the signs of all labor outcome variables of the ACFTU are negative for all provinces, suggesting the ACFTU is struggling to gain the support of the workforce. Results for Eastern provinces do not support Hypotheses 4.3, though in Model (4) and (6) of Table 2.3, the coefficients of *OFDI* flip to positive but do not reach significance. This could be interpreted as a sign that the ACFTU puts more effort into Eastern provinces, but without much return on their efforts.

For control variables, the results are not consistent in general as many coefficients are not statistically significant. In Model (3) of Table 2.2, increasing employment in SOEs can reduce *Dispute Rates*, which fits the expectation that SOEs can offer better employments than private firms. Also, most coefficients for *SOE Employment* in Table 2.3 have a positive sign, despite the lack of significance. The positive correlation between *SOE Employment* and ACFTU variables does support the expectation that the presence of SOEs can strengthen ACFTU's control power. The results on GDP variables are not consistent and there is a lack of support for the proposed expectation. *Unemployment Rates* are positively correlated with dispute rates and the coefficients in Model (3) and (5) of Table 2.2 show 10 percent significance. This fits the expectation that more unemployment would cause labor disputes. *Inward FDI* and *Trade* do not affect labor outcome variables, which is not expected. Interestingly, they tend to have positive correlations with ACFTU variables in Table 2.3 despite the lack of significance. This could imply that the ACFTU is indeed cautious on potential labor diffusions that inward FDI and trade openness could lead to, and thus expanding the presence of ACFTU units among workers.

The baseline results from Tables 2.2 and 2.3 show some support for Hypothesis 2, which postulated that more OFDI would reduce labor peace. They also support Hypotheses 4.1 on occupational safety and health conditions in Eastern provinces. The results that describe the ACFTU's presence and control were inconsistent.

### 2.6.2 Robustness

I conducted two robustness checks, the first one with the additional control of a dummy variable to capture the potential intervening effect of China's 2008 Labor Contract Law on labor outcome variables, and the second to replace the fixed-effect estimator in baseline specifications to pooled OLS estimator.

#### 2.6.2.1 Dummy 2008

Since its implementation in 2008, many labor studies have pointed out the significant effects of China's 2008 Labor Contract Law on labor protections (Friedman, 2014; Lee, 2016; Estlund, 2017). The 2008 law may change the baseline results of labor outcome variables. Some diffusion effects from OFDI may influence labor outcome variables during the drafting process of the 2008 law. Elfstrom (2019) argues that the 2008 law was a response to increasing labor unrest and other challenges face by the Party and the ACFTU. Some of these challenges might have been posed by OFDI diffusion. To better understand the effect of the Labor Contract Law 2008 on the correlation between OFDI and labor diffusion outcomes, I added the *Dummy 2008* variable as my first robustness check: this adds a dummy variable to all baseline specifications to capture the potential effects of the law. This dummy variable is held at 0 until 2007, and at 1 from 2008 on (after the new law took force).

If the 2008 law had no effect on the association between OFDI and labor outcome variables, then including *Dummy 2008* would not change baseline results for coefficients on OFDI. But if it was an intervening variable between OFDI and labor outcome variables, including *Dummy 2008* will reduce the magnitude and significance of OFDI coefficients because the law will absorb some effects of OFDI on labor outcome variables. If the law is indeed an intervening variable, the coefficient on *Dummy 2008* will become statistically significant.

Table 2.4 and 2.5 show the results *Dummy 2008*. In Model (2) of Table 2.4, the coefficient of OFDI on *Injury Rates* in Eastern provinces loses significance, though the sign remains negative. The coefficient of *Dummy 2008* is positive and statistically significant at the 10% level, suggesting that the 2008 law did influence *OFDI* on occupational safety and health conditions. The positive direction of *Dummy 2008* in Model (2) of Table 2.4 was unexpected. A plausible explanation could be that if the 2008 law encourages workers and employers to sign employment contracts, then more workers will be covered by contracts. A higher prevalence of



employment contracts may thus increase the number of workers who feel safer expressing their grievances and reporting Injury Rates to their employers. More of these injury incidents might then be reported to local ACFTU units that record those statistics. The cascade of changes triggered by the 2008 law could ultimately increase reported Injury Rates.

Baseline results on *Dispute Rates* did not change in the *Dummy 2008* test, and they barely reached significance at 10% level in the Eastern provinces, suggesting that *OFDI* directly affects *Dispute Rates* and was not changed by the 2008 law. Coefficients on *OFDI* remained insignificant for *Collective Dispute Rates*, but the coefficients of *Dummy 2008* on *Collective Dispute Rates* were highly significant and negative in Model (5) and (6) of Table 2.4. The significance of coefficient *Dummy 2008* on *Collective Dispute Rates* but not on the coefficient *Dispute Rates* on *Dummy 2008* suggests that the new law influenced large-scale collective labor disputes from the worker side, but not individual cases. This does fit Party's and ACFTU's preference for maintaining stability by reducing collective labor unrest.

In Table 2.5, the results for coefficients of *OFDI* on ACFTU are like those of the baseline models in Table 2.3. Notably, the coefficients of *Dummy 2008* are positive and statistically significant for five ACFTU labor outcome variables, all of which have positive signs. This supports the argument that the 2008 law was part of the Party's and ACFTU's attempt to strengthen their presence, but these efforts may not have much effect on diffusion from *OFDI* because the coefficients of *OFDI* in the *Dummy 2008* test were very similar to baseline results.

Overall, *Dummy 2008* results indicate that the 2008 labor contract law may intervene between *OFDI* and labor outcome variables for occupational safety and health conditions, but there is no sign that other labor outcome variables have been intervened by the law, such as labor disputes or ACFTU presence.

#### 2.6.2.2 Pooled OLS estimator

The second robustness check replaced the fixed-effect estimator with the pooled OLS estimator when I re-ran all baseline specifications. Standard errors are still clustered at the provincial level. The fixed-effect estimator can capture some factors at the provincial level that do not change over time. Since the Party in China is powerful, it may be able to uniformly institute many policies and practices across China, so diffusion from individual provinces may

not be able to resist “top-down” pressures from Beijing. The pooled OLS estimator assumes a more relaxed condition to further test the proposed hypotheses.

Table 2.6 and 2.7 report results on the pooled OLS estimator. In Model (2) of Table 2.6, the coefficient of *OFDI* on *Injury Rates* for Eastern provinces is no longer statistically significant when compared to the baseline result in Model (2) of Table 2.2, but the sign is still negative. This may suggest that there could be local measurements or practices within individual provinces that influencing occupational safety and health conditions, which could be captured by the baseline model of the fixed effect estimator. The coefficient *OFDI* on *Dispute Rates* is positive and highly significant in Model (3) of Table 2.6. The coefficient of *OFDI* on *Collective Dispute Rates* becomes positively significant in Model (5) of Table 2.6, suggesting *OFDI* is positively associated with collective dispute rates across provinces. In Table 2.7, no coefficient of *OFDI* reaches statistical significance except *ACFTU Members (%)*, which reaches very weak significance in Eastern provinces at the 10% level. Notably, most coefficients have positive signs, which contrasts with baseline results in Table 2.3, perhaps indicated that the ACFTU made some nationwide efforts to strengthen its presence and controls but encountered resistance in individual provinces.

### 2.6.3 Discussions

The empirical analysis shows some support for improved occupational safety and health conditions in Eastern China, which can be interpreted as the effect of *OFDI* flowing to advanced economies in the manufacturing sectors. Improving workplace occupational safety after diffusion from *OFDI* may be a relatively easy task because the ACFTU does not resist improvements in this area and even highlights its progress and achievements in improving occupational safety. According to a press release issued before the 17<sup>th</sup> ACFTU National Congress, ACFTU units conducted 3.2 million safety inspections and made 1.48 million suggestions and recommendations to improve production safety over the previous five years.<sup>63</sup>

A good example of *OFDI* diffusion of safety upgrades is that of a private Chinese firm, which specializes in producing automobile parts, from the eastern province of Zhejiang.<sup>64</sup> The

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<sup>63</sup> Data from the ACFTU Conference Press Release at the 17<sup>th</sup> ACFTU National Congress, October 22, 2018.  
<http://www.acftu.net/template/10041/file.jsp?cid=222&aid=97161>

<sup>64</sup> From my field interview inside the factory hall and compound at Ningbo, Zhejiang province, China (April 2018). See Chapter IV for more details of this case.



firm acquired a similar US company in 2008. After that, the Chinese firm's home factories in Ningbo, Zhejiang Province, adopted some of the same practices as the US firm it purchased to achieve higher productivity. These included allocation and position of production lines, operating procedures, and emergency exit routes inside factory halls. The improvement posed no political challenges to ACFTU, so it did not encounter political resistance. Occupational safety and health condition are improved after standardizing and adapting practices from American factory settings, thereby reducing potential injury risk.

There is convincing evidence from the empirical results that labor disputes increase with OFDI across all provinces of China. This finding aligns with Friedman's "insurgency trap" analysis (Friedman, 2014). The desire to maintain labor peace drove the legislation process behind the 2008 Labor Contract Law. Professor Chang (2013) pointed out that there was a group of scholars ("the Shanghai School") advocated for pro-worker protection during the legislative process of the 2008 law because these scholars believed that workers were weaker parties in the bargaining process. Firms engaged in trade and OFDI and civil society organizations were consulted during the drafting of the 2008 law (Wang, 2007). Diffusion via OFDI to Chinese workers may have influenced their demand for better treatments and conditions to their employers. But the law may not fully address concerns and demands from the worker side since labor disputes continue to increase with OFDI; it is possible that OFDI motivates more workers to voice their demands.

One way to interpret the inconsistency or the lack of significance of ACFTU specifications is that ACFTU officials may see that OFDI transmits potential threats and challenges and take a top-down approach to increase their presence and secure control over the labor force. The effectiveness of such a bid is unclear. ACFTU presence and control can be viewed as a response to labor disputes. ACFTU cadres were dedicated to establishing and promoting a labor dispute mediation and arbitration system to deal peacefully with disputes and other troubles because, for them, "stability and safety" is the priority (Brown, 2014; Lee, Brown, & Wen, 2016), and they made some little progress, which may be indicated by the negative significance of the *Dummy 2008* for *Collective Dispute Rates*. This may be the result of the ACFTU's work in drafting and implementing the 2008 labor contract law. If collective labor disputes could escalate to large labor unrests or turmoil, this would destabilize the workforce.

However, many other ACFTU efforts may not increase ACFTU presence. Chinese workers may not join the ACFTU, any many firms may not let the ACFTU set up branches. ACFTU branches are often established through exerting political pressure on firms (Chan A., 2011) but many private firms may be able to resist that pressure, preventing the ACFTU from expanding. Individual employees can still choose whether to join the ACFTU, even if the number of ACFTU units and branches increases. Any employee who joins the ACFTU must also pay its membership fee, which is subtracted from a worker's monthly,<sup>65</sup> which may make workers less willing to join. Possible diffusions through the learning effect and the increasing awareness of worker's rights may further reduce employees' trust in the ACFTU.

My results support the argument that improving occupational safety and health conditions is possible under current political conditions in China because such improvement poses no direct challenge to the Party's political power. But it is unlikely that such improvements indicate any new openness to labor diffusion in the minds of the leadership of the Party and the ACFTU over the short term. A Swiss government official made a useful comparison between labor cooperation between China and Switzerland under the Sino-Swiss Free Trade Agreement framework and the human rights dialogue deadlock.<sup>66</sup> Cooperation on labor under Sino-Swiss FTA terms primarily improves workplace safety and is implemented through the SCORE project,<sup>67</sup> a joint initiative by the Swiss government, ILO's Beijing Office, and the State Administration of Work Safety<sup>68</sup> of the Chinese government. When working with international players, the Chinese government is more open and willing to improving occupational safety and health than it is to change its political structures. Evidence of this is the long deadlocked human rights dialogues between China and Western countries, including Switzerland, because the West advocates freedom of association, collective bargaining, and topics Beijing finds "sensitive." Strong resistance from the Chinese government prevents significant breakthroughs on human rights and other ideological issues that could threaten the legitimacy of the Party's rule in China.

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<sup>65</sup> The ACFTU membership fee per employee is 2% of the employee's monthly salary, and it is recorded on the monthly payment slip. [http://jgdw.mof.gov.cn/zhengwuxinxi/gongzuotongzhi/201809/t20180920\\_3024365.html](http://jgdw.mof.gov.cn/zhengwuxinxi/gongzuotongzhi/201809/t20180920_3024365.html)

<sup>66</sup> See

[https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik\\_Wirtschaftliche\\_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner\\_weltweit/china/Abkommenstexte.html](https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner_weltweit/china/Abkommenstexte.html)

<sup>67</sup> See [https://www.ilo.org/beijing/what-we-do/projects/WCMS\\_142938/lang--en/index.htm](https://www.ilo.org/beijing/what-we-do/projects/WCMS_142938/lang--en/index.htm)

<sup>68</sup> In March 2018 the previous State Administration of Work Safety changed to the new established Ministry of Emergency Management. <http://www.chinasafety.gov.cn/>



## 2.7 Summaries and next chapters

My empirical analysis uncovered associations between China's OFDI and labor protections, though OFDI's effects are not direct. Some labor outcomes showed signs of upward effects with an increase of OFDI from China, while OFDI also shows positive associations with labor unrests. As OFDI continues to drive labor diffusions, workers in China may more actively defend their interests. Though the ACFTU and the Party have not yet shifted their stance, growing awareness of workers' rights could undermine the ACFTU's and the Party's legitimacy among workers eventually. In response, the Party and ACFTU might take stronger measures to increase their presences, also to build a Great Firewall approach to resist imported labor norms and practices; this effort might take some time before it is effective.

To discover the process and drivers of potential labor diffusions after OFDI, we need to go beyond figures and tables because the data in this chapter cannot be used to test which driving force leads to the diffusion. Diffusion may be a product of pressure to comply or of a learning effect that pushes Chinese firms to adopt stronger occupational safety and health measures.

The next example highlights the unreliability of records, which makes answering questions about labor protections in China extremely complex, and also shows the importance of choosing an alternative data source to further investigate the relationship between Chinese OFDI and labor protections in China. Within the circle of original equipment manufacturers (OEM), it is well known that enterprises keep a dual-HR record system for employee management: one set of records is for showing to foreign partners, governmental institutions, and ACFTUs, and the other set of real records is used for the enterprise's internal operations. External records will not reveal any working conditions (including hours, number of workers, injuries, etc.) that could damage a firm's reputation. We need better and more reliable data and qualitative analysis to verify findings based on analysis of macro and meso level data.

With the above-mentioned example of data quality in mind, in the next Chapter III, I report the results of more detailed analysis from an alternative data source to evaluate the effects of OFDI on domestic labor protections in China. Chapter III describes the relationship by analyzing available macro-level data on China and its investment destinations by using the Thomson Reuter's SDC Platinum Database, with a particular focus on M&As OFDI investing in Western European countries. The alternative data source could partially address the data quality

issue in China's official statistics, since the data in SDC Platinum Database is not generated by Chinese government officials. More importantly, M&A deals require deep interactions between firms on regulations, practices, and employees. Labor conditions in Western European countries differ sharply from those in China, so the intense exposure generated by M&A types of OFDI in European destinations may have the strongest effects on labor diffusions to China. By focusing on M&As, Chapter III allows us to gain more knowledge on labor diffusion mechanisms, in particular the learning effect mechanism from Western European countries with stronger industrial relations actors and institutions.

Chapter IV looks at the issue through the lens of a small-N qualitative analysis, presenting cases and observations on five Chinese firms to reveal labor diffusions through OFDI. Combining quantitative and qualitative analysis would deepen our understanding of the effects of Chinese OFDI on labor protections in China.



<b>Table 2.1: Summary of statistics</b>	Mean	SD	Min	Max	N
OFDI Stock (national)	3043.369	7115.814	1	68654.95	372
OFDI Stock (Eastern)	7003.75	11330.83	11.64	68654.95	120
SOE Employment	0.057	0.020	0.018	0.188	496
GDP Per Capita	27047.55	21347.21	2759	107960	496
GDP Growth Rate	111.416	2.554	103	123.8	496
Unemployment Rate	3.597	0.712	0.8	6.5	496
Inward FDI	0.004	0.005	0.000	0.057	496
Total Trade	3.025	3.547	0.152	16.681	496
Injury Rates	2989.9	3584.214	8	37221	402
Dispute Rates	7788.797	9140.962	10	63014	464
Collective Dispute Rates	548.332	1049.29	0	11789	461
ACFTU Units (%)	56832.59	48467.98	2175	258767	495
ACFTU Units Manufacturing (%)	16794.51	21840.93	48	117499	302
ACFTU Members (%)	6703651	5480059	136128	29426563	494
ACFTU Members Manufacturing (%)	2309843	2741980	5811	17111983	302

**Table 2.2: Baseline – labor peace and occupational safety and health conditions**

	Injury Rates			Dispute Rates			Collective Dispute Rates		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)			
OFDI Stock (national)	-0.0268 (0.0418)		0.204** (0.0830)		0.197 (0.128)				
OFDI Stock (Eastern)		-0.129** (0.0459)		0.276 (0.160)		0.368 (0.413)			
SOE Employment	0.134 (0.481)	0.962** (0.407)	-1.312* (0.684)	-0.848 (1.082)	0.986 (1.271)	1.077 (1.912)			
GDP Per Capita	0.417** (0.169)	0.946*** (0.200)	-0.601** (0.224)	-0.898* (0.451)	0.0186 (0.388)	-0.147 (1.135)			
GDP Growth Rate	1.602 (1.689)	6.258*** (1.909)	1.681 (1.537)	-1.332 (3.611)	-14.40*** (2.300)	-17.28** (6.238)			
Unemployment Rate	0.179 (0.268)	-0.0165 (0.275)	0.770* (0.413)	0.751 (0.661)	1.354* (0.770)	0.417 (0.738)			
Inward FDI Stock	0.335 (0.201)	0.376 (0.206)	-0.242 (0.249)	-0.284 (0.502)	0.520 (0.524)	-0.952 (1.110)			
Total Trade	0.102 (0.110)	-0.141 (0.227)	0.453*** (0.149)	0.337 (0.192)	0.264 (0.221)	-0.0378 (0.627)			
No. of provinces	31	10	31	10	31	10			
R Square (overall)	0.239	0.03	0.491	0.447	0.01	0.224			
No. of observations	307	100	338	110	336	110			

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1



**Table 2.3: Baseline - ACFTU control**

		ACFTU Units (%)		ACFTU Units Manufacturing (%)		ACFTU Members (%)		ACFTU Members Manufacturing (%)	
		Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
OFDI (national)	Stock	-0.016 (0.040)		-0.023 (0.019)		-0.004 (0.028)		-0.002 (0.016)	
OFDI (Eastern)	Stock		-0.043 (0.087)		0.017 (0.018)		0.056 (0.031)		-0.002 (0.036)
SOE Employment		0.358 (0.326)	0.185 (0.372)	0.180 (0.246)	-0.296 (0.215)	0.298 (0.209)	0.789** (0.251)	-0.159 (0.199)	0.064 (0.149)
GDP Per Capita		0.192 (0.138)	-0.036 (0.261)	0.159 (0.103)	-0.303*** (0.072)	0.522*** (0.088)	0.467*** (0.068)	-0.199*** (0.057)	-0.102 (0.127)
GDP Growth Rate		2.328*** (0.611)	1.571 (2.122)	-0.029 (0.571)	-0.891 (0.523)	2.002*** (0.613)	-0.183 (0.632)	-1.485*** (0.512)	-0.099 (0.668)
Unemployment Rate		0.097 (0.269)	-0.678*** (0.188)	-0.262** (0.125)	-0.267 (0.180)	0.279* (0.158)	0.127 (0.140)	-0.209* (0.119)	-0.039 (0.100)
Inward FDI Stock		-0.099 (0.127)	0.230 (0.207)	0.127 (0.138)	0.486*** (0.138)	0.146 (0.125)	-0.026 (0.215)	-0.016 (0.062)	0.041 (0.071)
Total Trade		0.046 (0.070)	0.345*** (0.078)	0.081 (0.071)	-0.015 (0.076)	0.078** (0.034)	0.288*** (0.072)	0.044 (0.040)	-0.094 (0.068)
No. of provinces		31	10	31	10	31	10	31	10
R Square (overall)		0.034	0.181	0.000	0.066	0.663	0.598	0.001	0.547
No. of observations		338	110	242	80	338	110	242	80

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

**Table 2.4: Robustness with Dummy 2008 – labor peace and occupational safety and health conditions**

	Injury Rates			Dispute Rates			Collective Dispute Rates		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (5)	Model (6)	Model (6)
OFDI Stock (national)	-0.025 (0.043)		0.205** (0.082)		0.181 (0.119)				
OFDI Stock (Eastern)		-0.097 (0.065)		0.280* (0.150)		0.247 (0.414)			
SOE Employment	0.159 (0.498)	1.014** (0.372)	-1.307* (0.687)	-0.845 (1.098)	0.889 (1.305)	0.981 (2.015)			
GDP Per Capita	0.300 (0.186)	0.656* (0.324)	-0.631*** (0.224)	-0.927** (0.359)	0.699* (0.351)	0.797 (1.220)			
GDP Growth Rate	1.521 (1.619)	7.235*** (1.983)	1.628 (1.540)	-1.254 (3.987)	-13.19*** (2.316)	-19.83*** (5.794)			
Unemployment Rate	0.122 (0.276)	-0.076 (0.271)	0.756* (0.426)	0.751 (0.660)	1.676* (0.868)	0.419 (0.900)			
Inward FDI	0.265 (0.207)	0.147 (0.198)	-0.253 (0.241)	-0.298 (0.501)	0.773 (0.499)	-0.498 (1.189)			
Dummy 2008	0.133 (0.087)	0.283* (0.150)	0.037 (0.112)	0.025 (0.157)	-0.751*** (0.149)	-0.805** (0.330)			
Total Trade	0.125 (0.111)	-0.05 (0.218)	0.457*** (0.147)	0.339 (0.200)	0.173 (0.222)	-0.108 (0.681)			
No. of provinces	31	10	31	10	31	10			
R Square (overall)	0.238	0.023	0.485	0.443	0.083	0.129			
No. of observations	307	100	338	110	336	110			

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1



**Table 2.5: Robustness with Dummy 2008 - ACFTU control**

	ACFTU Units (%)		ACFTU Units Manufacturing (%)		ACFTU Members (%)		ACFTU Members Manufacturing (%)	
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
OFDI Stock (national)	-0.013 (0.0386)		-0.024 (0.019)		-0.002 (0.027)		-0.001 (0.017)	
OFDI Stock (Eastern)		0.001 (0.067)		0.023 (0.019)		0.060* (0.028)		0.001 (0.036)
SOE Employment	0.376 (0.327)	0.221 (0.383)	0.188 (0.236)	-0.096 (0.224)	0.310 (0.210)	0.792** (0.254)	-0.199 (0.243)	0.150 (0.134)
GDP Per Capita	0.065 (0.141)	-0.379* (0.206)	0.154 (0.101)	-0.414*** (0.091)	0.434*** (0.081)	0.438*** (0.068)	-0.174*** (0.051)	-0.150 (0.135)
GDP Growth Rate	2.105*** (0.636)	2.497* (1.223)	-0.0043 (0.632)	0.101 (0.658)	1.847*** (0.572)	-0.103 (0.688)	-1.606*** (0.574)	0.328 (0.683)
Unemployment Rate	0.038 (0.263)	-0.679*** (0.182)	-0.266** (0.123)	-0.349** (0.147)	0.238 (0.159)	0.127 (0.146)	-0.192 (0.130)	-0.0741 (0.089)
Inward FDI	-0.145 (0.123)	0.065 (0.209)	0.124 (0.145)	0.371** (0.120)	0.114 (0.128)	-0.0403 (0.208)	0.001 (0.071)	-0.008 (0.077)
Dummy 2008	0.139*** (0.049)	0.293*** (0.040)	0.006 (0.039)	0.120** (0.043)	0.097*** (0.02)	0.0252 (0.025)	-0.027 (0.037)	0.052* (0.024)
Total Trade	0.062 (0.073)	0.370*** (0.098)	0.082 (0.071)	0.04 (0.079)	0.089** (0.037)	0.290*** (0.076)	0.036 (0.037)	-0.071 (0.069)
No. of provinces	31	10	31	10	31	10	31	10
R Square (overall)	0.003	0.044	0.000	0.111	0.672	0.605	0.012	0.493
No. of observations	338	110	242	80	338	110	242	80

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

**Table 2.6: Robustness – labor peace and occupational safety and health conditions (pooled OLS)**

	Injury Rates			Dispute Rates			Collective Dispute Rates		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)			
OFDI Stock (national)	0.03 (0.051)		0.281*** (0.0932)		0.330*** (0.102)				
OFDI Stock (Eastern)		-0.030 (0.113)		-0.024 (0.078)		0.008 (0.199)			
SOE Employment	-0.100 (0.313)	0.258 (0.363)	-1.350*** (0.373)	-2.246*** (0.284)	-1.029** (0.447)	-3.391*** (0.666)			
GDP Per Capita	0.316 (0.196)	0.735** (0.359)	-0.735*** (0.281)	0.448* (0.245)	-0.172 (0.336)	0.798* (0.438)			
GDP Growth Rate	1.600 (1.669)	4.827*** (1.702)	2.452 (1.723)	-0.244 (3.464)	-11.67*** (2.750)	-9.983*** (3.220)			
Unemployment Rate	0.355 (0.264)	0.181 (0.166)	0.893* (0.514)	-0.896*** (0.292)	1.292** (0.549)	-0.855 (0.582)			
Inward FDI	0.146 (0.132)	-0.0185 (0.133)	-0.259 (0.191)	-1.159*** (0.105)	-0.268 (0.226)	-0.976*** (0.210)			
Total Trade	0.169** (0.078)	0.249*** (0.077)	0.592*** (0.103)	1.272*** (0.175)	0.378*** (0.126)	0.501*** (0.192)			
No. of provinces	31	10	31	10	31	10			
R Square (overall)	0.339	0.399	0.527	0.818	0.454	0.675			
No. of observations	307	100	338	110	336	110			

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1



**Table 2.7: Robustness - ACFTU control (pooled OLS)**

	ACFTU Units (%)		ACFTU Units Manufacturing (%)		ACFTU Members (%)		ACFTU Members Manufacturing (%)	
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
OFDI Stock (national)	-0.005 (0.026)		0.002 (0.027)		0.008 (0.02)		0.009 (0.022)	
OFDI Stock (Eastern)		0.034 (0.079)		0.063 (0.044)		0.049* (0.027)	0.030 (0.038)	
SOE Employment	0.019 (0.269)	-0.381 (0.560)	-0.233 (0.248)	-0.765** (0.349)	0.220 (0.138)	0.384*** (0.126)	-0.338** (0.148)	-0.320 (0.233)
GDP Per Capita	0.144 (0.115)	-0.411** (0.186)	0.119 (0.113)	-0.354*** (0.127)	0.511*** (0.066)	0.456*** (0.055)	-0.206*** (0.074)	-0.100 (0.156)
GDP Growth Rate	2.643*** (0.623)	2.104 (1.627)	0.0633 (0.560)	-1.471** (0.624)	1.969*** (0.595)	-0.249 (0.639)	-1.421*** (0.515)	-0.641 (0.766)
Unemployment rate	0.209 (0.224)	-0.117 (0.243)	-0.098 (0.129)	-0.086 (0.212)	0.337** (0.137)	0.325* (0.181)	-0.095 (0.117)	0.118 (0.112)
Inward FDI Stock	-0.163* (0.098)	0.086 (0.159)	0.102 (0.113)	0.222 (0.151)	0.035 (0.065)	-0.113*** (0.018)	0.077 (0.082)	-0.132 (0.144)
Total Trade	-0.047 (0.047)	-0.013 (0.098)	0.074 (0.065)	0.068 (0.128)	0.069*** (0.024)	0.218*** (0.060)	0.095*** (0.041)	0.0691 (0.115)
No. of provinces	31	10	31	10	31	10	31	10
R Square (overall)	0.252	0.567	0.156	0.292	0.734	0.817	0.276	0.591
No. of observations	338	110	242	80	338	110	242	80

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1





### **Chapter III: Chinese Mergers & Acquisitions Type Outward Foreign Direct Investment – Potential Effects on Labor protections in China?<sup>69</sup>**

China's outward foreign direct investment (OFDI) has been growing rapidly since the beginning of the 21st century, and China has invested considerably in developed economies of the Global North through mergers and acquisitions (M&As). Many M&As from China target firms in Western European countries because Chinese companies want access to advanced technologies and management skills possessed by firms in the Global North. In M&A-type OFDI, Chinese firms take over established production sites and properties in investment destinations, which giving them access to what they seek. In the process, Chinese investors and employees receive in-depth exposure to external labor protection regulations and practices. Western European countries have especially high standards and practices for labor protections, and it is likely that M&As entering Western European countries are more likely to diffuse their labor protection norms, standards, and practices to China.

This chapter thus focuses on M&A-type OFDI from China invested in Western European advanced economies and studies the effects of M&A on OFDI driven labor diffusions back to China. Data for this macro-level analysis came from national-level M&As data in Thomas Reuter's Securities Data Company (SDC) Platinum database.<sup>70</sup> The M&A deals reported in this database can be empirically analyzed; data are bilateral, covering China and its investment destinations. My empirical analysis focuses on differences between China and Western European investment destinations on four labor outcome variables: overall labor regulations; working condition regulations on employment contracts and working time; working hours; and wages. Data is collected for China and 18 M&A destination countries in Western Europe. Panel data regression results suggest that more Chinese outward M&A activities in Western Europe narrow the gap between China and Europe's overall labor regulations, indicating China is slowly adopting European regulations, but the gap is not closing for other labor outcome variables like working hours and wages.

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<sup>69</sup> I am especially grateful for my PhD supervisor Prof. Damian Raess' great support and input in this chapter under the Swiss National Science Foundation's (SNSF) project of "BRICS Globalization and Labour Protection". Prof. Raess provided me insightful understanding on labor regulations and introduced me with the knowledge on CBR LRI dataset. CBR LRI is indeed a crucial dataset in the empirical analysis of this Chapter. Prof. Raess kindly provided me a clean version of the CBR LRI dataset that were ready to use for empirical analysis. Also, Prof. Raess provides detailed comments and suggestions on the theoretical and empirical analysis embedded in this Chapter.

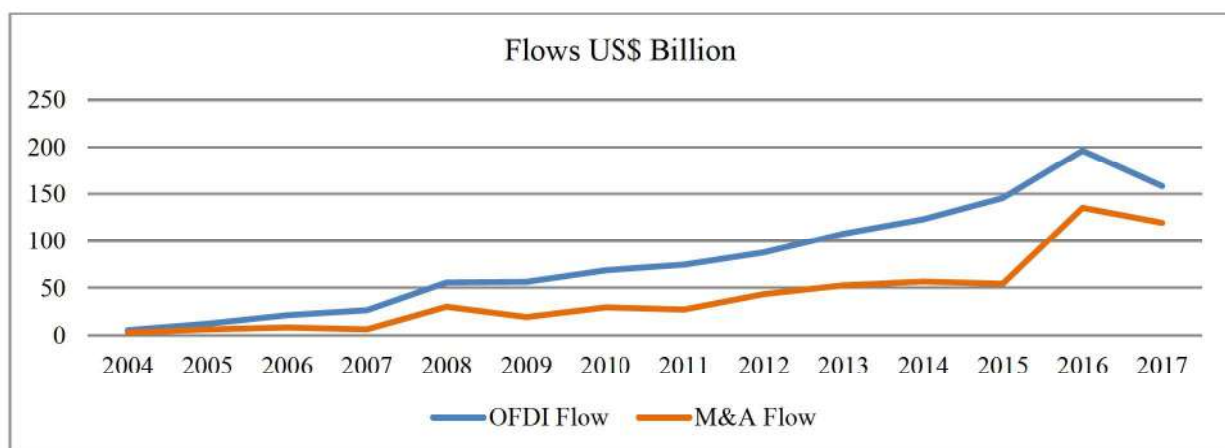
<sup>70</sup> <https://www.refinitiv.com/en/products/sdc-platinum-financial-securities>

In Section 3.1, I introduce and present the recent development of M&A-type OFDI investment in Western European countries. In Section 3.2, I review the literature on Chinese M&A-type OFDI and discuss M&A-type OFDI's effects on labor protections. In Section 3.3, I discuss theories that may explain potential labor diffusions back to China after M&A-type OFDI and propose three hypotheses. In Section 3.4, I describe the data and my empirical methods. In Section 3.5, I report regression results. In Section 3.6 I discuss their implications. Section 3.7 presents my conclusions.

### 3.1 Introducing Chinese M&A-type OFDI investing in Western European countries

Based on the latest data released from China's Ministry of Commerce (MOFCOM), M&A-type Chinese OFDI has increased continuously over the last decade (see Figure 2.1), peaking in 2016, when it totaled over US\$100 billion for 765 transactions. This amount represented 44% of the total Chinese OFDI that year. From 2014 on, Chinese OFDI began to catch up with inward FDI from the world to China, demonstrating that China has become a major capital supplier (Meng, Lyu, & Jiang, 2018, p. 7).

Figure 3.1: Total Chinese OFDI and M&A



Source: MOFCOM 2017 Statistical Bulletin of China's Outward Foreign Direct Investment.

Since the 2000s, and especially since the 2008 financial crisis, M&As have played a vital role in China's broader political and economic agenda to improve and upgrade the Chinese economy. Figure 2.1 shows that the share of M&A-type OFDI flow accounts for at least one-third



of total OFDI over the last decade. Both the rise in M&A-type OFDI and the comprehensive “Going Out” strategy<sup>71</sup> instituted in the 2000s, are top-down effort to increase China’s economic growth. The Party has based its core legitimacy on continuous economic growth in China since the 1980s, promising to improve living conditions for its citizens by quickly growing the economy (Zhao, 2009; Coase & Wang, 2012). To consolidate and secure its legitimacy, the Party is eager to obtain all resources and means to achieve economic development (Xiang, 2020). M&A deals abroad provide precious resources that can support sustainable economic growth in China, so the Party encourages and supports them.

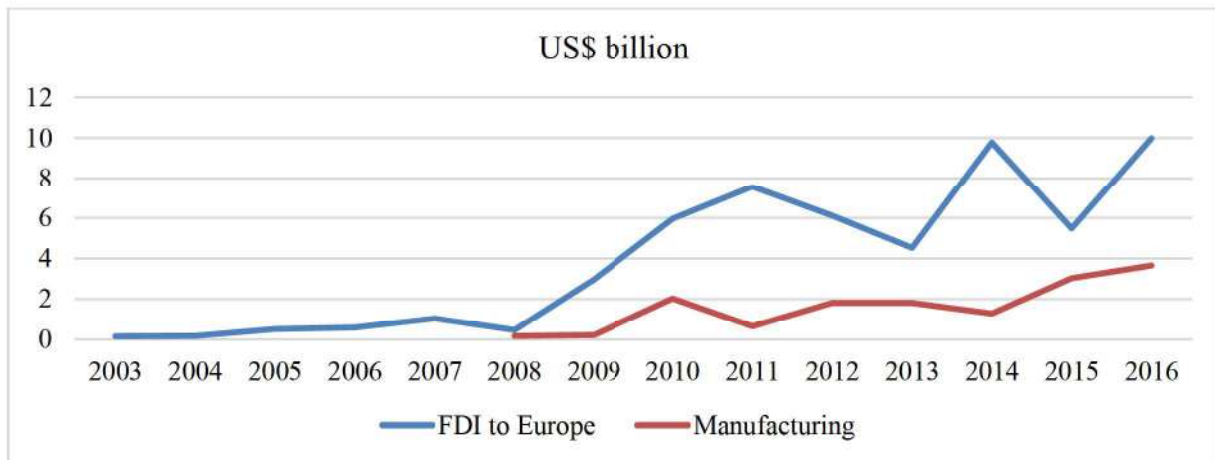
M&As from China to advanced economies expanded only recently. Earlier, most M&A forms of FDI were only between developed economies (Globerman & Shapiro, 2005), while Greenfield FDI usually came from developed economies and entered developing countries. Multinational corporations (MNCs) are key drivers of cross-border FDIs. Through M&As, they expand their production activities and use advanced market access and technologies in the Global North, and they use Greenfields to take advantage of lower costs in the Global South (UNCTAD, 2014). China’s rise over the last three decades has changed the dynamic of global FDI when Chinese companies began M&A deals to purchase firms and assets in many advanced economies. For example, Chinese firms have been enthusiastic about M&A deals in Europe since the 2008 economic crisis (Meunier, 2019) and have taken over many renowned European companies, especially in the manufacturing sector. High-profile examples include the Swedish automobile company Volvo (US\$1.8 billion, since 2009 Geely), the German automation manufacturer Kuka (EUR€1.2 billion, since 2016 a subsidiary of the Chinese company Media Group), and the Swiss chemical company Syngenta (US\$43 billion, owned by ChemChina since 2017).

With these high-profile M&As, European countries attract a considerable amount of Chinese capital, concentrated in manufacturing industries. Figure 3.2 shows that Chinese capital investing in manufacturing industries in European countries has continuously grown over the last decade and the share of Chinese OFDI in the manufacturing sectors has been above 20% of total OFDI throughout most of that period. The amount of Chinese OFDI entering European manufacturing sectors exceeded US\$2 billion in 2010 and has remained at this level ever since.

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<sup>71</sup> I provide details on the “Going Out” strategy in Section 1.1.3 of Chapter I.

Figure 3.2: Chinese OFDI in Europe



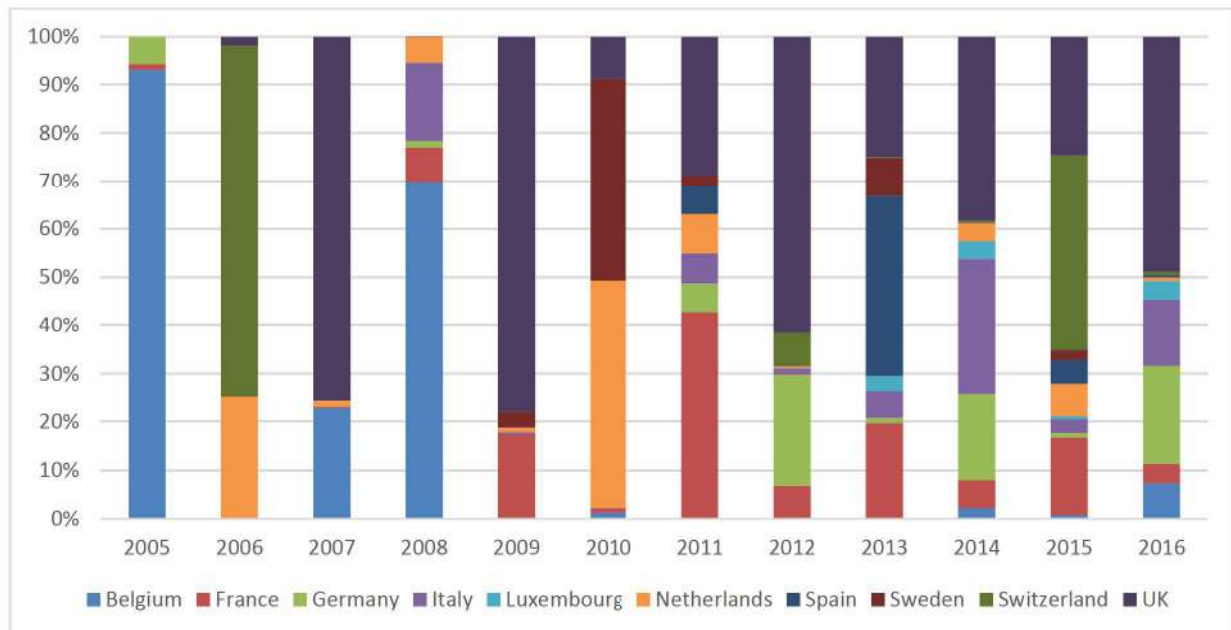
Source: MOFCOM Statistical Bulletin of China's Outward Foreign Direct Investment, from 2003 to 2016.

Figure 3.3 further decomposes overall Chinese M&As to Western European countries by showing the percentage by investment destination. The figure lists the top 10 Western European countries based on the transaction amount of M&As reported in the SDC Platinum dataset. The United Kingdom, France, Belgium, Germany, and Italy attracted the most M&As from China from 2005 to 2016. In 2017, Switzerland moved to the top of the list because of the Syngenta M&A deal. MOFCOM's data confirms the importance of Western European countries to Chinese OFDI, though Chinese capitals already had large scale M&As in Switzerland at 2015 with the US\$ 2.8 billion HNA – Swissport acquisition. By 2019, Switzerland, Germany, and the United Kingdom ranked among the top 10 Chinese M&A-type OFDI destinations, based on the stock measurement of the Chinese OFDI amount<sup>72</sup>.

<sup>72</sup> Source: MOFCOM 2018 Statistical Bulletin of China's Outward Foreign Direct Investment.



Figure 3.3: Composition of Chinese M&As in Europe<sup>73</sup>



Source: Thomson Reuters SDC Platinum Dataset.

Some scholars argue that a strong motivation for Chinese OFDI is to find a tax haven, which may well be true for Chinese investments in Hong Kong, the British Virgin Islands, or the Cayman Islands, but not for Europe (Sharma, 2012; Sutherland & Anderson, 2015). A recent study conducted by the International Monetary Fund (IMF) claimed that nearly 40% of total FDI across the globe could be categorized as Phantom Investments, e.g., capital simply enters empty corporate shells in tax havens (Damgaard, Elkjaer, & Johannesen, 2019). FDI seeking to avoid taxes would not be expected to have a substantial effect on labor conditions, argument. But much FDI from China to Western European countries is destined for manufacturing industries, where Chinese M&A-type OFDI does not follow such tax avoidance purposes and they could lead to substantial effects on labor protections.

<sup>73</sup> Top 10 Western European destinations are listed because the aggregate amount of M&A entering the rest 8 European countries is very small comparing to the top 10 countries listed in the graph.

### **3.2 Literature on Chinese M&A-type OFDI and potential effects on labor protections**

#### **3.2.1 Motives of Chinese M&A-type OFDI**

Dunning's (1980) theory is a starting point for researchers in discussing the motives of FDIs. His eclectic paradigm theory identifies ownership, location, and internationalization as determinants of FDI activities. Traditional FDI theory and research has mainly focused on the effects of investment from developed economies, because developed economies have, until recently, been the capital suppliers in global FDI (Vernon, 1966). In recent years, more FDI emanates from emerging economies and researchers add more factors to the list of FDI determinants so that they can capture the new influence of the Global South. These determinants include acquiring advanced technologies, obtaining patents and intellectual property rights, securing natural resources and raw materials, accessing market networks in advanced economies, and even expanding political influence through business activities (Dunning & Lundan, 2008; Fisch, Block, & Sandner, 2019).

Among these determinants, scholars view strategic assets and resource-seeking as crucial factors that drive Chinese M&A-type OFDI in advanced economies (Rui & Yip, 2008; Zhu & Zhu, 2016). Strategic assets in advanced economies include factories, talents, and business know-how. Resources in advanced economies include, but are not limited to raw materials (e.g., coal and iron ore in Australia), local market sales networks, and the global supply chain integration (Duan, 2016). Since the CPC has the authority and capacity to control Chinese firms, there is also a widely recognized argument that expanding Chinese firms in advanced economies furthers the CPC's political objectives, including strengthening the CPC's legitimacy, securing Chinese SOEs' leading position in the domestic market, and furthering Chinese political goals in investment destinations (Gu & Reed, 2013).

Another major motivation for Chinese firms to conduct M&A activities in European manufacturing industries is the acquisition of advanced technologies. Geely-Volvo is a good example of this (Andreff & Balcet, 2013). Many Chinese investments are carefully designed to also increase competitiveness back in the home market (Ström & Nakamura, 2014). The advanced technologies, highly skilled workforce, reliable supply chains, and established market access networks of Europe's industrial sectors are valuable assets that also further China's ambitious industrial upgrading agenda. Chinese firms look for common interests and opportunities in similar industrial plans across Europe and China, for example, seeing parallels



between Germany's "Industry 4.0" and China's "Made in China 2025" (Li L., 2018). Some empirical research confirms that Chinese firms achieve the intended objectives of their cross-border M&A deals, demonstrated by better sales and higher productivity after M&A transactions (Edamura, Haneda, Inui, Tan, & Todo, 2014).

Political motives could indeed attach to Chinese M&As to Europe. As China has become a global buyer, discussions have intensified beyond economic considerations to encompass political and social implications (Knoerich, 2010; Minin, Zhang, & Gammeltoft, 2012; Quer, Claver, & Rienda, 2012). "Fear of China" is increasing in Europe (Eichengreen & Tong, 2006) and many Chinese M&A deals face more negative media coverage in targeting countries than similar M&As from developed countries (Fang & Chimenson, 2017). This negative view of Chinese M&As may originate from the differing political and economic structures between China and Europe, such as China's authoritarian political system and the illiberal ideology. The Belt and Road Initiative and the bilateral investment treaties between the European Union and China are examples to be considered with stronger political motives rather than commercial interests (Paulo, 2018).

As the Sino – US relationship deteriorates, China may project its political influence towards European countries and seek closer ties to encourage Europe to support China's foreign policies on the global stage (Huang Y., 2016; Ferdinand, 2016; Zeng, 2017). The economic statecraft argument says that Chinese M&A activities are intended to further the CPC's political objectives (Hooijmaaijers, 2019). This could be the case for M&A deals conducted by SOEs, which enjoy privileges throughout the OFDI process. MOFCOM and the State Administration of Foreign Exchange (SAFE) in China usually prioritize OFDI approvals initiated by SOEs, while procedures for ordinary private enterprises can take much longer time, either months or even years. Financial support from the banking system and Chinese statecraft can also help SOEs pursue long-term political and strategic objectives beyond the commercial ones. Doubt and suspicion of political motives in Chinese capital investment have spurred several advanced economies to consider installing investment screening mechanisms or other barriers to safeguard national security (Dinc & Erel, 2013).

### 3.2.2 M&A-type of FDI and labor protections

M&A-type of FDI, including both the inward and outward directions, can directly influence labor conditions and practices because, when investors appoint new managers from new investors after acquiring firms, these managers must discuss labor conditions with existing employees and come to an understanding (Adolph, Quince, & Prakash, 2017). There are both positive and negative influences from M&A-type of FDI on labor protections. On the negative side, for instance, jobs in targeting firms at the investment destinations are likely to decrease after M&As because many new owners are usually more interested in short-term financial market performance than long-term development (Agrawal & Jaffe, 2000; Lehto & Böckerman, 2008). On the positive side, as I discussed in the literature review of Chapter I, inward FDI from advanced economies to developing countries has been considered a driving force of improvement in labor protections, e.g., eliminating child labor and improving working environments (Davies & Voy, 2009).

Unlike equity investment or Greenfield investment, in M&A-type FDI, ownership is more often transferred between firms, affecting factories, production sites, local employees, and other assets of the targeting firms. Therefore, M&As exert more influence than other types of FDI on political, economic, and social conditions (Davies, Desbordes, & Ray, 2018). At the macro level, the scale of large M&A transactions can even influence national economic structures in investment destinations. At the micro-level, career development may take a new course for individual employees (Marks & Mirvis, 2001; Buckley & Ghauri, 2002; Caiazza, Shimizu, & Yoshikawa, 2017). Social identity theory posits that employees in both targeting and acquiring firms will attempt to defend their positions in the new organization, pushing against a management team intent on creating a new joint identity (Haunschild, Moreland, & Murrell, 1994). This may lead to confrontations between employers and employees and create a lose-lose situation for both firms. To avoid this, governments have encouraged local collaboration between targeting and acquiring firms by making institutional arrangements at the regulatory and firm-level to support the process of post-M&A integration (Falkum, Colman, & Bråten, 2013).

How labor protections might diffuse back to China through post-M&A integration is still unclear; few scholars have studied this. Researchers on Chinese outward M&As have so far concentrated on financial performance or business and management practices (Hassan, Ghauri, & Mayrhofer, 2018). Labor studies on China are dominated by political scientists and sociologists



who usually examine domestic factors, e.g., SOE reform in the 1990s (Gallagher, 2005), migrating workers (Murphy, 2010), and legal institutions (Estlund, 2017). Few studies have explored labor conditions in China from an international political economy perspective and no one has yet discussed the role of M&A-type OFDI.

I found no academic publications that discussed the link between Chinese outward M&A activities and labor protection diffusions back to China. In this chapter, I make those links by examining the effects of M&A-type OFDI on labor protections in China. My samples are drawn from Western Europe because labor regulations are stricter and unions more active than in other Chinese OFDI investment destinations. Chinese firms investing in Western Europe through M&As instantly encounter European labor standards, regulations, and practices that differ starkly from equivalent arrangements in China. Since Western Europe has attracted substantial Chinese investment over the last decade, especially in the manufacturing sectors, M&A-type OFDI from China to Western European countries is the most likely to be a channel of labor diffusion back to China.

### **3.3 Theories on labor diffusions via M&A-type OFDI**

In Section 2.3 of Chapter II, I introduced three diffusion mechanisms – mandatory compliance, competition, and learning effects – to theorize the process of potential labor diffusions back to China through Chinese OFDI. These three diffusion mechanisms are likely to be most visible in M&A-type OFDI investment settings at Western European countries.

#### **3.3.1 Mandatory compliance**

The pressure to comply is stronger for M&A-type OFDI investing in Western European countries. This stronger pressure includes two components: first, the pressure is stronger for M&A-type of OFDI investing in Western European countries than the rest of the world; second, the pressure is stronger for M&A-type of OFDI than other types of OFDI. For Western Europe, the variety of capitalism literature suggests that most coordinated market economies on the European continent have more restrictive labor market regulations than advanced economies elsewhere (Hall & Soskice, 2001). “Social Europe” is often used to describe European nations

that protect social rights and provide a generous welfare system comparing to other advanced economies, no need to say comparing to the developing world (Martinsen & Vollaard, 2014; Baute, Meuleman, Abts, & Swyngedouw, 2018). For M&As, Chinese firms may need both to comply with minimum requirements and regulations enforced in investment destinations, including the compliance with collective or sectoral agreements that exceed the minimum level.

More specifically, Chinese investors face high compliance pressures after they acquire targeting firms in Western European countries, enforced by well-established legal systems, active enforcement like labor inspections, and public and media monitoring. Western European countries have more comprehensive labor protection regulations, rules, and practical working conditions, and stronger labor enforcement capacity than China. France, Germany, and the Nordic countries receive most Chinese M&A-type OFDI and rank among the countries with the strongest labor protection regulations.<sup>74</sup> Indeed, Europe has stronger labor protection regulations than other advanced economies such as the United States. European-based MNCs demonstrate this by promoting social values at their investing sites in China. Examples include IKEA's (Sweden) request for their Chinese suppliers to not ask Chinese workers to work overtime, and the Novo Nordisk (Denmark) factory in Tianjin, where the ACFTU branch in Novo Nordisk Tianjin embraced Danish value on human rights and developed a Nordic-style collective bargaining mechanism to set salaries for Chinese employees, guided and supported by the Danish management team. In comparison, Microsoft, an American MNC, asks its Chinese employees to work long hours and give up their vacations, even though CSR and annual leave policies run counter to those demands.<sup>75</sup>

The compliance pressure could also be stronger for M&A-type OFDI comparing to Greenfield investments, because M&As acquire targeting firms. The takeover of existing firms in Europe means that the new Chinese owners would need to comply with a broader spectrum of working conditions practices comparing to Greenfield investment. This is particularly the case for employee representation and collective bargaining as trade unions and collective agreements usually exist in the targeting firms. Whereas in Greenfield investments, Chinese investors may not need to set up trade unions or worker councils in Europe if not mandated by law and Chinese

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<sup>74</sup> According to the CBR Labour Regulation Index dataset shared by Prof. Damian Raess to me, France ranks second among 117 countries on the overall labor regulation index; Germany, Sweden, and most Western European countries are near the top of the list.

<sup>75</sup> Based on my interviews in the field in China (March – August 2018, September – November 2019).



firms may be unknown to local authorities and the public. Under these circumstances, compliance pressure would be weaker. In addition, new owners that break labor protection laws or do not follow regulations after M&As may be more likely to be reported to local governments or the public than a Greenfield investment that broke similar rules because trade union representatives are often embedded when the M&A takes place. Targeting firms in Europe also usually have strong connections to local media and governments. These factors increase monitoring pressure on compliance.

After investing in Western European countries, Chinese firms must comply with higher labor protection regulations, standards, and practical working conditions because violations trigger severe consequences. Now, Chinese firms commonly conduct investigations and background research on labor compliance before M&A deals. One popular approach is to hire third-party entities (usually experienced law firms) to conduct the investigation because Chinese investors are unfamiliar with compliance requirements in Europe. This new emphasis on compliance could gradually push Chinese firms to improve labor protection practices at their sites in China and diffuse these practices more broadly.

### 3.3.2 Competition

Chinese investors expect to increase their competitiveness by acquiring firms in Europe. European acquisitions can help them achieve business objectives like market expansion or technology upgrades, giving them an advantage over the competition. Kaplan (2016) characterizes capital flowing from China as significant patient capital investments that build up long-term comparative advantages. Though Kaplan's work primarily focused on SOEs from China, SOEs and private firms from China share similar desires to use long-term strategies to improve competitiveness.

Chinese firms' economic motivation for higher productivity and competitiveness through M&A-type OFDI in Western Europe may diffuse labor protection practices back to China. Chinese management is less likely to arbitrarily override existing labor protection settings and European labor practices in acquired firms by immediately replacing local workers with Chinese workers. Large-scale layoffs can create massive dissatisfaction among staff employed at newly purchased facilities and sites, and conflicts between new owners and trade unions at purchased

facilities can have severe consequences for Chinese firms<sup>76</sup> (Xu & Steven, 2011; Creutzfeldt, 2016). A reputation for treating labor poorly can severely damage the competitiveness of Chinese owners and prevent them from successfully implementing business strategies.

Since their priority is to improve competitiveness and achieve business goals, Chinese investors are most likely to maintain the status quo in targeting firms after M&A transactions, so that they can benefit from the assets they acquired. The Chinese side is likely to voluntarily accept existing labor protection practices without significant intervention, though in theory they could lay off employees or dissolve trade unions. If Chinese investors respect the status quo, this gives investors and employees the opportunity to see that labor protection practices can increase productivity and competitiveness in acquired firms. Through M&As, Chinese firms may copy or adapt standards and practices from newly purchased European sites to their home operations. For example, Chinese firms voluntarily adopted the Chartered Institute of Procurement and Supply (CIPS) certification on procurement and supply chain network (described in Chapter II). With M&As, the Chinese side starts managing suppliers and clients from the firms it acquired in Europe and if they adopt international standards like CIPS, they may expand their market access and improve their reputations among partners.

The reaction of Chinese firms to trade unions can also illustrate the competition mechanism. In many Western European countries, the employee association is a hallowed tradition. Trade unions in Europe are powerful, high-status organizations and members usually enjoy better working conditions than the legal minimum for compliance. Sectoral and collective agreements between trade unions and employers may motivate workers to produce more for better compensation. But Chinese managers and employees are used to thinking of the Chinese trade union, the ACFTU, as a puppet of the government that rarely intervenes in daily business operations. Indeed, the ACFTU has very limited effects on Chinese firms and the firm management only expects the ACFTU to play a peripheral role (Huang B., 2007; Yan, 2011).

Initially, Chinese firms may not understand why trade unions have such a strong presence in Europe. Through M&As and integration, the Chinese side may come to realize that the presence and influence of trade unions inside their acquired firms increases productivity and

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<sup>76</sup> Some examples of trade union conflicts between Chinese firms and local workers include the Shougang Group – Hierro Peru mine, Shanghai Automotive – South Korean Ssangyong Motor failure of M&A, and HNA – Swissport disagreement on collective bargaining.



competitiveness. Greenfield investors from China, however, may not need to set up trade unions or worker councils, so they will not have the opportunity to witness the benefits unions confer.

Some research already shows that Chinese investors respect and conform to German labor practices after M&As and understand why worker councils exist and how they function (Müller, 2017). Emons (2019) found that German worker councils in companies being taken over by Chinese investors often reached agreements with them, and that new owners made concessions about production sites and employment security in Germany. Similar patterns were evident in Austria, where newly arrived Chinese investors comply with Austria's Labor Constitution Act "*Arbeitsverfassungsgesetz*," and with Austrian practices on labor relations and "*Mitbestimmung*" (co-determination between employees and employers) after they acquire Austrian firms (Adam, 2018). This shows that Chinese investors are willing to follow Western European labor practices in exchange for business as usual and long-term competitiveness.

In some Western European countries with strong trade union and employee association traditions, like Sweden, a trade union organization within a firm is a strong influence on firm-level daily business operations. This is because, in Sweden, giving a voice to trade unions is a necessary pre-condition for the Swedish immigration authority to issue working visas for Chinese expats to come to and work in Sweden<sup>77</sup>. For Chinese firm's M&As with Swedish firms, Chinese owners recognize the benefits of working together with local trade unions because it eases daily operations, especially administrative work for arriving Chinese staff.

Once Chinese firms realize the benefits and advantage of labor protection practices in Europe, they may voluntarily adopt similar practices back home to improve productivity and competitiveness. This argument is backed up by research in increased competitiveness for Chinese acquiring firms after their cross-border M&A deals, as demonstrated by financial market performance of these Chinese firms (Zhou, Guo, Hua, & Doukas, 2015).

### 3.3.3 Learning effect

In Chapter II, I explained that the learning effect may diffuse labor protection regulations and practices. This path starts with the desire of Chinese firms to learn. Chinese M&A-type OFDI to advanced economies in Europe has grown massively because the Chinese are determined to

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<sup>77</sup> More details on the Visa regime in Sweden is discussed in Geely's case of Chapter IV.

upgrade their position on the global value chain and acquire advanced technologies they can use to overtake existing MNCs (Ramamurti & Hillemann, 2018; Gong, Yu, & Zhao, 2018).

The European firms that Chinese investors are targeting for M&A have been developing and improving their labor rules, working conditions, and practices for decades to increase productivity, reduce risks, and offer employees positive incentives (Ataullah, Le, & Sahota, 2014). Empirical evidence supports the claim that, along with factor endowment and techniques, management practices can also significantly raise productivity, which then raises the value of brands. Well-designed management practices and the capacity to deal with both cultural and geographical challenges are essential to successful business operations in the global market and to increase labor productivity (Bloom & Van Reenen, 2011). Well-managed and competitive firms usually provide better working environments and work-life balance for workers, which makes them more productive in return (Bloom, Kretschmer, & Van Reenen, 2009).

Firms from developing countries, including China, are generally not as well-managed comparing to those in advanced economies (Bloom & Reenen, 2010). Bloom & Reenen's survey shows that firms from emerging market economies (China, India, Brazil) lag far behind European and North American MNCs in their knowledge of management practices (Bloom et al., 2012). Chinese firms suffer from this knowledge gap because many of China's labor protection regulations and practices date back to the pre-reform days of the planning economy. Through M&As, many Chinese firms can access advanced management practices for the first time. They can learn and implement practices they acquire through M&As, like standardized internal human resource systems and better workplace safety protocols. M&As can help Chinese firms bridge the knowledge gap through learning effects, which would then diffuse labor regulations and practices from investment destinations back to China.

We can see this learning effect in Geely's experience with M&As in Western Europe.<sup>78</sup> Geely, a leading Chinese M&A buyer in that region, created a "Leadership Training Program" for newly arrived Chinese expats in Sweden, to introduce the unfamiliar European working environment, local community, and new social and legal issues to its Chinese employees. Through learning and understanding, Geely's Chinese team accumulates knowledge and experience about management practices and improves its productivity in the Chinese market.

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<sup>78</sup> Information is based on an interview with Geely's staff in Sweden, July 2019.



European labor protection norms and practices also diffuse to Geely's managers through this learning process. In Chapter IV, I go into more detail about how this happens on the firm-level.<sup>79</sup>

Chinese society looks up to Europe, and this could further increase the learning effects for investments in Western European countries. Xiang (2020, p.100) describes that Chinese people commonly believe that, *“Europe represents a forward-looking and progressive democratic civilization, whereas China has long been seen as a backward-looking and autocratic society.”* The idea that China is “backward” dates from the Opium War of 1840. The Party's patriotic ideological campaign and educational materials also strengthen the impression among most Chinese that Europe is “advanced, forward-looking, and progressive.” As a result, the feeling that advanced economies in Europe and North America are superior to China's is still widespread among the Chinese, even though China's economy has vastly expanded in the last four decades.

Chinese entrepreneurs and professionals thus tend to remain humble, even when they have the resources to purchase large foreign assets through M&As. Many Chinese investors are eager to learn from their newly acquired assets. A senior HR manager from a private Chinese firm in the apparel industry told me,<sup>80</sup> *“Western business and society, in general, has many advanced concepts, knowledge, skills, and practices. Therefore, we are going to learn from the external world through M&As to strengthen our capacity.”* This willingness to learn can accelerate labor diffusion through the learning effect mechanism.

Another example to show the desire to learn is the growing awareness in China of the concept of “non-discrimination” in hiring (Xu & Wang, 2004). Before M&As, most Chinese companies operated domestically; no business practice inside China is comparable to non-discrimination laws and regulations in advanced economies. In fact, a common recruitment practice in China is selecting candidates based on their residential permit status, also called the “Hukou system” (Kuang & Liu, 2012). From the European perspective, this practice sharply discriminates against certain groups of job seekers. In many M&A deals, like China Oilfield Services' post-2008 M&A of Norway's Awilco Offshore (Zhang X., 2017), new Chinese owners take control of financial and human resources from newly purchased assets (Wang & Qiao, 2017).<sup>81</sup> When the Chinese side learns that widespread discrimination practices in China are not

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<sup>79</sup> Details are provided in Chapter IV.

<sup>80</sup> Her company purchased a US clothing brand in 2008. I interviewed the HR manager in Eastern China (May 2018).

<sup>81</sup> My interviews of personnel in many Chinese firms in China and Europe (2018-2019) corroborate this practice.

acceptable in Europe, Chinese human resource managers involved in M&As may rethink their “backward” practices at home, diffusing knowledge about labor protections.

### 3.4 Hypotheses

#### 3.4.1 Overall labor regulations

As M&A-type Chinese OFDI in Western European countries increases, diffusion mechanisms could bring European labor protection laws, regulations, standards, and practices to China. Diffusion could then reduce existing gaps in labor protections between Europe and China.

There are some “social dumping” arguments suggesting that an increase in inward FDI from countries like China with lower labor protection standards and practices will degrade working conditions in Europe. Social dumping arguments posit that Chinese investors will bring their owner-managers, workers, and practices to Western Europe and undermine labor protections there (Ottonelli & Torresi, 2019). Since labor laws, regulations, and practices are well-established in Europe, existing mechanisms should be sufficient to safeguard and maintain working conditions, at least to the minimum legal standard, even when Western European nations receive Chinese capital. Some empirical research shows that there is little evidence suggesting Chinese M&A OFDI to Europe leads to “social dumping” that decreases labor protections in Europe. For example, both Emons (2019) and Muller (2017) show that in German companies purchased by Chinese investors, the Chinese owners respect the existence and role of German worker councils and often reached agreements with them. Similar patterns were also found in Austria as Chinese investors usually comply with Austria’s Labor Constitution Act “*Arbeitsverfassungsgesetz*,” and Austrian practices on labor relations and “*Mitbestimmung*” (co-determination between employees and employers) after they acquire Austrian firms (Adam, 2018). Thus, it is likely that the gap will close through China’s movement and not Europe’s.

The differences and gaps between China and Western European countries on labor protection laws and regulations suggest that M&A-type OFDI investing has significant potential to improve conditions on the Chinese side. China has experienced a massive social transformation, perhaps unprecedented in human history (Koetse, 2017). The fast, profound, and irreversible social changes in China have been comprehensive. During this turbulent period, it



became clear that laws and specific regulations can change rapidly in China – in a few years, or sometimes a few months – in response to emerging priorities and new challenges (Cai H., 2012).

Labor laws and regulations in China have already changed significantly, following rapid economic reform and growth (Liu, 2012). Scholars of labor laws and regulations and policymakers in China had studied extensively European labor protection laws to find legal solutions to address demands from Chinese workers. The discussion that laid the ground for the 2008 Labor Contract Law is a good example: the Shanghai School of scholars advocated pro-worker protection be embedded in the new law, and they frequently referred to examples from European countries (Chang, 2013). The increase in M&A-type OFDI and its consequent labor diffusions back to China might also make it easier to improve laws and regulations in China. This would increase the level of labor protection regulations in China, closing the labor regulation gap between China and European investment destinations.

Data from the CBR Labour Regulation Index supports this hypothesis. Data shows that for each investment destination country, if we compare key labor outcome variables of these European countries with China (CBR Labour Regulation Index, wages, working hours), the standard deviation of each of these variables is significantly larger in China than in almost any Western European destination country. For example, the 2004-2016 overall labor index for China (CBR index) has a standard variance of 2.72, but the standard variance for every economy investment destination was below 0.6; many were under 0.2. Labor regulation is clearly stable in advanced economies, while China's regulations have changed significantly. Labor outcome variables in China are much more volatile than the same variables in advanced economies. Therefore, changes are most likely to be made on the Chinese side.

*H1: When M&A-type OFDI from China to Western European countries increases, the gap between overall labor regulations in China and Western European investment destinations narrows.*

#### 3.4.2 Hypothesis on working condition regulations

Labor diffusions via the M&A-type OFDI may spark more changes in specific regulations that governing working conditions in China, than to change the overall labor regulation environment. After M&As, Chinese firms immediately encounter European labor practices, and the regulatory difference in working conditions will be very visible from the Chinese side. For

example, unlimited contracts are common for European workers, but in China many employees have fixed-term contracts or no formal employment contracts. In Europe, overtime work is not widely accepted, and people value the work-life balance and prefer longer vacations. While in China, working overtime is a common practice and tolerated by labor regulations. M&As with European firms will highlight these differences for Chinese investors and employees, which could trigger China to update its labor regulations on these specific working condition regulations first. Diffusion may motivate workers to first demand better working conditions and this pressure may lead to regulatory reforms (Cao & Meng, 2017). It is more likely that China will change regulations governing working conditions than a general and comprehensive change for all labor laws. If so, then changes of working condition regulations will occur prior overall labor regulations.

China's Labor Contract Law of 2008 suggests a willingness to change working condition regulations first. For example, the law made labor contracts mandatory and unlimited contracts obligatory after two successive fixed-term contracts. The 2008 law also strengthened regulations on working time, placing detailed obligations on employers if they want employees to work overtime. These regulatory changes in the form of employment and work hours may have been partially driven by labor diffusions via M&As to Europe.

*H2: As the amount of M&A-type OFDI from China to Western European countries increases, the gap between working condition regulations in China and Western European investment will narrow.*

### 3.4.3 Hypothesis on working hours

The 30-year boom in Chinese economic growth was achieved by workers who worked longer hours than they do in most other countries. Official statistics from the Chinese government show employees in China averaged more than 45 hours a week in the last decade<sup>82</sup>. A recent media report showed that over half of Chinese employees admit that regular overtime work is common in their employers.<sup>83</sup> Chinese employees are given little paid vacation, except for public holidays. Firms often ask employees to spend their vacation days in the office working, despite

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<sup>82</sup> The latest Official Statistical data is from 2018 (National Bureau of Statistics of the People's Republic of China). [http://www.stats.gov.cn/tjsj/zxfb/201901/t20190125\\_1646796.html](http://www.stats.gov.cn/tjsj/zxfb/201901/t20190125_1646796.html)

<sup>83</sup> See Xinhua News Agency's report for details. [http://www.xinhuanet.com/yuqing/2018-03/30/c\\_129840094.htm](http://www.xinhuanet.com/yuqing/2018-03/30/c_129840094.htm)



CSR and annual leave policies that state otherwise.<sup>84</sup> There are barriers to implementing paid vacations in China. Data released by MOHRSS in 2015 shows that less than half the total workforce is given paid vacation time,<sup>85</sup> and even employees entitled to vacation time may not want to take it (Tian & Wang, 2019).

In contrast, regulations on working hours in Western European countries are restrictive. There is strong social and political support for extensive regulations on working time, so most Europeans have shorter working hours, and many have longer leisure vacations (Gary, 1984; Dembe, 2011). The average working week for full-time employees in European countries is 35-40 hours and paid vacation averages four to six weeks per year (Messenger, 2011; Goerke, Jeworrek, & Pannenberg, 2015). Compared to Chinese employees, who work more than 45 hours per week and have a few days of paid holiday, European employees enjoy a more relaxed work schedule.

When Chinese firms enter Western European countries through M&As, they instantly recognize these huge working hour differences between Europe and China. In China, employees may choose or be forced to work extra hours, but this rarely occurs in Western European countries, which also have enforcement mechanisms to ensure employees do not work more than what is allowed. European employees are even restricted in the amount of leisure time they can sacrifice voluntarily in exchange for extra financial benefits. Some researchers have argued that an M&A deal can fail because of these differences over working hours. A widely discussed example was the 2006 M&A between BenQ (China) and Siemens' (Germany) mobile phone division. Unresolvable differences of opinions between Chinese and German employees on working hours and work/leisure preferences caused the M&A to fail (Tang & Tang, 2011). This taught Chinese firms that complying with working hour regulations in Europe is crucial to the success of M&A deals, so it is unlikely that they will violate regulations on working hours in investment destinations or try and force their European employees to work longer; this is another reason it is unlikely that Chinese investment will erode labor protections of working hours in Europe.

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<sup>84</sup> Based on my field interviews in China (March-August 2018; September-November 2019).

<sup>85</sup> *The People's Daily* report on MOHRSS data. <http://politics.people.com.cn/n/2015/0727/c1001-27363789.html>

As Chinese employees are exposed to Western European working hour regulations and practices through M&As, they gain a more personal understanding of European norms of work-life balance. Chinese expats who work in Europe after M&A transactions do adhere to European practices. For example, they may be entitled to take paid vacations in July, work fewer hours, and enjoy the same length of paid vacations as their European colleagues, regardless of their contract categories.<sup>86</sup>

Compliance with European working hour regulations and the learning effect could eventually help reduce working hours in China. Chinese expats in Europe get their first experience of a more humane working environment and may come to enjoy it, which may lead them to change their preferences and voice demands for fewer working hours in China. When they return to China, they may not be as likely to expect colleagues and employees to work long hours. International exposure and integrating management and employment practices into the firm after M&As may help shift working hours in China into a more European pattern, thus reducing the gap in employment practices between China and Europe.

*H3: As M&A-type OFDI from China to Western European countries increases, the gap in working hours between China and the Western European investment destinations will narrow.*

#### 3.4.4 Hypothesis on wages

Chinese M&A-type OFDI usually flows to Western European countries because Chinese firms are seeking supply chain upgrades and technological improvement (Fan, Lin, & Tang, 2018). If these business objectives are achieved, they will increase the productivity and competitiveness of acquiring firms in China. Higher productivity will increase performance and profits, hence improving their financial condition.

Workers generally seek higher wages, whether in Europe or China. If productivity and competitiveness improve through M&As, Chinese investors may be better able to absorb labor costs and accommodate wage demands from their workers by increasing wages. This is what the spillover literature on the effects of FDI (particularly cross-border M&As) on domestic wages suggests (Clougherty et al., 2014). There is evidence to support this argument: growing productivity in industries that hire intensive labor forces were found to increase the affordability and willingness to improve labor welfare and fully comply with social insurance (Mok & Wu,

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<sup>86</sup> I discovered this during my field research with Chinese companies that invested in Sweden (July 2019).



2013). As many of the acquiring Chinese firms are leaders in the domestic market, if they increase their wages after M&As in Europe, this could have large spillover effects on sectoral and national wages in China.

If, after M&A's in Western European countries, Chinese firms increase their engagement and integration, this may also motivate them to offer higher wages to employees. European workers usually enjoy good wages that contribute to better performance and higher productivity. Through competitiveness and learning mechanisms, Chinese investors may learn from wage practices at acquiring firms and see the benefits of increasing compensation to workers.

Other researchers argue that outward FDI could lower wages in the FDI sourcing country, mainly focusing on outsourced FDI from developed economies to developing countries. Typical examples are large MNCs that invest in developing economies to take advantage of lower factor prices. For FDI-sourcing countries, the outflow of capital could have negative consequences including deteriorating wage conditions and perhaps increasing inequality (Alfaro & Johnson, 2013; Marrewijk, 2017) or the “bargaining effect” (Clougherty et al., 2014), which includes lower wages, scarcer employment under worse conditions, less job security, and the loss of benefits like social insurance (Driffield, Pereira, & Temouri, 2019).

But this scenario may not play out for M&A-type OFDI from China to Western European countries. Unlike offshoring or outsourcing FDI, M&A-type OFDI from China to Europe does not lower labor costs or wages, because most European countries pay much higher wages than China. South Korea's early stage of development may be a valid reference for China: MNCs from South Korea investment in advanced economies did not have a negative effect on the domestic employment market during Korea's economic take-off period (Debaere, Lee, & Lee, 2010; Kang & Wang, 2018). Thus, M&A-type of OFDI from China to Western European countries would most likely place upward pressure on wages in China. Since wages in European countries are more stable than China, it is more likely that China would raise its wages than that Europe would lower them. If that is the case, then rising wages in China would narrow the wage gap between China and investment destinations in Western Europe.

*H4: As M&A-type OFDI from China to Western European countries increases, the wage gap between China and the Western European investment destinations will narrow.*

### 3.5 Data and methods

#### 3.5.1 Dependent variables

The dependent variables in this analysis are the gap between labor outcomes in China and 18 Western European countries that receive Chinese M&A-type OFDI<sup>87</sup>. I will use four groups of dependent variables to test my four hypotheses: overall labor regulations; working condition regulations; working hours; and wages.

The first dependent variable is *Overall Labor Regulations*, which measures the overall level of labor protections in individual countries by their regulations. It is an index variable with a score ranging from 1 to 40. The score is the sum of all five sub-indexes of labor regulations and legislation in each country, including forms of employment, working time, dismissal regulation, employee representation, and industrial actions. A higher score indicates a stronger labor protection regulation. This index comes directly from the CBR Labour Regulation Index (CBR LRI) (Adams, Bishop, & Deakins, 2017), a comprehensive labor dataset with detailed coverage of labor regulations. The overall labor regulation is the aggregate value of all five sub-regulation indexes. The *Overall Labor Regulations* variable from the CBR LRI dataset captures the most important aspects of labor regulations for individual countries and is a good reference for measuring the scale of labor protections. The Appendix part of this thesis shows more details on the composition and coverage of this CBR LRI dataset.

Since official data from China is either unreliable or difficult to directly compare with similar variables in an advanced economy (Plekhanov, 2017), the CBR LRI database is an acceptable alternative because its coverage of observations from China is good and they are comparable to Western countries at the same level.

The second dependent variable is *Working Condition Regulations*, which captures specific working condition regulations on two aspects: the form of employment and working time. The variable has the score index value from 1 to 15. A higher score indicates stronger and more

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<sup>87</sup> These are the 18 Western European countries: Austria; Belgium; Denmark; Finland; France; Germany; Greece; Iceland; Ireland; Italy; Luxembourg; the Netherlands; Norway; Portugal; Spain; Sweden; Switzerland; and the United Kingdom. I selected these 18 advanced economies in Europe based on their economic structure as advanced capitalist economies. Though some of them, like Greece, are not in Western Europe geographically, they have similarly economic structures and social traditions, and this was the key criteria in selecting them for this analysis. Former communist countries in Eastern Europe are categorized as advanced economies today, but I did not include them because their economic structures are transitional.



protective regulations covering working conditions on job security and working time. The variable is also taken from the CBR LRI dataset; it is the sum of two sub-indexes of forms of employment and regulations on working time. These two indexes can capture working condition regulations that affect most Chinese workers. Regulations on the form of employment in the CBR LRI index include whether employees have a labor contract, and if they enjoy a full-time contract or part-time, flexible employment status. Countries with higher scores of regulations under the form of employment index provide better contractual protections for employees and they grant more rights to part-time or flexible employees. Regulations on working time include the legal requirement for regular working hours, allowance on overtime working hours, and related compensations and premiums. Chinese workers are deeply concerned with working conditions, including the form of their employment and working time regulations. If M&A leads to labor diffusions, this could empower Chinese workers to demand stronger protection of this kind. By narrowing my focus to these sub-indexes, I could test if working condition regulations were the first part of the entire regulations on labor protections being affected by diffusions from M&A-type OFDI investing in Europe.

The third dependent variable is *Working Hours*, which is the average number of working hours per worker for each country in each calendar year. This measurement includes full-time, part-time, and overtime working hours. For example, in 2008, German workers worked 1418 hours, dropping to 1368 in 2015. The data comes from the ILO's ILOSTAT.

The fourth group of dependent variables are wages. I use two measurements. *Wage* is the financial amount of average annual earnings for employees in each country. *Wage Manufacturing* is the sectoral average annual earnings of employees in the manufacturing sectors. The financial amount of all wage observations is given as US dollars. *Wage* data for all advanced economies comes from the OECD's average wage statistics. *Wage Manufacturing* data for investment destinations is reported by ILOSTAT. China's data comes from the annual release of the National Statistics on the average salary for urban residents. I include *Wage Manufacturing* so I can take a closer look at the effects of M&A-type OFDI on the manufacturing sectors.

To capture the dynamics and moving trends of these labor outcome variables between China and the Western European countries, the values of these four groups of dependent variables in the regression analysis are the absolute values of the differences between China and

Western Europe. This transformation should illustrate changes or improvements in China influenced by Chinese M&A-type OFDI.

Specifically, the transformation of dependent variables takes the following approach:

$$\text{Overall Labor Regulations}_{(China-i)t} = |\text{Overall Labor Regulations}_{China,t} - \text{Overall Labor Regulations}_{it}|$$

Here,  $i$  refers to a Western European country and  $t$  refers to a year. For example, for 2007, France had a value of 31.78 for *Overall Labor Regulations* and China had a value of 14.33. Therefore, the *Overall Labor Regulations*  $_{(China-France),2007}$  is  $|14.33 - 31.78| = 17.45$ . The same calculation applies to all dependent variables. There are annual observations from 2004-2013 in the CBR LRI dataset of overall labor regulations and working condition regulations, and from 2004-2016 for working hours and two wage variables. For all my hypotheses, I expected that increases in M&A-type OFDI from China to Western European countries would be negatively correlated with all dependent variables because labor diffusions would push China to improve, thus narrowing the gap between China and its investment destination, measured by the labor outcome variables. All labor outcome gap variables are transformed with the log value to fit the normal distribution because the absolute value is always positive and could project bias on regression results.

### 3.5.2 Independent variable

The independent variable is the *M&A Amount*, which is the USD financial value of the M&A transaction amount reported by Thomas Reuters's Securities Data Company (SDC) Platinum,<sup>88</sup> an independent data source of Chinese OFDI other than the official data generated by the Chinese government. The observation for each of 18 European countries per year is the aggregate financial amount of all M&A deals reported by the SDC Platinum dataset for the acquiring firms from China during a single calendar year. The SDC Platinum dataset collects detailed information on M&A deals from the global market, including target firm, acquiring firm, sectors, countries, and transaction amount in USD.

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<sup>88</sup> I thank the SNSF project "BRICS Globalization and Labor Protections" led by Prof. Damian Raess and PhD candidate Patrick Wagner for facilitating the access to this SDC data set. I also thank Mr. Marc Brunner from the Institute for Financial Management of the University of Bern to kindly provide me the access to SDC dataset.



I generate *M&A Amount* for the 18 Western European countries to run the direct effect specifications. I also generate *M&A Amount* for additional five non-Western European to run interaction effect analysis. Section 3.5.4 below on estimation strategy will provide detailed explanations on the rationales for adding five non-Western European countries into the sample. These five non-European countries are Australia; Canada; Japan; New Zealand; and the US. The variable *M&A Amount* covers 2004 to 2016.

### 3.5.3 Control variables

Each specification has seven control variables to capture the effects on labor outcome variables from China and bilateral influence between China and the investment destination.

The first control variable, *SOE share M&A*, is included in all specifications to control the effect of SOEs in China on labor outcome variables. It is constructed as the share of the financial amount of M&A conducted by SOEs to the total M&A amount in an investment destination country. A higher share suggests that more Chinese M&A-type OFDI is supplied by SOEs than by private firms. Data on *SOE share M&A* comes from the SDC Platinum dataset, which gives the full name of the buyer for each M&A transaction. I then investigate and determine if the buyer is an SOE or not.

I control for the effect of SOE on labor outcome variables because SOE accounts for a large portion of Chinese OFDI. Data from MOFCOM shows that, in 2017,<sup>89</sup> SOEs accounted for 51% of the total amount of Chinese OFDI flow. SOEs are often involved in large-scale M&A deals and prefer to maintain full control of the target company by securing more than 50% of the equity holding (Meng, Lyu, & Jiang, 2018). SOEs also are alert to labor diffusions from abroad and tend to take defensive measures (Shen, 2006). They are closely aligned with the Party and may help the Party to implement the Great Firewall strategy to resist diffusions. I thus expect that *SOE share M&A* would correlate positively with all labor outcome variables, since they are opposed to changing labor protections in China.

The second control variable is *Manufacturing share M&A*, a share variable between the number of M&A deals within the manufacturing sector (based on Chinese acquiring firms) and the total number of M&A deals per country per year. If *Manufacturing share M&A* value is high, more M&As from China are likely to emanate from the manufacturing sectors, so labor

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<sup>89</sup> Source: MOFCOM 2018 Statistical Bulletin of China's Outward Foreign Direct Investment, Figure 11.

diffusions would have a greater effect on the manufacturing sectors. Data on *Manufacturing share M&A* also comes from the SDC Platinum dataset's information on the acquiring firm. I then determine whether the acquiring firm is in the manufacturing sector.

*Manufacturing share M&A* is included as a control variable to capture the effect of labor protections in the manufacturing sectors. Employees in the manufacturing sectors, especially blue-collar workers, are the most organized employees among all sectors. In many developed countries, trade union density in the manufacturing sector is much higher than in other sectors. In Europe, manufacturing sectors are considered to be the stronghold of trade unions (Bernaciak, Gumbrell-McCormick, & Hyman, 2014), and most active trade unions in the US are in manufacturing sectors, e.g., automobile workers (Dinlersoz & Greenwood, 2016). This has resulted in a stronger labor protection regulation and working condition regulation in the manufacturing sectors in advanced economies. Much Chinese M&A-type OFDI flowing to Western European countries is concentrated in manufacturing, where Chinese firms acquire advanced technology and increase their knowledge about business practices. The latest data released by MOFCOM<sup>90</sup> shows that by the end of 2017, the largest share of Chinese OFDI stock in Europe (30.8%; USD 34.13 billion) was in the manufacturing sectors.

When Chinese OFDI enters the manufacturing sectors of European countries through M&A, Chinese firms must engage with stronger labor protections in the manufacturing sectors, which may diffuse back to China. I thus expected that *Manufacturing share M&A* would correlate negatively with all dependent variables, since more M&A-type OFDI entering manufacturing sectors increase pressure on China to improve domestic labor protection regulations and practices, narrowing the gap between China and European investment destinations.

The third control variable, *Trade*, measures the bilateral financial amount of total trade between China and the investment destination per year. The trade amount is the sum of export and import between China to this country, as reported by China's Statistics Yearbook. Based on the literature on trade and labor protections, I expect more trade between China and Western European countries would exert upward pressure to improve labor protections in China, reducing

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<sup>90</sup> Source: MOFCOM 2018 Statistical Bulletin of China's Outward Foreign Direct Investment, Table 14.



the gap between China and investment destinations for all labor outcome variables. Consequently, *Trade* should be negatively correlated to all dependent variables.

The fourth control variable, *Inward FDI*, is the bilateral financial amount of total inward FDI from a Western European country to China per year. Data for *Inward FDI* is reported by China's Statistics Yearbook 2018. I expect FDI from the Global North to strengthen labor protection practices in China and narrow the gap between China and Europe. *Inward FDI* should be negatively correlated with all labor outcome variables.

The fifth control variable, *GDP China*, captures the effect of the size of economic development in China on labor outcome variables. Data on *GDP China* comes from the China Statistics Yearbook 2018. The sixth control variable, *GDP Growth Rate China*, captures the effect of speed of economic development on labor outcome variables, based on data from the China Statistics Yearbook 2018. I expect both GDP variables in China would lead to improvements of labor protections and narrow the gap between China and Europe.

The last control is *TFP China*, which measures China's total factor productivity, based on data from the Conference Board Total Economy Database (The Conference Board, 2019). Higher productivity means firms in China are more productive. I included *TFP China* in all specifications to capture the effect of productivity on labor protections. An obvious barrier that prevents developing countries from adopting stronger labor protection regulations and practices is the increasing labor cost associated with higher regulations and labor rights. If a firm in China strictly implements and complies with the 2008 Labor Contract Law, it can increase labor costs by 15% (Cai M. D., 2005). Improved productivity can compensate for these costs and increase a firm's ability to offer better labor protection terms to workers, like social insurance coverage, long-term employment contracts, higher wages, and fewer working hours. Some research supports this argument: growing productivity increases the capability and willingness of firms in labor-intensive industries to improve labor welfare and to comply fully with social insurance regulations (Mok & Wu, 2013). I thus expect *TFP China* to be negatively correlated with all dependent variables.

#### 3.5.4 Estimation strategy

I took two estimation approaches to test my hypotheses: direct effect specifications and interaction effect specifications. Both approaches adopt the panel data random effect estimator at

the bilateral country-pair level, and control for time. The direct effect specifications focus on the sample of observations that includes 18 Western European countries. In the direct effect specifications with all Western-European countries, I expect the independent variable *M&A Amount* to be negatively correlated with labor outcome variables, thus suggesting a closing gap between China and European countries through improvements from the Chinese side.

The interaction effect specifications added five non-Western European countries<sup>91</sup> to the sample and inserted the dummy variable of *Western Europe* and the interaction term *M&A \* Western Europe* (M&A amount multiplies with the dummy). The dummy variable *Western Europe* was generated, with a value of 1 for all 18 Western European countries in the sample and 0 for the five non-Western European countries. The interaction term *M&A \* Western Europe* then becomes the key variable in testing the hypotheses. In the interaction effect specifications, I was not looking for the direct effect on labor outcome variables. With the inclusion of five non-Western European countries in the sample, I did not expect the independent variable of *M&A Amount* to have a direct effect on labor outcome variables. Instead, I focused on the interaction term of *M&A \* Western Europe* and expected it to be negatively correlated with all dependent variables. A negative correlation would suggest that the same amount of M&As closes the labor protections gap more if China's investment destination is a Western European country.

I chose the random effect estimator for all specifications. For the direct effect specifications, I run the Hausman tests and results support the use of the random effect estimator. For the interaction effect specification, I also use the random effect estimator because the interaction term includes a dummy variable for all Western European countries. If I run the analysis with a fixed-effect estimator, the interaction effect specification will become meaningless because it automatically omits the variable of the dummy term as no countries in the sample changes their states from non-Western European to Western European. Therefore, the random effect estimator is the best option in this setting.

The main motive for the inclusion of the interaction effect specifications into the empirical analysis is to further test the upward labor diffusion effect from Western Europe to China with a comparison of non-Western European advanced economies that having different labor protections. I include five non-Western European economies from the Global North

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<sup>91</sup> Australia, Canada, Japan, New Zealand, and USA.



(Australia, Canada, Japan, New Zealand, USA) in the interaction effect specifications. Labor regulations and practices in these five non-Western European economies are quite different from most Western European countries. The variety of Capitalism literature (Hall & Soskice, 2001) categorizes most of the 18 European countries in the direct effect approach as coordinated market economies with stronger labor market regulations. But four out of five non-Western European economies (AU, CA, NZ, US) are categorized as liberal market economies that prefer neoliberal competitions with less labor regulation. Although Japan is considered a coordinate market economy, its group-based coordination through families and networks distinguishes it significantly from most coordinate market economies in Europe. Consequently, I expect that Chinese M&As entering these five non-Western European countries will be less likely to diffuse labor protections back to China than M&As in Western Europe.

Financial market motives drive many Chinese M&As in the US. Also, Chinese firms usually target Australian and Canadian firms for raw materials and natural resources (like mining). On the contrary, Chinese M&As entering Western European economies focus more on the manufacturing sectors with advanced technologies and on expanding their markets. These different preferences for M&A across different destinations might expose Chinese firms to different levels of labor protections: manufacturing, technology transfer, and management skills in Western Europe, which may further increase exposure and diffuse more labor practices to China.

Table 3.1 shows a summary of statistics for all variables. Tables 3.2 and 3.3 report the baseline results for both the direct effect and interaction effect specifications.

### **3.6 Results and Discussions**

#### **3.6.1 Baseline results**

For labor regulations, Table 3.2 shows the baseline results of the direct effect specification for the sample of 18 Western European countries. In Models (1) and (2), the coefficients of *M&A Amount* are negative and statistically significant at the 5% level on labor outcome variables of *Overall Labor Regulations* and *Working Condition Regulations*. These

results support Hypothesis 1 and 2: as Chinese M&A-type OFDI increases, the labor regulation gap between China and Western Europe narrows.

In interaction effect specifications, Table 3.3 shows that the coefficient of the independent variable *M&A Amount* loses the significance in Models (1) and (2) for two labor regulation dependent variables. I expected this because I added five non-Western European countries to the sample, which I thought would reduce direct diffusion effects to China. But the coefficient of the interaction term *M&A \* Western Europe* in Models (1) and (2) of Table 3.3 are negative and statistically significant, which suggests that as the amount of M&A entering Western European increases, the dependent variable decreases, narrowing the labor regulation gap between China and Western European countries. Figures 3.5 and 3.6 also illustrate with the marginal effects by graphs. Both graphs show that the labor regulation gaps between China and the investment destination decrease if the investment destination is a Western European country. Since the dependent variable takes the absolute value, this negative marginal effect shows that M&A-type OFDI investing in Western European countries improves labor regulations in China more than similar M&A-type OFDI investing in non-European countries. The interaction effect specifications thus provide more support for Hypotheses 1 and 2.

The baseline results of both direct and interaction effect specifications do not support either Hypothesis 3 or 4 on working hours and wages. In Models (3) to (5) of Table 3.2, the coefficients on *M&A Amount* are not statistically significant for the direct effect specifications, but the sign of *M&A Amount* on two wage outcome variables is negative, demonstrating a trend of decreasing wage gaps. In the interaction effect specifications of Table 3.3, the coefficients on *M&A Amount* and the interaction term *M&A \* Western Europe* are not statistically significant in Models (3) and (4). But for *Wage Manufacturing*, the coefficient of *M&A Amount* in Model (5) of Table 3.3 shows weak significance at the 10% level, with an unexpected positive sign. The interaction term *M&A \* Western Europe* remains negative and statistically significant at the 5% level, which suggests that M&A to Western European countries can change the direction of effect on *Wage Manufacturing*. Figure 3.7 shows this relationship in the marginal effect graph. These results suggest that *M&A Amount* has a negative marginal effect on *Wage Manufacturing* in a European country, also narrowing the wage gap between Chinese and European manufacturing sectors. In short, Hypothesis 3 on working hours is not supported by any specification.



Hypothesis 4 is not supported by most specifications, despite some weak findings from the interaction effect specification on *Wage Manufacturing* showing in Model (5) of Table 3.3.

For control variables, the coefficients of *SOE Share M&A* are positive throughout most specifications and reach statistical significance in Models (1) and (2) of Table 3.2. This aligns with my expectation that SOE would play a defensive role against labor diffusion from abroad. It may also suggest that the private sector drives improvements in labor protections in China rather than SOEs. I will provide a more detailed case study on the effect of private firms versus SOEs on labor diffusion via OFDI in Chapter IV.

The coefficients on *Manufacturing Share M&A* did not fulfill my expectation that it would correlate negatively with all dependent variables. More OFDI in the manufacturing sectors does not show a sign of reduced labor outcome variables between China and the investment destination in Western Europe. Coefficients on *Trade* are insignificant in most specifications. The empirical result that includes both FDI and trade measurements into the specification could support Mosley's argument (Mosley, 2010) that FDI tends to have a larger effect on labor than trade. For other control variables, *TFP China* correlates negatively with most labor outcome variables, supporting the argument that increasing productivity improves labor protections in China.

### 3.6.2 Robustness checks

The robustness check replaces the independent variable *M&A Amount* with the lagged one-year measurement to account for diffusion and improvement in China over time. The lagged one-year M&A amount variable accounts for the time it takes Chinese firms to find, understand, and potentially learn about labor practices after an M&A transaction. The control variable *SOE Share M&A* also takes an alternate measurement in robustness checks. Now the variable *SOE Share M&A* is the share between the number of deals SOEs conduct and the total number of deals in an investment destination country, instead of the share of financial amount (from the baseline specifications).

The robustness check results in Tables 3.4 confirm findings from the baseline models. The coefficients of *M&A Amount* in Models (1) and (2) of Table 3.4 are negative and statistically significant, demonstrating that the baseline results on *Overall Labor Regulations* and *Working Condition Regulations* are robust. The coefficients for the interaction term *M&A \* Western*

*Europe* in Models (1) and (2) of Table 3.5 are negative and statistically significant, which aligns with baseline results in Table 3.3. Figures 3.8 and 3.9 show the marginal effect of being a Western European country on labor regulations. The results of *Working Condition Regulations* in Figure 3.9 demonstrate the baseline results are robust, but the result on *Overall Labor Regulations* is weaker in Figure 3.8.

For working hours and wages, the robustness check results show no significant effect of M&As on these labor outcomes. The interaction effect on *Wage Manufacturing* in the baseline specification disappears in Model (5) of Table 3.5, perhaps because the sample size is smaller, or because other factors affect wages across countries, for instance differences in purchasing power.

Overall, empirical results support Hypotheses 1 and 2, because more Chinese M&A-type OFDI reduced the gap between China and Western European countries on labor regulations. But they do not support Hypotheses 3 and 4 about working hours and wages. The 2008 Labor Contract Law improved labor regulations, possibly through a combination of diffusion from Europe to China via OFDI and the realization of domestic leaders and experts of the pro-labor Shanghai School, that labor regulations needed to be improved (Chang, 2013). But these improvements have not yet affected practices at the firm level, such as wages or working hours. They may take a “forward-looking” approach to proactively strengthen labor regulations to address and defuse emerging challenges and demands from the worker side, but regulatory efforts by top leadership may not have been implemented at the practical level yet, and not have changed working hours and wages.

### 3.6.3 Discussion on wages and working hours

One explanation for the lack of results in supporting Hypothesis 3 on *Working Hours* could be that Chinese workers have more overtime working than European workers. As the data for *Working Hours* include both regular working time and overtime working hours, an increasing M&A-type of OFDI to Western Europe may not reduce the overtime working practices in China and thus there is a lack of empirical evidence to show reduced working hours in China. In addition, the lack of empirical support for hypotheses on working hours and wages could also be explained by an exchange between these two labor outcome variables in China. Since Chinese workers prefer economic incentives than leisure and they may choose to exchange leisure time for more incomes, diminishing the direct effect I suggested in Hypotheses 3 and 4.



Although working long hours is common in China, given the average 46-hour per work week,<sup>92</sup> employees in China may not want to work longer hours if they do not receive sufficient overtime wages. According to Article 44 of China's Labor Law,<sup>93</sup> the overtime wage premium accounts for at least 150% to 300% of the regular wage (Egels-Zandén, 2014). During the 2018 interviews I conducted for this study in China, several employees in the manufacturing industries confirmed their willingness to work extra hours, but if workers are not compensated sufficiently for overtime work, they tend to reject employers' requests and demand payment.

Chinese employees constantly demand higher incomes, and the pursuit of that goal is one of the strongest motivations for workers in China – particularly for migrant workers and Chinese expats who work abroad in any destination country, and for private sector employees. Chinese firms also want to increase wages to give employees incentives to work longer. Some Chinese firms give employees extra benefits to encourage them work longer, including compensating them for transportation expenses after 11 p.m.<sup>94</sup> and giving them free meals at night. Huawei has a corporate practice called “Wolf Culture” that encourages employees to sacrifice leisure time by offering high compensation like salary premiums or stock shares (Sun, 2009). Human resource research suggests that, in China, the fast-paced business environment and flexible project management and operations require Chinese employees to work overtime so much that they gradually grow used to it (Tian, Xiong, Jiang, Jin, & Zhou, 2013). Figure 3.4 on China's wage and working hours over the last decade illustrate this: wages have linear growth but working hours fluctuate over the years with no significant downward tendency.

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<sup>92</sup> Source: Statistics from the National Bureau of Statistics, China.

<sup>93</sup> See here for the full text of Labor Law of the People's Republic of China. [http://www.gov.cn/banshi/2005-05/25/content\\_905.htm](http://www.gov.cn/banshi/2005-05/25/content_905.htm)

<sup>94</sup> Some firms will pay the DiDi (Chinese equivalent of Uber) fees and expenses for employees working until 9 or 10 pm, in exchange for the employees remaining at the office longer.

Figure 3.4: Wages and Working Hours in China (Annually)



Source: Wage data comes from the average nominal salary of urban residents reported by China's National Statistics; Working Hours data comes from the average working hours reported by ILO STAT.

Labor diffusions of working hours via M&A-type OFDI investing in Europe could be offset by Chinese firms' and workers' preferences between overtime working and wage. Preference for exchanging higher wages with less leisure time may remain dominant in China in the near future and this could explain the lack of empirical support for Hypotheses 3 on working hours. For the lack of empirical results on Hypothesis 4 of wage despite a linear growth of average nominal salary in China, one plausible explanation could be that the effect of nominal wage growth in China is diminished by other economic variables, for instance inflation rate or foreign exchange rates. Also, as the pre-existing gap between advanced Western European countries and China on wage is significant, linear wage growth in China partially driven by Chinese OFDI may not be sufficient enough to reduce the real wage gap between China and European investment destinations. Perhaps only an exponential growth of real wages in China could lead to a massive decrease of wage gaps between China and Western European countries.

### 3.7 Conclusion

M&A-type OFDI is one of the most popular formats of Chinese OFDI flowing into advanced economies. Although Chinese firms may not have been aware of or well-prepared to deal with foreign labor protection regulations and practices when they acquired firms in Western



Europe, firm-level integrations and business operations after M&As could demonstrate the importance of labor protections to the Chinese side.

My empirical analysis was designed to elucidate the role of M&A-type OFDI from China to advanced economies in Western Europe plays in improving domestic labor protection regulations and practices in China. The empirical analysis in this Chapter takes an independent data source on Chinese OFDI other than the official published data from the Chinese government. The alternative data source may increase the validity of empirical results regarding the doubt on data quality from the Chinese authorities.

I found some support for the claim that an increase in M&A-type OFDI improves labor regulations in China, but there is little evidence on specific working conditions, like reductions in working hours or wage increases, to support my hypotheses. Results also indicate that SOE may play a defensive role in preventing labor protections from diffusing back to China.

Though M&A-type OFDI could become a channel of labor diffusions from investment destinations, the relationship is unlikely to be straightforward because the situation is complex. This complexity is illustrated by my finding in Chapter II, based on provincial data from China. Both the macro- and meso-empirical analysis suggest that the effect of Chinese OFDI on domestic labor protections must be more carefully investigated at the micro-level; we need case studies of individual firms to better understand the process. In Chapter IV, I offer a qualitative analysis based on observations from five selected Chinese firms to supplement the large-N analysis in Chapters II and III. These case studies explore the complex effects of Chinese OFDI on domestic labor protections in detail.

<b>Table 3.1: Summary of statistics</b>	Mean	SD	Min	Max	N
M&A Amount	2134.88	6205.243	0.06	69912.79	161
SOE Share M&A (Amount)	0.455	0.456	0	1	194
SOE Share M&A (Number)	0.39	0.349	0	1	194
Manufacturing Share M&A	0.678	0.306	0	1	194
Inward FDI	88893.18	131646.9	9	735156	194
Trade	7648420	11300000	19109	55700000	194
GDP China	493123.2	182040.9	161415.4	740060.8	194
GDP Growth China	9.139	2.222	6.59	14.2	194
TFP China	4.404	1.619	3	9	172
Overall Labor Regulations	6.804	4.32	0.28	17.62	135
Working Condition Regulations	3.252	1.971	0.05	10.43	135
Working Hours	794.6	149.476	373	1085	187
Wage	40545.81	8741.839	15180.59	56815.26	194
Wage Manufacturing	38991.24	15797.69	782.282	84609.95	113
Western Europe	0.711	0.454	0	1	194



Table 3.2: Baseline – Direct Effect

	Overall Labor Regulations	Working Condition Regulations	Working Hours	Wage	Wage Manufacturing
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
M&A Amount	-0.00008** (0.00005)	-0.00006*** (0.00003)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
SOE Share M&A	0.309** (0.137)	0.271** (0.124)	-0.002 (0.006)	0.051 (0.060)	0.019 (0.156)
Manufacturing Share M&A	0.198 (0.218)	-0.282 (0.273)	0.019 (0.015)	0.050 (0.084)	-0.350 (0.261)
Inward FDI	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Trade	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
GDP China	0.000 (0.000)	0.000 (0.000)	-0.000*** (0.000)	0.000 (0.000)	-0.000 (0.000)
GDP Growth China	0.587 (0.412)	-0.108 (0.278)	-1.250*** (0.432)	0.096 (0.185)	-0.174 (0.477)
TFP China	-0.586 (0.371)	0.244 (0.308)	-0.692*** (0.093)	0.467 (1.060)	-2.874 (1.803)
Constant	-4.205 (4.324)	0.825 (2.515)	26.44*** (6.005)	7.573 (5.956)	23.81** (11.31)
Number. of Countries	16	16	17	17	15
R Square	0.176	0.164	0.105	0.115	0.226
Number of Observations.	65	65	87	89	50

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1

Table 3.3: Baseline – Interaction Effect

	Overall Labor Regulations	Working Condition Regulations	Working Hours	Wage	Wage Manufacturing
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
M&A Amount	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.0001* (0.000)
Western Europe	-0.0195 (0.347)	0.393 (0.461)	0.193*** (0.0612)	-0.096 (0.101)	0.328** (0.133)
M&A * Western Europe	-0.0007*** (0.00002)	-0.0001*** (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.00007** (0.000)
SOE Share M&A	0.274 (0.172)	0.211 (0.178)	-0.000 (0.005)	0.0011 (0.007)	0.021 (0.085)
Manufacturing Share M&A	0.218 (0.196)	-0.056 (0.349)	0.011 (0.011)	0.035*** (0.013)	-0.223 (0.146)
Inward FDI	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000** (0.000)	0.000 (0.000)
Trade	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
GDP China	0.000* (0.000)	0.000 (0.000)	-0.000*** (0.000)	-0.000 (0.000)	-0.000 (0.000)
GDP Growth China	0.476** (0.230)	0.407 (0.377)	-1.345*** (0.278)	0.001 (0.028)	0.186 (0.393)
TFP China	-0.463* (0.248)	-0.147 (0.372)	-0.720*** (0.062)	0.016 (0.074)	-2.128* (1.265)
Constant	-3.123 (2.031)	-4.760 (3.645)	27.63*** (3.858)	10.65*** (0.481)	16.79* (8.657)
Number. of Countries	21	21	22	22	18
R Square	0.272	0.245	0.512	0.055	0.247
Number of Observations.	107	107	135	140	77

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1



Figure 3.5 Interaction – Overall Labor Regulations

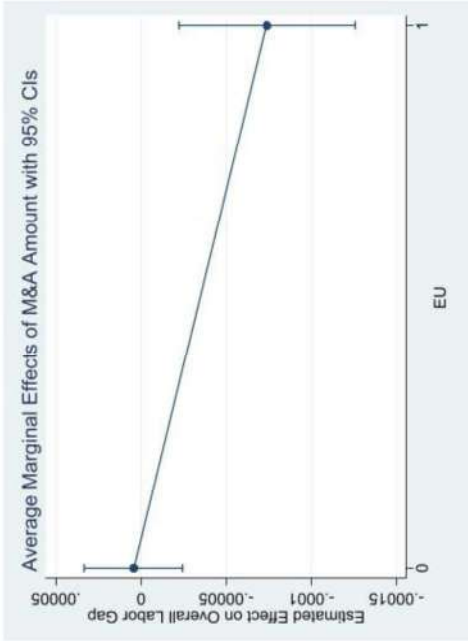


Figure 3.6 Interaction – Working Condition Regulations

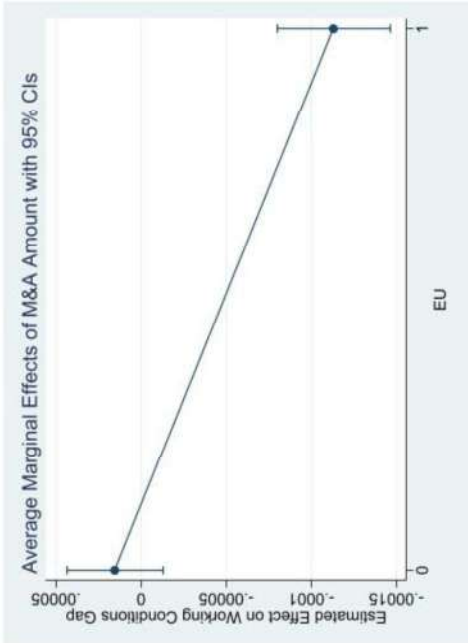


Figure 3.7 Interaction – Wage Manufacturing

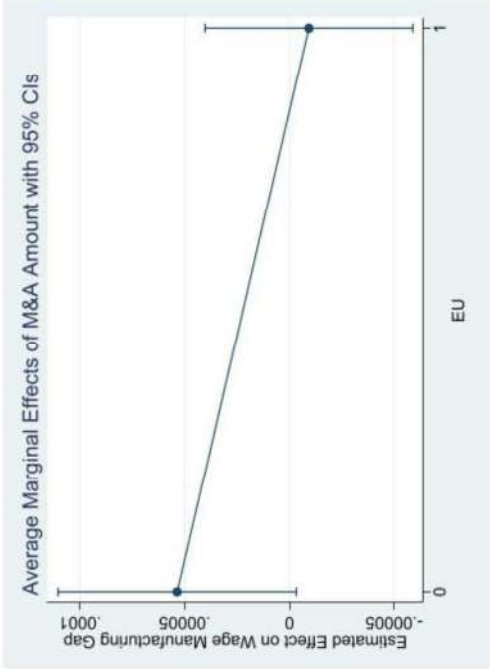


Table 3.4: Robustness – Direct Effect with Lag 1 Year of M&A Amount

	Overall Labor Regulations	Working Conditions Regulations	Working Hours	Wage	Wage Manufacturing
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
M&A Amount	-0.00006* (0.000)	-0.0001*** (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)
SOE Share M&A	0.652** (0.322)	0.449 (0.357)	0.049 (0.054)	0.078 (0.051)	0.285 (0.238)
Manufacturing Share M&A	0.266 (0.378)	-0.188 (0.640)	0.103 (0.063)	0.106 (0.090)	0.057 (0.419)
Inward FDI	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Trade	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
GDP China	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
GDP Growth China	0.807 (0.721)	0.482 (0.583)	-2.161 (1.764)	-5.848 (6.167)	-47.73 (38.55)
TFP China	-0.731 (0.657)	-0.966** (0.409)	-0.748 (0.506)	-1.193 (1.501)	-11.35 (9.500)
Constant	-6.876 (7.811)	-1.387 (7.057)	38.35 (25.18)	91.96 (87.19)	684.5 (545.4)
Number. of Countries	13	13	15	15	14
R Square	0.243	0.202	0.352	0.135	0.228
Number of Observations.	51	51	73	73	41

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1



**Table 3.5: Robustness – Interaction Effect with Lag 1 Year of M&A Amount**

	Overall Labor Regulations	Working Condition Regulations	Working Hours	Wage	Wage Manufacturing
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
M&A Amount	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Western Europe	0.416 (0.301)	0.450 (0.453)	0.251*** (0.060)	-0.059 (0.081)	0.182 (0.138)
M&A * Western Europe	-0.0001*** (0.000)	-0.0002*** (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
SOE Share M&A	0.368 (0.241)	0.606 (0.375)	0.0806 (0.061)	0.077 (0.066)	0.239 (0.181)
Manufacturing Sharing M&A	-0.104 (0.256)	-0.257 (0.406)	0.0707 (0.054)	0.037 (0.072)	-0.085 (0.166)
Inward FDI	-0.000002*** (0.000)	0.000** (0.000)	0.000 (0.000)	-0.000*** (0.000)	0.000 (0.000)
Trade	0.000*** (0.000)	0.000** (0.000)	-0.000 (0.000)	0.000*** (0.000)	-0.000 (0.000)
GDP China	0.000 (0.000)	0.000 (0.000)	-0.000* (0.000)	-0.000 (0.000)	-0.000 (0.000)
GDP Growth China	0.797** (0.395)	1.567* (0.872)	-2.240 (1.385)	-2.606 (2.339)	-10.26 (10.36)
TFP China	-0.801** (0.397)	-1.594* (0.846)	-0.832*** (0.312)	-0.538 (0.476)	-3.060 (2.226)
Constant	-4.885 (3.487)	-13.02 (8.035)	39.68** (19.41)	47.06 (32.52)	158.4 (144.7)
Number. of Countries	16	16	18	18	14
R Square	0.401	0.316	0.657	0.298	0.351
Number of Observations.	80	80	107	107	55

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

Figure 3.8 Robustness Interaction – Overall Labor Regulations

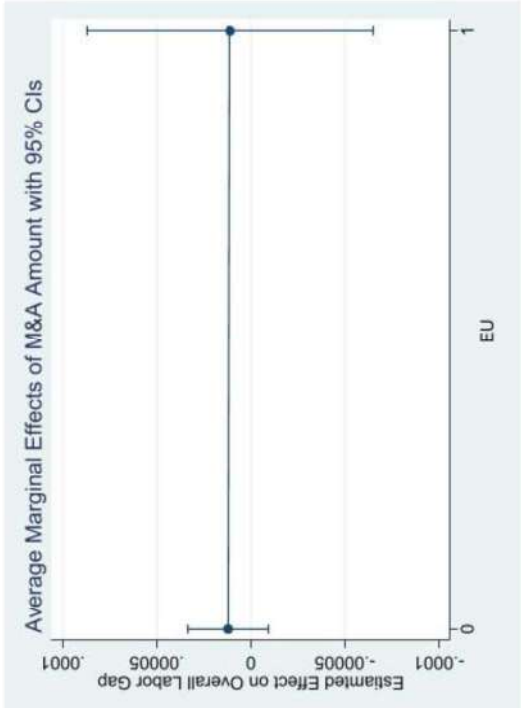
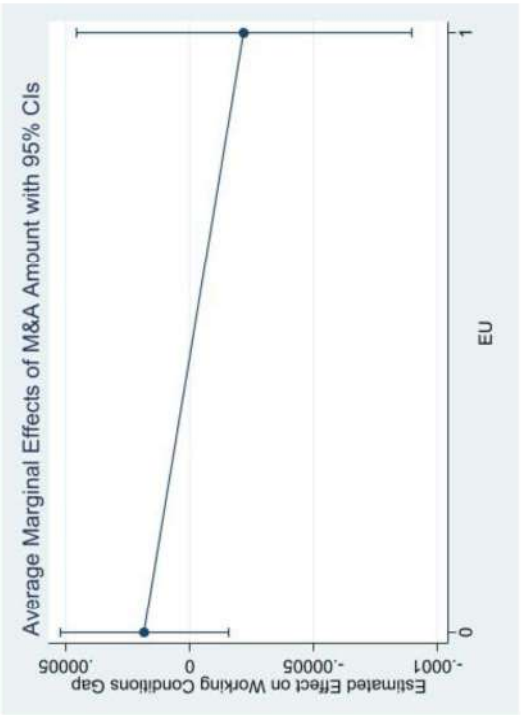


Figure 3.9 Robustness Interaction – Working Condition Regulations







## **Chapter IV: The Effects of Chinese Outward Foreign Direct Investment on Labor protections – A Qualitative Analysis on Five Chinese Firms**

### **4.1 Introduction**

Chinese firms, including many entrepreneurs and ordinary employees, have actively engaged in outward foreign direct investment (OFDI) since the country implemented its “Going Out” strategy in the early 2000s. They pursue multiple objectives in both advanced economies in the Global North and the developing economies in the Global South, including upgrading their technology, accessing and expanding markets, and acquiring raw materials.

I have already discussed the effects of this novel trend of Chinese OFDI on labor protections in China, based on my large-N analysis. My results were something of a mixture of labor outcome variables that do not tell a straightforward story. For example, I showed in Chapter II that occupational safety and health conditions improved in Eastern part of China as OFDI increased. Results in Chapter II also shows that OFDI is positively correlated to an increasing labor unrest. In Chapter III, I showed that an increase in M&A-type OFDI entering advanced Western European economies was associated with a stronger improvement of labor regulations in China. But the large-N analysis in both Chapters did not find such associations for other labor protection outcomes like the ACFTU representations, working hours, or wages.

Chapter IV has two primary goals. The first is to determine whether the regression results of my earlier analyses were evident in labor practices at the firm level and rule out the possibility that the statistical significance of my coefficients in the large-N analysis was a product of chance. If small-N qualitative case analysis returns similar results, my arguments will be more convincing. The second goal is to highlight and address several key conditions on the explanatory variable of Chinese OFDI that could strongly influence labor diffusion outcomes. Tracing the stories of individual firms provides more information about conditions and mechanisms that can change labor diffusion outcomes. I want to highlight that certain conditions, like the type of firm ownership (private versus SOEs), investment destination (Global North versus Global South), and format of investment (e.g., M&As), influence labor protection diffusions back to China differently.



With these two purposes in mind, Chapter IV adopts a firm-level analysis to investigate the association between Chinese OFDI and labor protections through a case study research design. First, a theoretical part introduces several important conditions on the explanatory variable of Chinese OFDI that could influence the direction and scale of labor diffusions back to China. Second, I develop three hypotheses by combining these conditions with the diffusion mechanisms I identified in previous chapters, including mandatory compliance, competition, and the learning process. A large-N analysis can hardly address the specific impact of these conditions, while a qualitative small-N case analysis could provide necessary supplementary information.

Third, I present five cases of Chinese firms investing abroad to illustrate theoretical conditions that affecting labor diffusions through OFDI back to China. The results of my small-N qualitative analysis generally confirm the main findings from the large-N analyses of the previous chapters. For some labor outcome variables, like occupational safety and health conditions, OFDI improves domestic practices in China. For other labor outcomes like industrial relations, OFDI is insufficient to undermine China's existing Party-State political system. The case analysis also suggests that OFDI carried out by SOEs could push political authorities in China to be more vigilant against Western challenges and threats on labor protections, and they may react with a Great Firewall defensive strategy. SOE cadres and government officials in China might realize that the diffusion of labor protection norms and practices from advanced economies could ultimately diminish the leadership position of existing Chinese labor doctrines and the Party.

The diffusion mechanism is complicated because so many factors and conditions simultaneously influence labor outcomes. It is difficult to identify or tease out all factors and conditions throughout the entire diffusion process. This small-N analysis is too limited to allow me to fully understand and reveal all factors that might lead to diffusions. Despite these limitations, this chapter highlights and discusses key conditions that allow me to better illustrate the association between OFDI and labor diffusions. Future studies can draw on these findings to explore the diffusion process in more detail.

The remaining sections of this chapter are structured as follows. Section 4.2 presents theoretical arguments on key conditions of the explanatory variable of Chinese OFDI that could lead to labor diffusion, then derives three hypotheses. Section 4.3 introduces the case study

research design. Section 4.4 provides detailed information on five cases, Section 4.5 summarizes the main findings from the discussed cases, and Section 4.6 concludes the chapter.

## **4.2 Theoretical arguments on labor diffusion conditions**

### **4.2.1 A theoretical diagram on diffusion conditions**

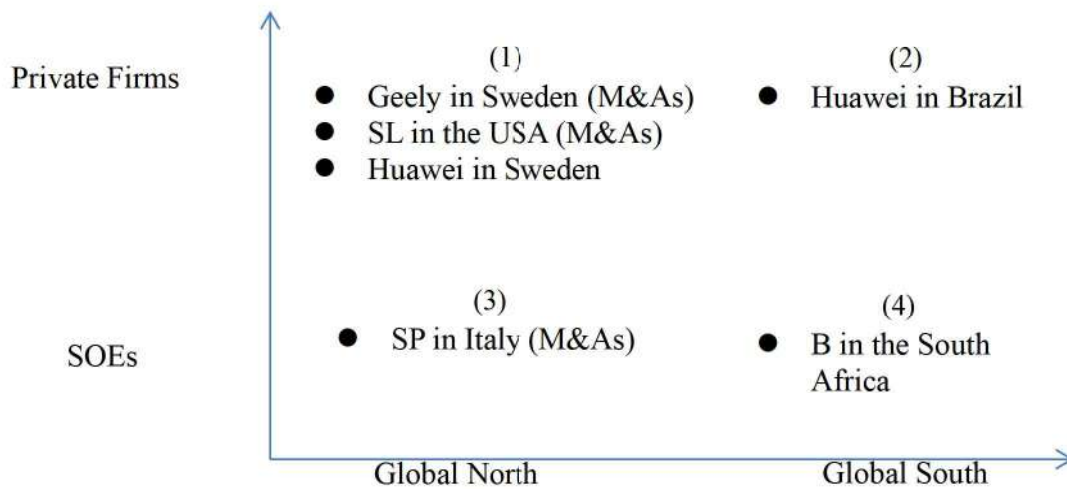
This chapter takes a case study approach to investigate if OFDI by Chinese firms could lead to labor diffusions back to China. When there is a sign of diffusion, the case study then traces the causal mechanism (George & Bennett, 2005) between the dependent variable of labor protection outcomes and the independent variable of Chinese OFDI, to identify the main conditions that could shape this process. Based on the literature and my previous Chapters, I propose a theoretical diagram to illustrate and investigate the key conditions of the explanatory variable of Chinese OFDI and highlight its roles and influences on the diffusion process. These key conditions are the type of ownership of Chinese firms (private vs. SOE), investment destinations, and the format of OFDI (M&As).

Figure 4.1 presents two sets of conditions in a 2\*2 diagram. These four conditions of Chinese OFDI could significantly influence the direction and scale of possible labor diffusions. The first set is the type of ownership of Chinese firms: privately owned firms or SOEs. The second set is the investment destination: either the Chinese firm invests in advanced economies in the Global North (Western Europe, USA, OECD) or the Global South (developing countries in Africa, Latin America, Southeast Asia). So, the 2\*2 box holds four possible combinations: (1) private firm investing in advanced economies; (2) private firm investing in developing countries; (3) SOE investing in advanced economies; and (4) SOE investing in developing countries.

The empirical findings in Chapter III suggested that, for Chinese OFDI entering advanced economies of Western Europe, the format of M&A-type OFDI may create more labor diffusions than other types of OFDI like Greenfields. Following this finding, for Chinese OFDI entering the Global North, I add the condition M&As into the analytical framework.



Figure 4.1: A 2\*2 Box on External Conditions and Chinese OFDI<sup>95</sup>



#### 4.2.2 Private firms versus SOEs

The flourishing private sector has been a vital force in the economic growth of China since the Reform and Opening Up period of the 1980s (Coase & Wang, 2012). Official statistics confirm the significant growth and importance of private sectors in China: by 2018, there were more than 25 million private firms in China, contributing 50% of total government taxation, 60% of total GDP and outward FDI, 70% of patent registration. They made up 70% of all high-tech firms and provided 80% of the employment in urban regions.<sup>96</sup>

The rise of private enterprises improved the quantity and quality of the Chinese economy and has spurred new growth, including outward investment. Many productive private firms sell top-level products and services to both China and the international markets. Table 3.1 lists the top 10 private enterprises from China in 2019, based on their market values. Many of those are top competitors in their sectors and actively engage in international investments. For example, Alibaba is a leading global e-commerce company, Tencent and Huawei are telecommunication giants, and Midea Group acquired the German automation producer Kuka in 2016 to strengthen its competitiveness in the home appliance market. The prominence of these private firms in both Chinese OFDI and Chinese economies deserve a carefully consideration when discussing the relationship between OFDI and labor protections in China.

<sup>95</sup> All listed firms and investment destinations are discussed in the case analysis section of this chapter. The actual names for firms of SL, SP, and B have been hidden upon the request of interviewees.

<sup>96</sup> Data comes from the report on social and economic development for the People's Republic of China 1949–2019, published by the National Bureau of Statistics. [http://www.stats.gov.cn/tjsj/zxfb/201907/t20190708\\_1674587.html](http://www.stats.gov.cn/tjsj/zxfb/201907/t20190708_1674587.html)

Table 4.1: Top 10 Private firms from China in 2019

Rank	Firm	Value (Billion CNY ¥)	Sector
No.1	Alibaba	3,810	E-Commerce
No.2	Tencent	2,850	E-Commerce
No.3	Ping An Insurance	1,500	Finance & insurance
No.4	Huawei	1,200	Telecommunication
No.5	Ant Finance	1,000	Fintech
No.6	Meituan	550	E-Commerce
No.7	Byte Dance	530	Communication & Internet
No.8	Hengrui Medicine	380	Health
No.9	Midea Group	377	Manufacturing
No.10	DiDi	360	Internet platform for metro commuting

Data source: Hurun Report on "China 500 Most Valuable Private Companies 2019"

<http://www.hurun.net/CN/Article/Details?num=956B3DE566B6>

When government control and restrictions on OFDI began to lift in the late 1990s, private sectors were among the pioneers who explored the overseas market. The 2008 global financial crisis further motivated Chinese private investors to expand their businesses in advanced markets. Private firms and SOEs differ significantly in their labor protection practices (Zhou, 2018; World Bank, 2019). The difference between their employee working conditions and their different attitudes towards challenges and new environments could lead their labor diffusion outcomes to diverge.

SOEs and private firms set different working conditions for their employees, including job security, wages, and working hours. When China began its reform and opening up in the 1980s, the rapidly expanding private sector attracted many Chinese workers because private firms offered higher salaries. In comparison, by the late 1990s, employees from SOEs had suffered from massive lay-offs and deteriorating labor protections (Gallagher, 2005), which made SOEs less attractive workplaces for workers. But SOEs have regained their ground rapidly since the 2000s, especially after SASAC was established in 2003. SASAC marked a change of the Party's ideas; it no longer sees SOEs as burdens from the past. Instead, the leadership believes SOEs are



necessary for managing the Chinese economy. The Party now constantly emphasizes that robust, competitive, and powerful SOEs are vital pillars to support its political and economic policies.<sup>97</sup> Strategically sectors critical to national security in China are dominated by SOEs, including banking, electricity, energy, transportation, and infrastructure (Dobson, 2017). SOEs have adopted a commercial governance structure through SASAC and received significant preferential policy supports from the Party, including subsidies and loans. All these efforts make SOEs in China more powerful in recent years (World Bank, 2019), especially in monopoly sectors.

SOEs' development since the 2000s enables them to provide employees with a more stable and generous welfare system than private sector firms (World Bank, 2019; Zhang, 2019). Employees in SOEs usually enjoy better working conditions than workers in the private sector; the form of employment, working hours, job security, and salary are all better in SOEs (Yu, 2001; Chen & Zeng, 2012; Lu, Wang, & Zhang, 2012). In contrast, private firms in China are facing tougher market competition. Private firms are finding them harder to obtain financial supports from the banking system than SOEs. Tighter finances mean longer working hours, worse employment contract terms, and reduced firm-level welfare for employees in private firms.

For OFDI, the government's objective is to increase SOEs' competitiveness and control over the whole economy, and it provides significant financial support to SOEs' OFDI projects in the global market – far more than it supports private firms (Buckley P. J., 2018). When managers and employees from SOEs encounter labor protection norms and practices abroad, they may be less motivated to improve their home practices than private firms because SOEs employees already enjoy favorable working conditions, even when compared to workers in advanced economies. Financial support from the Party and other preferential policies give SOEs an advantage in market competitions, so they may not be as motivated to learn from abroad, which could reduce diffusions through the learning effect. In contrast, employees in private firms may be more attracted by better working conditions in advanced economies and their enthusiasm could increase the likelihood for a stronger labor diffusion to China to improve domestic practices.

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<sup>97</sup> See remarks by Vice Premier Liu He on SOE reforms, October 9, 2018. [http://www.gov.cn/guowuyuan/2018-10/09/content\\_5328968.htm](http://www.gov.cn/guowuyuan/2018-10/09/content_5328968.htm)

SOEs and private firms also have different attitudes about challenges and new environments. Private firms' attitudes are more likely to become a positive condition for potential labor diffusions back to China via OFDI. Historically, the development path of private sectors in China in the last 40 years has been dynamic, open, flexible in adjusting to new environments, and entrepreneurial. SOEs are more like the public sector, with their rigid rules and legacies that make them more conservative in the face of new environments and challenges.

The dynamic nature and openness of private sectors in China is reflected in their more accepting attitude towards foreign labor norms and practices. Private firms in China, especially those from the Eastern coastal regions (Zhejiang, Guangdong, Fujian, Shanghai, etc.), exhibit more dynamic, creative, and innovative entrepreneurship (Jia, Wu, & Shu, 2005). This private-sector dynamism increases the competitiveness of Chinese investors and improves their position on global value chains (Huang Y., 2010). Private firms that combine flexibility with an open attitude towards new norms and values can quickly adjust or adapt their behaviors.

Greater flexibility in adjusting to challenges and autonomy can also lead private firms to different diffusion outcomes than SOEs. HR policies and the form of employment vary significantly between private enterprises and SOEs in China; the private side has greater autonomy in setting employment contracts, while SOEs must follow a much restrictive and hierarchical organizational structure (Xiao & Cooke, 2020). Private firms can make their own decisions about the form of employment, number of employees, and salary scale (Liang & Feng, 2010), but SOEs are bound to the official status and public servant payment scale. This difference enables private firms to set their own strategies and even adapt to foreign practices without surmounting structural barriers.

In addition to the above-mentioned differences between private firms and SOEs, private firms have different relationships with the regime, which may also influence the labor diffusion process. Chinese private firms investing abroad are mainly driven by market motives and are much less interested in political agendas or ideological influence. In contrast, investments from SOEs usually have political goals. Private firms have fewer ideological barriers to potential diffusions than SOEs. Beijing's massive political agenda from Beijing, like the Belt and Road Initiative, rarely reached out to individual private firms, especially small firms with less turnover (Fuest, Hugger, Sultan, & Xing, 2019). Most private firm owners and employees do not want to



associate their OFDI activities with any political elements from the Party. This deliberate distancing from the regime may open more opportunities for private Chinese firms to engage with foreign labor protection regulations, norms, and practical working conditions without pre-judgment or hostility.

SOE staff and semi-official cadres are less likely to be swayed by external influences. The stronger presence of domestic institutions within SOEs may prevent them from accepting labor diffusions through OFDI. For example, the ACFTU has a stronger presence, function, and influence in SOEs than in private sectors, even though it has faced challenges like the inability to address workers' demands in recent years (Pringle, 2011; Estlund, 2017). Though both private firms and SOEs have ACFTU units, almost all SOEs have ACFTU units, while not all private firms do. The Party Secretary of the SOE usually also becomes the chair of the ACFTU within the firm. The Party and ACFTU are generally hostile towards "Western-style labor protection norms," so when SOEs encounter labor diffusions through OFDI, ACFTU units within SOEs can more easily recognize potential threats and make efforts to defend their positions. Many private firms do not have ACFTU units, and even for those that do, the effects of these "nominal" ACFTU units are limited compared to those in SOEs. This difference between SOEs and private firms could then change labor diffusion outcomes. Private firms from China may be more easily influenced than SOEs by labor diffusions through their investment activities abroad.

#### 4.2.3 Investment destinations – advanced economies versus developing countries

The second set of conditions that could cause labor diffusion outcomes to diverge is the investment destination of Chinese OFDI. The Chinese capital has increasingly flowed into both developed and developing countries in recent years. Labor protection laws and enforcement capacity vary significantly between advanced economies and developing countries, which can change labor diffusion outcomes.

Motives for Chinese OFDI vary between advanced economies and developing countries, affecting labor diffusion. Chinese capitals entering advanced economies usually want to secure strategic assets (technology, brands, distribution networks), raise productivity, and expand market share and access in developed countries (Clegg & Voss, 2014). Investments in countries in the Global South focus more on access to raw materials and increasing market share and sales (Voss, 2011). Some Chinese OFDI to developing countries, like those in Southeast Asia, is driven by the

desire to offshore production away from China for lower labor costs and reduce environmental restrictions (Duanmu, 2012). Different investment motives may lead to different labor diffusion outcomes. Firms that entering advanced economies could learn management skills and labor practices through technological upgrades, by taking over production sites, and by relying on local employees, but firms that entering countries in the Global South may not face much exposure to local labor protection regulations or be pressured to comply with them.

Labor protection regulations, compliance pressure, and enforcement capacity also vary significantly between developed and developing countries. These differences in investment destinations could result in Chinese firms and their employees coming back home with different impressions and knowledge about foreign labor protections. Advanced economies usually have higher labor protection standards at both regulatory and enforcement levels than developing countries. Although many developing countries have labor laws or legislative rules, they are often paper tigers. In the Global South, the enforcement mechanism tends to be weaker than in the Global North (Davies & Vadlamannati, 2013). Many developing countries are reluctant to adopt higher labor standards because it could increase labor costs and reduce their competitiveness in the global market (Almeida & Carneiro, 2009).

Even within the Global North, coordinated market economies (CMEs) and liberal market economies (LMEs) differ on labor protections, usually along a Western European versus North American divide (Hall & Soskice, 2001). Europe has stronger social elements in its labor protections, including giving trade unions an active role, wide coverage of collective agreements and collective bargaining, and a more regulated and protected labor market than LMEs like the United States. Therefore, Chinese firms entering European countries may have more comprehensive exposure to labor protections than those investing in the United States. The interaction effect empirical result from Chapter III already hints that diffusion is more likely for investments in Western European economies than in other advanced economies. The case analysis below includes firms investing in either Europe or the USA, so I can compare labor diffusion outcomes across different advanced economies.

Variation of investment motivations and different labor protection regulations and practices across different investment destinations are key conditions that could affect labor diffusion outcomes back to China. Chinese firms investing in advanced economies would have



more opportunities to learn about external labor protection standards and practices than firms investing in developing countries.

#### 4.2.4 Additional effects of M&As

In addition to these two sets of external conditions, another condition may also influence labor diffusion: cross-border M&As. In Chapter III, I theorized the effect of M&A-type OFDI on labor diffusions at length. Firms investing abroad through M&As might be more exposed to foreign labor protection practices than other types of OFDI like Greenfields. M&A transactions acquire well-established production sites and existing employees. In many advanced economies, local firms tend to have stronger labor protection practices. Workers are also more likely to unionize and trade union organizations to be active in acquired firms. Chinese firms that take over foreign sites must directly engage with pre-existing labor protection settings, whereas if they invest abroad via Greenfields, they may not learn these practices because they are not mandatory.

Most trade union organizations in targeting firms retain their previous status after M&As by Chinese investors. Examples include agreements on job security between German worker councils and Chinese investors after M&As (Emons, 2019), and compliance and cooperation from Chinese acquiring firms with Austria's labor practices of co-determination between employees and employers (*Mitbestimmung*) (Adam, 2018). Thus, M&As are more likely to expose Chinese firms to “worker councils” and “co-determination” than other types of OFDI.

The large-N analysis in Chapter III also indicated that more M&A-type OFDI entering advanced economies in Western Europe could improve labor protection regulations in China. As this effect of M&As on labor diffusions may primarily occur in advanced economies, this case analysis addresses the effect of M&As as an additional condition on labor diffusions back to China. I expect this condition to affect diffusion outcomes mainly for OFDI in advanced economies, particularly in Western European countries with stronger labor protection regulations and practices.

#### 4.2.5 Diffusion mechanisms at the firm level

Before advancing specific hypotheses on the effect of these conditions on labor diffusions, I want to recapitulate the diffusion mechanisms that could improve labor protections at the firm level. In Section 2.3 of Chapter II, I discussed possible mechanisms in detail, including the three main components: 1) mandatory compliance pressures, 2) competition, and 3) the learning effect.

In this case analysis below, I attempt to trace the implementation of these mechanisms at the firm level.

Mandatory compliance pressures from legal regulations at investment destinations would first affect Chinese firms abroad and could lead to potential labor diffusions in China. In many investment destinations, non-compliance or breaking legal regulations on labor protections, like large-scale layoffs of local employees immediately after the takeover, insufficient or delayed wage payment, missing employment documents for Chinese expats, or working hours that exceed legal requirements, could have serious consequences for Chinese firms. Compliance pressure could push Chinese firms to comply with local laws and regulations to avoid negative effects. This compliance process introduces Chinese managers and employees to foreign labor protection regulations, norms, and practical working conditions. To avoid risks, firms could standardize their internal operations and implement similar compliance efforts back in China. Also, the regulations of some advanced economies expect compliance activities beyond their borders, like sanctions against entities that violate human rights. This could further pressure Chinese firms to comply with an advanced economy's laws and regulations, so that they can achieve their business objectives in the Global North.

Competition and economic incentives could lead to voluntarily adaptations of higher labor protection standards and practices to increase competitiveness. This mechanism is most likely to diffuse labor protections through a top-down decision-making process run by the firm's senior management. Senior managers and board members are at the first line of engagement and interaction between Chinese and foreign sides during the OFDI process, as they implement their firm's business strategies and objectives. These senior managers and decision-makers gain in-depth exposure to labor-related issues in destination countries throughout the OFDI process. Their activities would include business negotiations before and after mergers and acquisitions, site visits abroad, and living abroad. The firm's top leadership might realize the importance and potential benefits of labor protections in a competitive market, and they may push for higher labor standards and practices within the firm. To increase their competitiveness, Chinese firms may standardize labor practices or adopt higher labor standards from abroad. For example, Chinese firms are increasingly adapting the ISO 9001 certification on occupational safety because it opens more project bidding opportunities in the international market (Lim & Prakash, 2017).



Diffusion through learning effects may mainly be a product of technology transfers and corresponding adjustment of management practices. Chinese expats can learn and then diffuse best practices from purchased sites abroad back to parent firms in China, transferring knowledge (Zhang & Edwards, 2007). OFDI from China to advanced economies is driven by the pursuit of advanced technology and higher productivity, but higher productivity is an outcome of both acquired technology and associated management arrangements and skills. Firms from developing countries have fewer management skills than firms in advanced economies (Bloom & Reenen, 2010). This gap could be filled by learning about and adopting the management systems and practices associated with acquiring advanced technologies (machines, patents, production processes, etc.). Labor protection practices could then be diffused from developed economies back to China by the pursuit of higher productivity.

Trade union internationalism and solidarity from the Western society could also diffuse labor protections to China via the OFDI channel. Trade unions in the developed economies are more dedicated to pursuing international solidarity, even at the cost of some short-term interests (Ahlquist, Clayton, & Levi, 2014). European trade unions, especially German unions like Volkswagen and IG Metall, have strong internationalist tendencies and show solidarity for workers from the developing world (Burgoon & Jacoby, 2004). This sense of solidarity has grown with the expansion of European firms to the Global South. For example, German trade unions from Volkswagen have deeply engaged with industrial relations in South Africa (Bolsmann C. H., 2007; 2010). The ACFTU and Chinese government are well aware of trade union internationalism and they attempt to minimize the impact from foreign trade unions on Chinese workers. However, as Chinese firms enter advanced economies, especially those of Western European countries, this may open more opportunities for European trade unions to support internationalism and solidarity at the firm level, which could escape the containment and control imposed by the ACFTU. Existing trade union organizations in M&A-purchased entities, especially in European countries, may have direct contact and open channels with their colleagues in China. Increased engagement, interaction, people-level exchange, and site visits can all help diffuse labor protection norms and practices from the advanced world to China.

#### 4.2.6 Hypotheses on labor diffusions

Private firms from China have more opportunities than SOEs to diffuse labor protection norms and practices back to China. As we have seen, Chinese OFDI to advanced economies,

especially European countries, is associated with a higher likelihood of labor protection diffusion to China than Chinese OFDI to other developing countries. Private firms that invest in advanced economies are most likely to diffuse labor protections back to China. They may have stronger incentives and more opportunities to accept and adapt foreign labor practices than SOEs. Their openness and flexible attitude towards new environments and challenges could help them adjust their practices more quickly than SOEs, increasing the likelihood of labor diffusion.

Two conditions may combine to have the strongest effect on labor diffusions. Compliance pressures, usually in the form of minimum legal and regulatory requirements (e.g., a ceiling to overtime hours, minimum wages, requirements for protective equipment in the production process), are more likely to be intense in advanced economies than in the Global South. Since Chinese OFDI often enter advanced economies in pursuit of advanced technologies that could improve their competitiveness, the competition mechanism may facilitate labor diffusions. This combination suggests that, among all four segments in Figure 4.1, the top-left segment (1) that contains private firms investing in the Global North would diffuse labor protections most strongly back in China. Differences in the labor market between CMEs in Western Europe and LMEs in North America could also increase diffusions for investments in Western European countries.

*Hypothesis 1a: Private firms investing in advanced economies are more likely to diffuse labor protections back to China.*

M&A-type OFDI could have conditional effects that make labor diffusion stronger. Given the extensive exposure of Chinese investors to labor protection practices, and the fact that the primary destinations of M&As are the Global North, we would expect that M&As will increase the likelihood of labor diffusions for private firms investing in advanced economies.

*Hypothesis 1b: Private firms investing in advanced economies with M&A-type OFDI could amplify labor diffusions back to China.*

All Chinese firms that invest in the Global North, whether private or SOEs, may diffuse labor protections back to China because all must comply with local regulations. The strong pressure to comply and the effective enforcement mechanism in European and North American countries could force SOEs to engage and comply with local rules that protect labor. This



pressure even eases SOEs' rigid labor doctrine and diffuses some concepts and practices back to China, but labor diffusions from SOEs investing in Global North are likely to be weaker than from private firms because SOEs already provide better working conditions at home and react defensively to external influence. The additional condition of M&As may facilitate labor diffusions for SOEs that invest in the Global North, but this effect may not yield to the difference between private firms and SOEs on labor diffusions.

*Hypothesis 2: State-owned enterprises (SOEs) firms investing in advanced economies may diffuse labor protections back to China; but they are less likely to do this than private firms, and may only focus on less political aspects of labor protections that the ACFTU won't oppose (e.g., occupational safety and health aspects).*

Chinese firms that invest in the Global North face much tougher compliance pressures than those that invest in developing countries. Many firms do not expect to learn how to upgrade technology or improve competitiveness from other developing countries so, for the segments in the right side of the box (2) and (4), the likelihood of labor diffusions through Chinese OFDI in the Global South is lower compared to OFDI in the Global North.

But some developing countries do exert compliance pressures, especially in former colonies that adopted European-style political systems and labor protection regulations to safeguard the interests of local workers, like trade unions. Chinese firms have, for example, encountered strong resistance, protests, and strikes from workers in Zambia, which required Chinese investors to strengthen their efforts to comply with local regulations (Jauch, 2011; Leslie, 2016). Few countries have the kind of authoritarian regime governing labor protections as China – this small group includes the Democratic People's Republic of Korea, Laos, or Cuba. Chinese firms, even they invest in the Global South, will still encounter and learn about labor protection regulations and practices that are quite different from those at home, which might still generate labor diffusions, though the effect could be much weaker than the Global North.

*Hypothesis 3: Chinese firms investing in developing countries will only weakly diffuse labor protections back to China if they do so at all.*

Below, I present a case analysis of five specific cases to test the three hypotheses I just proposed.

### 4.3 Case selection and research design

Before moving to specific cases to examine the labor diffusion process, I first present and elaborate on the criteria for case selection and my overall qualitative research design. I begin with my case selection, then follow it with a description of the process I use to trace three sets of labor outcomes to measure the effect of diffusions. Then I introduce my data sources and research methods.

#### 4.3.1 Case selection

I selected five Chinese firms to fit all possible segments in the 2\*2 box (see Figure 4.1) to test the three hypotheses I proposed. These five cases capture all possible variations and combinations of OFDI conditions that could affect labor diffusion outcomes, which meets the qualitative research design requirements (Keohane et al., 1995). These five cases cover private firms investing in the Global North versus Global South, SOEs investing in the Global North and South, and three out of five cases involve M&As.

Geely's investment in Sweden, with its USD1.5 billion acquisition of Volvo, fits the top-left segment (1) of Figure 4.1 since it is a private firm investing in the Global North. It is also an M&A OFDI, which may be more likely to diffuse labor protections to China. Geely's acquisition of Volvo surprised the business community in China and around the world because, before the acquisition, Geely had merely been a local car manufacturer in the domestic market. I also selected Geely because such a large amount of money traded hands in this M&A deal (US\$ 1.8 billion) and Volvo is a well-known brand in Sweden and in the international automobile industry.

As a private firm investing in an advanced economy, Geely is among the most likely cases to have diffused labor protections to China, as my hypothesis proposed. Sweden prides itself on its generous welfare state system and its strong trade union representation – the so-called “Swedish model” – which stands out from other advanced economies (Swenson, 2002; Peterson, Wahlström, & Wennerhag, 2011). This makes the Swedish case particularly interesting to study, especially when compared to the United States.

SL's investment in the United States, SP's investment in Italy, and B's investment in South Africa span a wide range of Chinese OFDI in developed and developing countries — all seeking technological upgrades and market expansion. SL is an ordinary private automobile company from China's eastern coastal region, while SP and B are typical giant SOEs. Both SL



and B are in the automobile sector, as is Geely, so these three cases should help us understand the effect of labor diffusion on this sector.

I included the private firm Huawei as a case because its investment formats are unique. Huawei is different from most Chinese private firms in advanced economies. While other firms focus on acquiring advanced technology and brand values, Huawei relies on its own technology and mainly invests in Europe and North America through Greenfields to grow its market share and establish research centers to utilize local talent (engineers). As a Huawei engineer in Beijing stated during an interview, “*Huawei sees the international market with only a few competitors, namely Ericsson, ZTE, Nokia, and Cisco.*” Moreover, Huawei’s labor norms and values are extreme, even among Chinese companies. It pursues efficiency, competition, and expects employees to sacrifice personal benefits (vacation, voluntary overtime, etc.) for greater corporate profits – summarized by Huawei’s “Wolf Culture” (Sun, 2009). The Wolf Culture practices directly oppose mainstream labor protection norms and practices in advanced economies, especially in Western Europe. Huawei’s Wolf Culture also distinguishes it from many other Chinese firms. Huawei’s reactions and any self-reflection it engages in after investing in advanced economies would serve as examples of labor diffusions under extreme circumstances.

Another reason I selected these five firms is that none of them had prior exposure to foreign labor norms and practices through the inward FDI channel, or more specifically the Joint-Venture with foreign MNCs inside China. This clean slate should make it easier to describe initial reactions and responses from Chinese investors, management-level officers, and regular employees when they encounter unfamiliar forms of labor protections abroad. Only a few Chinese companies investing in advanced economies now had undertaken a joint-venture with inward FDI since the 1980s. Inward FDI to China, usually as a Joint-Venture with local Chinese firms as partners, contributed significantly to China’s early-stage economic growth by transferring technology and management practice (Zheng P., 2014); it also diffuses labor protections from abroad to China. However, the effect of inward FDI on labor protections in China has mainly been limited to subsidies of foreign MNCs in China and their supply chain networks.

On the contrary, most of the leading Chinese firms listed in Table 4.1, and the five firms I selected for the case analysis, had never established a Joint-Venture entity with any foreign

MNCs in China. Though some of these Chinese firms do participate in supply chain networks with MNCs by exporting products, their primary market and focus were still China's domestic market. In fact, many of these five firms have grown through tough competition with those foreign-invested joint ventures. This has limited their exposure to and understanding of foreign labor protection norms and practices and they had never encountered foreign labor protections until OFDI. Learning about foreign firm-level practices from scratch may also have allowed them to experience and learn in new contexts without overcoming pre-existing stereotypes. Thus, the reactions of these firms can give a good reference for the overall effects of contact with foreign labor practices on Chinese employees and firms.

#### 4.3.2 Process tracing through qualitative case studies

Process tracing on five specific Chinese firms engaging in OFDI, especially in advanced economies, could clarify diffusion mechanisms between OFDI and labor protections in China, and elucidate the role of OFDI conditions like the type of firm ownership and investment destinations. The independent variable is Chinese OFDI; the qualitative analysis further examines the role of different conditions, e.g., private firms versus SOEs and different investment destinations, of this explanatory variable on labor diffusions. The dependent variable in this relationship is labor protection outcomes. In the large-N analysis in Chapters II and III, I tested several sets of labor outcome variables in China, including occupational safety and health conditions, labor disputes, industrial relations (the ACFTU), and working hours. The small-N qualitative case study assesses the effect of OFDI on these labor outcome variables at the firm level.

Specifically, for occupational safety and health conditions, the labor diffusion process in this Chapter includes any adaption of new production procedures, standard operating procedures (SOPs), protective equipment, and similar measures that could affect employees' health and safety. It should be easier to see and measure changes in these conditions than in other labor outcomes. Chapters II discussed potential diffusions that could improve occupational safety and health conditions in China in-depth, and my empirical results suggested that the OFDI has a positive link to reduced injury rates. Exploring this labor outcome variable in the small-N qualitative case study will help verify the results of my large-N analysis.



For labor disputes and industrial relations, this case analysis will also highlight engagements and interactions between new Chinese investors/owners and foreign trade union organizations, including their strategies for handling existing collective bargaining arrangements. Industrial relations in advanced economies, especially Western European CMEs, are very different from those in China, which are dominated by the Party/All-China Federation of Trade Union (ACFTU). Many Chinese investors are hostile towards Western-style industrial relations,<sup>98</sup> like strikes and confrontations between employees and employers (Estlund, 2017), so I trace the process of engagement and interaction between Chinese investors/managers/expats and foreign local trade union representatives/organizations to determine if the Chinese side can be expected to learn from or refer to industrial relations practices abroad when it deals with demands from domestic workers.

As I detailed in Chapter III, the gap in working hours between China and most other countries is significant. Chinese employees work much longer hours than their counterparts in advanced economies and firms like Huawei, employers advocate for and encourage workers to voluntarily work longer hours. OFDI will bring these Chinese views on working hours to foreign employees. In European countries, especially, working-hour regulations are more strictly enforced than in China and overtime hours are heavily regulated (European Commission, 2006). After directly engaging with foreign preferences for working time, Chinese firms may reconsider their position. Changes of attitudes in working time are thus expected to become outcomes of the labor diffusion process.

I conduct process tracing on these labor outcome variables chronologically, cataloging the impressions of Chinese firms on Western labor protections before their OFDI, their initial reactions to engaging with foreign employees and institutions, potential misunderstandings or conflicts after the initial engagement, any adjustments and or management efforts Chinese investors make in response to these emerging issues, reflection made by Chinese managers and expats, and comparisons on individual-level differences (salary, working hours, etc.) between China and the investment destination.

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<sup>98</sup> This hostile attitude was also expressed during multiple interviews between the author and Chinese entrepreneurs, HR specialists, and managers involved in OFDI operations.

#### 4.3.3 Research methods

This qualitative case study collected relevant data from both primary and secondary sources. With coordination and support from various partners, colleagues, and friends in China, I conducted intensive fieldwork in China during two periods. The first phase of fieldwork was carried out in China between March and August 2018 (mainly Zhejiang, Beijing, Shanghai, and Guangzhou). The second phase (mainly in Beijing and Guangzhou) ran from late September to early November of 2019. From late June to early July 2019, I conducted several interviews and site visits in Europe (Belgium, Sweden, and Norway) to collect relevant information on the operation and condition of Chinese firms in these countries, especially on Geely's locations in Gothenburg, Sweden. Table 4.2 summarizes some facts of my fieldwork.

Table 4.2: Summary of fieldwork interview for the selected cases

Firm	Number of Interviews	Locations	Time	Positions of the Interviewees
<b>Geely</b>	5	<ul style="list-style-type: none"> <li>• Gothenburg</li> <li>• Hangzhou</li> <li>• Beijing</li> </ul>	April 2018 & June – July 2019	<ul style="list-style-type: none"> <li>• CSR officer</li> <li>• Mechanical engineer</li> <li>• Human resources manager</li> <li>• Swedish trade union representatives in Volvo</li> </ul>
<b>Huawei</b>	2	<ul style="list-style-type: none"> <li>• Beijing</li> <li>• Stockholm, Sweden</li> </ul>	March 2018 & July 2019	<ul style="list-style-type: none"> <li>• Supply chain managers</li> <li>• Engineers</li> </ul>
<b>SL</b>	2	<ul style="list-style-type: none"> <li>• Ningbo</li> </ul>	May 2018	<ul style="list-style-type: none"> <li>• Senior director of administration</li> <li>• Communication officer</li> </ul>
<b>SP</b>	1	<ul style="list-style-type: none"> <li>• Beijing</li> </ul>	July 2018	<ul style="list-style-type: none"> <li>• Senior manager</li> </ul>
<b>B</b>	2	<ul style="list-style-type: none"> <li>• Beijing</li> </ul>	October 2019	<ul style="list-style-type: none"> <li>• Operation manager</li> <li>• Former project manager</li> </ul>

I gathered first-hand materials in my fieldwork and interviews, which became the primary source of data for my qualitative analysis. In addition to the five cases I studied in detail, I drew observations and make minor points based on a few additional cases (both primary and secondary sources) that I do not discuss in detail, but which complemented the five main cases.



Secondary data is incorporated in specific cases, to cross-check and verify the arguments and opinions I collected from interviewees. Some cases, especially the Geely–Volvo mergers, have been extensively discussed in both Chinese and the world. In these cases, I refer to opinions and findings from the literature and other publications. Another important source of secondary data is official statistics released by the Chinese government, especially for labor outcomes on occupational safety and health conditions.

During my fieldwork process, I made multiple interview requests and attempts to private firms, SOEs, ACFTU officials, and cadres, but received little meaningful feedback or simply direct rejections, especially from SOEs and the ACFTU cadres. Since President Xi is tightening internal control, it is understandable that SOE staff and the ACFTU officials are concerned about their own safety and are reluctant or unwilling to speak to external individuals. Despite these limitations and difficulties, I successfully collected sufficient information through productive interviews and site visits during my fieldwork research. The following section describes five of these specific cases in detail to reveal the effects of OFDI on labor protection diffusions at the firm level.

#### **4.4 Cases**

##### **4.4.1 Private firms investing in advanced economies – Geely in Sweden**

###### **4.4.1.1 Geely’s acquisition of Volvo in Sweden**

In 1998, Li Shufu, the founder and current chairman of Zhejiang Geely Holding Group, began his automobile manufacturing journey by opening his first passenger car assembly factory in Taizhou, a coastal city in the East part of Zhejiang Province. China had just begun to allow private firms to enter the automobile industry at that time and Mr. Li was among the first wave of private entrepreneurs to explore this capital and technology-intensive industry. Geely started off imitating existing car models, including Mercedes, Daihatsu Charde, and Fiat. At the time, no one would have expected Lin Shufu’s company would own Volvo, one of the most renowned automobile brands in the world, by 2009.

Geely's path to internationalization began with its 2009 acquisition of Volvo. Since then, Geely has invested heavily in Volvo's headquarters in Gothenburg, Sweden. The new skyscraper for the Geely – Volvo offices at Lindholmen<sup>99</sup> across the Göta älv River is expected to be occupied by 2021, and so is a landmark of Gothenburg, Karlatornet, one of the tallest buildings in the Nordic region.<sup>100</sup> Massive investment into these office buildings is just one indication that Mr. Li has used to signal Geely's intents and the long horizon of future development after its M&A with Volvo in Gothenburg.

To benefit from the advantages that owning Volvo conferred, a few years after the M&A, in 2013, its Chinese owners created a subsidiary in Gothenburg called China Euro Vehicle Technology AB (CEVT). This Geely-owned entity gave the Chinese side the ability to respect and maintain Volvo's existing settings without interruptions, while they used Volvo's abundant resources to learn and to achieve Geely's business objectives. Although CEVT may seem like a Greenfield investment, the close connection between CEVT and Volvo still make it under the broader scope of Geely's M&A deal with Volvo. Many CEVT employees came from Volvo and Geely, and its office is less than three kilometers away from Volvo's factories in Gothenburg.

After acquiring Volvo, Geely gradually expanded its operations abroad, including acquiring Proton, a local Malaysian automobile brand, and its factories in 2017. Geely established a research center in Raunheim, Germany and acquired 9.69% of Daimler in 2018.<sup>101</sup> The integration between Chinese and Swedish production sites and research facilities benefited Geely significantly during its internationalization journey. During an interview in November 2019 in Beijing,<sup>102</sup> an automobile sector expert admitted that *"the design and quality of vehicles produced by Geely in the Chinese market have improved massively after 2014 or 2015, thanks to the advanced technology and management Geely learned from Volvo."*

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<sup>99</sup> In 2017, Geely and the city government of Gothenburg signed an agreement to acquire a 24,500 square meter plot for construction of the Geely Innovation Center. Geely aims to develop a 70,000 square meter innovation center with 3,500 jobs.

<https://www.mynewsdesk.com/se/cevt/news/zhejiang-geely-holding-group-affirms-commitment-to-sweden-with-new-geely-innovation-centre-in-gothenburg-248690>

<sup>100</sup> More on Karlatornet: <https://www.businessregiongoteborg.se/en/context/why-geely-chose-gothenburg>

<sup>101</sup> When it acquired Daimler's shares in 2018, Geely became the Daimler Group's largest shareholder.

[http://www.xinhuanet.com/auto/2018-02/24/c\\_1122448449.htm](http://www.xinhuanet.com/auto/2018-02/24/c_1122448449.htm)

<sup>102</sup> I conducted this interview in Beijing, with the goal of learning more about Geely's market position and reputation in the automobile industry in China.



Among Geely's OFDI abroad, its historical takeover of Volvo in 2009 is undoubtedly a landmark that attracted much attention, enthusiasm, reflection, concern, and suspicion. Politicians, businesspeople, media, and academia often cite Geely's M&A of Volvo as a flagship example of Chinese OFDI in advanced economies. However, at the beginning of this M&A deal, Li's bold move to purchase Volvo from US automobile producer Ford received widespread negative reactions from Swedish society, particularly because Swedes associated it with cheap Chinese labor and poor-quality products (Fang & Chimenson, 2017).

Most of the people I interviewed about Geely, in both China and Sweden, share the feeling that individual-level integration Geely and Volvo did not advance as fast as other business functions during their 10-year collaboration. Many interviewees are still working in the same circumstances and have not been deeply exposed to the other side (whether Chinese or Swedish). The gap of labor protections that existed between China and Europe may have prevented quick moves or short-term actions. Chinese managers in Geely said that they need time to gradually engage and build up their knowledge of labor practices in Sweden, and more broadly in the Global North. But both the Chinese and Swedish sides have made attempts and made some progress in mitigating differences. I discuss specific labor outcomes in the following sections.

#### 4.4.1.2 Industrial relations

##### (a) Respect and little interference from Geely's Chinese leadership

When Geely first acquired Volvo, Li Shufu and his leadership team made explicit commitments to respect and maintain existing labor protection settings in Europe. Li and his senior management team held a series of town-hall dialogues with Volvo's workers and met with Volvo's European trade union leadership before concluding the deal in 2009 (Jorem, 2013; Wang & Liang, 2017). Despite the enormous negative pressure from Swedish society (Fang & Chimenson, 2017), Geely maintained an open and respectful attitude towards Swedish trade unions and sought to avoid any confrontations so it could achieve its business objectives.

Most Chinese entrepreneurs, including Li and Geely's senior management team, see Western industrial relations through the lens of their own lens of corporate cultures and social backgrounds. This is especially true on their perceptions of the role of trade unions and strikes (Khan et al., 2018; Beule, Somers, & Zhang, 2018). Li reiterated the importance of mutual

understanding between different cultures and social backgrounds when he talked to workers from Volvo factories, and later said the same in Melbourne, Australia, when he spoke with workers who participated in strikes before Geely took over DriveTrain System International (DSI) in 2009 at Australia (Wang & Liang, 2017).

Geely's consistent strategy has been to focus on long-term strategies and avoid short-term confrontations. Chinese investors and local trade unions have taken a similar cooperative approach in other European countries (Raess, 2020). Swedish trade union representatives from Volvo<sup>103</sup> confirmed that production sites in Gothenburg had not been significantly changed or aggressively restructured after Geely's takeover.<sup>104</sup> The Chinese side emphasized its commitment to recognition, respect, and communication when dealing with industrial relations and foreign trade unions.

Geely's relative lack of experience, knowledge, and understanding of corporate governance in an international setting also encouraged it to keep a relatively low profile when it engaged in industrial relations issues with Volvo. A human resource manager sent from Geely's headquarters at Hangzhou to work in Gothenburg admitted, "*at the beginning of the M&A deal in 2009, Geely had very little knowledge of running a global corporation like Volvo, neither does Geely have enough Chinese employees who have sufficient international working experience or language capacity.*"<sup>105</sup> According to that manager, Geely had almost no experience in international management at the time.

Chinese employees sent to Gothenburg recognized the existence of local trade union organizations. According to the Swedish trade union representative, Geely's management leadership accepts the influence of trade union organizations in both Volvo and Geely's other subsidiaries (like CEVT) in Gothenburg. For example, in one subsidiary the trade union organization was created through an initiative of local European staff, mainly from Volvo, SAAB (a bankrupted Swedish automobile corporation located at Trollhättan, a one-hour drive from Gothenburg), and other Nordic countries. The Swedish trade union representatives showed the Chinese management team the tradition of trade unions and collective bargaining in Sweden and

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<sup>103</sup> Interviews conducted in Gothenburg (July 2019) with two Swedish trade union members employed by Volvo.

<sup>104</sup> Many post-M&A firms undergo significant internal changes, like large-scale layoffs or relocation of production sites. This is especially the case for financially-driven M&As, common among US investors. Geely-Volvo's post-M&A integration did not include this kind of aggressive internal change.

<sup>105</sup> The interview was conducted in Gothenburg (July 2019).



they gained understanding and acceptance from the Chinese side. However, the Swedish trade union representatives admitted that Swedish trade unions have limited influence on Chinese managers and expats because of the (Swedish) language barrier and Chinese lack of familiarity or awareness about industrial relations. The human resource manager from Hangzhou viewed dealing with trade unions as part of human resource work and paid little attention to their daily operations as long as Swedish trade unions within Geely did not strike or confront Chinese employees and managers.

(b) Acceptance from Swedish trade unions

At the beginning of the M&A transaction, trade union representatives within Volvo and Swedish national trade unions worried about Geely's takeover, but Ford, the American owner of Volvo, had been forced to sell Volvo in exchange for urgently needed cash during the 2008 global financial crisis. Geely's efforts and financial commitments relieved the initial concerns of the Swedish trade unions. Geely's leadership presented their long-term plan and ambitious business strategies to Swedish trade unions, guaranteeing investments and job positions in Volvo's European production sites. At that moment of crisis, Geely was the only feasible and serious investor that could save Volvo from Ford (Jorem, 2013), so the Swedish trade unions accepted Geely's offer and have worked with Chinese owners ever since.

Local Swedish trade unions and Swedish workers from Gothenburg had negative impressions of Ford for years (Revill, 2008), so their expectations after Geely's arrival were low. During an interview, a trade union representative who had worked for Volvo's financial department complained about Ford's greed for short-term financial returns instead of long-term strategies.<sup>106</sup> After Geely arrived, Swedish trade unions in Volvo noticed that Geely kept its promises and invested heavily in Gothenburg, its headquarters, and in Volvo's major plants. Geely has expanded Volvo's factories in Ghent, Belgium, introducing a new production series, Lynk & Co., in 2017.

Geely's positive image was fostered by the high degree of autonomy it gives Volvo to decide on business strategies, development, and product innovations. According to a senior trade

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<sup>106</sup> Interview conducted in Gothenburg (July 2019).

union representative from Volvo,<sup>107</sup> the Swedish company's earlier experience with Ford had been miserable. The launch of Volvo's popular SUV, the XC90, had been rejected several times by Ford, despite the effort Volvo staff made to fly to ski resorts in Denver, Colorado and persuade Ford's board members that it was a good idea. When Geely took over Volvo, it allowed people in Gothenburg to make most business decisions; the XC90 series was given more resources and became one of Volvo's best-selling vehicles soon after. The trade union representative referred to this example to illustrate their satisfaction with Geely's acquisition of Volvo.

(c) Visa policy in Sweden and Geely's openness to trade unions

Scandinavian countries like Sweden have a strong pro-labor tradition, visible in the high density of its trade unions compared to other advanced economies<sup>108</sup>. The regulations and procedures for issuing a work visa to citizens of non-EU nations are embedded in Sweden's social tradition, and the influence of trade unions is vital to the smooth conduct of this legal and administrative process. Sweden's administrative rules have pushed Geely's Chinese management team to accept and retain trade union organizations, sometimes enthusiastically, because the trade union organization embedded in Geely can significantly accelerate the administrative visa process, which smooths Geely's business operations.

Specifically, trade unions in Sweden can strongly influence Swedish immigration authorities that approve and issue work visas for non-EU/EFTA citizens to enter Sweden for work. Immigration authorities must consult with sectoral trade union opinions when they review a non-EU/EFTA applicant's labor conditions, including salary scale and professional qualifications. In practice, if there a trade union organization is embedded in the company filing the request, the Swedish immigration authority will directly contact the trade union. The union branch's confirmation letter is sufficient to process the rest of the visa.

But without the presence of trade union organizations in a firm, the immigration authority must take an alternative to ask sectoral trade unions to evaluate individual applications, which

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<sup>107</sup> Interview conducted in Gothenburg (July 2019).

<sup>108</sup> The latest data from OECD's "Trade Union Density" (<https://stats.oecd.org/Index.aspx?DataSetCode=TUD>) shows that Sweden has had a trade union density beyond 60% for decades. By this measurement, Sweden ranks in the top 5 of all OECD members over the last two decades.



can drastically slow the review process to several months. The human resources manager sent from Geely's headquarters in Hongzhou to Gothenburg said, "*It is a common practice for Chinese firms operating in Sweden to accept the establishment and activity of Swedish trade unions within their Swedish offices in exchange for a simplified, fast, and reliable process in sending Chinese staff to Sweden.*" Consequently, visa regulation rules and practices in Sweden push Chinese owners and managers to recognize the importance of trade unions and to actively engage with them.

(d) Volvo trade union's approach to Geely's home sites in China

During the interview, the senior trade union representative from Volvo also mentioned its interactions with Geely's home trade unions (affiliated to the ACFTU at the grassroots level) at one of Geely's main production sites in Jiading District, Shanghai Municipality. She said that the Swedish trade union she belongs to takes a moderate and cautious approach when interacting with trade union officials from Geely's home production sites. Her Swedish trade union does not aggressively lecture the Chinese side about European norms and concepts of labor, unless the Chinese (mainly the human resource department) ask them, which happens occasionally.

Her trade union has tried to explore industrial relations at Geely's workplaces in China. Sveriges Ingenjörer (SI), the trade union she is affiliated within Volvo, mainly represents skilled engineers (around 30% of total Volvo trade union members) and encourages its members to apply for work at Geely's Chinese sites to increase mutual understanding and trust. In 2018, it also organized a 10-day workshop and visits to Geely's production sites in China for the members and leadership of Volvo's Gothenburg site to increase understanding between the groups. Based on her statement, direct discussions and exchanges took place between SI and Geely's trade union officials in China, and the Swedish side soon recognized that their counterparts in China had a completely different model and objectives than the Swedish trade union.

From the Swedish trade union's perspective, Geely's trade union in China presents itself "*as a social and cultural club for Chinese employees to increase their morale for work.*"<sup>109</sup> They

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<sup>109</sup> Quote from the interview in Gothenburg (July 2019).

organize activities like dances, blind dating parties,<sup>110</sup> sporting events, and other leisure activities to maintain positive morale among workers, which is far beyond the Swedish trade union's scopes. Acknowledging the differences between China and Sweden, SI has decided not to interfere further with Geely's trade union practices in China and does not promote Swedish values and practices in industrial relations. SI found that its presence at Volvo and occasional exchanges of Swedish employees with China, have already attracted the interest of Geely's home trade union. The HR management team in Geely's China factories is also interested in exploring and understanding the functions and practices of Swedish trade unions.

She gave an example of this mutual interaction, describing the election procedure of trade union representatives. Geely's trade unions were keen to learn about the process by which representatives were elected in Sweden and the daily operating practices of these representatives. They want to learn about the Swedish election process because Geely's trade unions in China also want their elected representatives to be fully committed to trade union work, instead of being superficial or careless representatives. SI introduced the Swedish model of election for trade union representatives to the Chinese side through exchanges. Though she did not provide further details about the exact measures that Geely implemented back home, the existence of this interest and the information exchange hints at knowledge diffusion from Sweden back to Geely's home sites via OFDI.

#### 4.4.1.3 Overtime working and other Chinese practices

Most of my Chinese interviewees agreed that when Chinese and European colleagues start to work together on projects, problems and differences arise, usually due to different working practices. The difference in working hours is an obvious example. Chinese employees tend to have a flexible perception of working hours and can usually be reached after office hours, mainly through "working groups (工作群)" on social media software (e.g., WeChat and WhatsApp). These social media platforms, particularly WeChat, essentially replace emails as the primary business communication tool in China, and Chinese employees commonly discuss business issues via these social media platforms at any hour of the day or night. Chinese interviewees were surprised and even shocked to see European colleagues and partners keep strict

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<sup>110</sup> The blind dating parties bring young employees together to facilitate dating and marriage.



office hours and rely exclusively on emails as the primary platform for their business communications. The Chinese interviewees felt that European people over-emphasized the need for clear boundaries between office hours and leisure hours after work.

In an interview, the human resource manager sent from China to Sweden said that Geely resolved this difference by asking Chinese employees to respect local preferences for working hours, but allowed Chinese expats from its home sites to continue the Chinese working practice of working longer hours. This manager argued that overtime is common and acceptable for Chinese workers, and usually necessary because workers must communicate with home offices across different time zones.

According to this HR manager, Geely took another step towards integrating Chinese and Swedish employees by setting up a “Leadership Training Program” for newly arrived Chinese expats. In Gothenburg, newly arrived Chinese expats can volunteer to take courses in this leadership program, which comprises a series of workshops and lectures that introduce them to a European working environment, local society, and other areas that bear on their daily working conditions. Geely’s HR department expects to train Geely’s Chinese staff to understand the European working environment so their employees can support Geely’s global expansion strategies. The workshop began in 2014 and has ensured more Geely employees from China to gain international exposure.

#### 4.4.1.4 Case summary

Geely’s case shows how one private Chinese company has engaged with a well-established firm from an advanced economy that already had strong labor protection regulations and practices. Its M&A experience with Volvo and the process of post-acquisition integration in Gothenburg, Sweden, opened a window for Geely to learn discover and come to understand international labor protection regulations and practices.

Geely does not involve itself deeply in Volvo’s daily business. The Chinese management team generally respects and accepts most Swedish regulations and practices on trade unions, ensuring that Geely achieves its business objectives through this M&A without interruptions caused by labor disputes. This pattern fits the diffusion mechanism of compliance I theorized. Through integration and learning, Geely gradually acquired knowledge about industrial relations

in Western society, and also furthered their business goals like technology transfer and innovation. Its acquisition of Volvo in 2009 allowed Geely to expand, from a domestic automobile manufacturer to a global corporation, thanks to the experience and knowledge it acquired from Sweden, including Sweden's labor protection practices. Now, Geely has a stronger team of Chinese employees that understand labor protections abroad; this team can support the operation of Geely's extensive production network across Europe (Germany) and Southeast Asia (Malaysia).

The Geely case partially supports *Hypotheses 1a* and *1b* with some labor diffusions when a private firm invests in an advanced economy via M&As. Geely's attitude towards Swedish trade unions shows that their initial fear and negative images of Western trade unions — common shared by Chinese officials and entrepreneurs at home — were gradually been replaced with a respectful and open approach, mainly through the compliance mechanism. Geely also sees benefits from its partnership with European trade unions, because they facilitate its business operations. One outcome of this diffusion may be Geely's successful expansion to other countries after the Volvo acquisition, which continues to give Chinese employees first-hand knowledge and experience dealing with foreign labor protection regulations and practices, especially through its Leadership Training Program.

But Chinese employees, expats, and managers retain most of their previous labor practices, like longer working hours, though they do understand how to comply with local regulations. The local trade union is generally satisfied with Geely's takeover because Geely has kept its promises about long-term investment and job security in Sweden. As long as things run smoothly, the Swedish trade union enjoys its autonomy in Volvo at home, and does not interfere in Geely's home, but only observes and monitors labor conditions.

Geely's case illustrates partial labor diffusions of management practices and knowledge-sharing through compliance, competition-driven adoption, and the learning effect. Geely's Chinese employees gradually come to understand labor-protection-related norms and practices abroad, which aids Geely as it continues its OFDI expansion. Labor conditions in the investment destination also facilitate the diffusion of labor protections in China because Sweden has a strong pro-labor social tradition, but I do not have direct evidence from Geely's domestic sites to determine diffusion outcomes on domestic workers. This should be a subject for future research.



#### 4.4.2 Private firms investing in advanced economies – SL\* in the USA

##### 4.4.2.1 SL's investment in the USA

SL is also a private Chinese company in the automobile industry, but it is much smaller than Geely. Located in Ningbo, in the Zhejiang province of China, SL is a privately owned automobile manufacturing enterprise with about 3,000 employees, specializing in producing automobile parts, including gearboxes and pumps. It is a key supplier of these parts for many international brands, like Ford, Jaguar, and Land Rover.

SL's OFDI journey began in 2008, when the global financial crisis hit world markets. In 2009, SL bought a pump plant in Oklahoma that belonged to the American firm, BW.<sup>111</sup> Before the acquisition, SL had been a main supplier for BW. When the financial crisis erupted in the US in 2008, BW was deeply affected by the deteriorating financial conditions. SL saw this as an excellent opportunity to acquire the pump plant and strengthen SL's capacity and expertise in producing automobile parts. Until 2019, SL's OFDI remains exclusively in the factory it acquired in Oklahoma.

SL's M&As of the US plant shows how strongly Chinese firms desire to move up in their positions on the global value chain and obtain advanced technologies (Gong, Yu, & Zhao, 2018). In May 2018, I interviewed SL's senior director of government affairs and her communication assistant at SL's headquarters and factory site in Yinzhou District, Ningbo Municipality of Zhejiang Province and made a factory visit to SL's production halls and assembling lines. The information below comes solely from that interview.

##### 4.4.2.2 Industrial relations

SL's senior director said that, before the OFDI transaction, SL conducted an in-depth review and study of the production plant in the United States and solicited third-party investigations and advice. The objective of its acquisition was to obtain knowledge and improve its home operation in the areas of both technology and management. The director often reiterated the importance of maintaining business as usual in SL's newly acquired assets in the US, just as Geely did when it acquired Volvo. SL's management team does not involve itself in daily

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<sup>111</sup> The actual name of the firm is also hidden.

business operations or give orders to US colleagues. Instead, almost all US staff continued at their posts. SL believes that respecting existing employee structures and practices can demonstrate its understanding and openness to the culture of the targeting firm. The SL director referred to Fuyao's negative experience in the United States (briefly discussed in Section 2.4.1 of Chapter II), explaining that Fuyao's initial confrontation with workers (caused by lack of occupational safety and health measures in the US plant in Ohio) was an object lesson for SL's management team, and they used it as a reference guide for their own early operations in the US.

Like Mr. Li from Geely, SL's Chinese senior leadership attributes the difference between China and the West to corporate and social differences in norms, standards, values, and practices of industrial relations and trade unions. After the M&A, SL only appointed a new CEO to their newly acquired assets in the United States, an American who had worked with SL for more than nine years before the M&A deal. SL's Chinese team believes that appointing an American CEO could reduce cultural differences and related barriers to business operations. SL has not sent any other Chinese staff to the United States and pays careful attention to compliance issues. During the interview, she mentioned discrimination as an example. An African American woman worker in the acquired factory raised a complaint that she had been discriminated against. SL approached a third-party agency to conduct a due diligence investigation of the complaint instead of directly intervening from China and resolved the case through a legal process. SL saw this as an opportunity to emphasize the importance of non-discriminatory practices to their senior management team.

Though the awareness of non-discrimination practices and compliance has increased on the Chinese side, the M&A investment does not expose SL's Chinese leadership to trade unions or collective bargaining from the US. Forming a trade union or making a collective agreement is not mandatory in the US, where the trade union density rate has been declining for many years (Kristal, 2013). According to the senior director, BW's factory site had no trade union presence when SL bought those assets in 2008. The senior director said that SL's management team had not received any requests from its employees about creating trade union organizations in Oklahoma after the acquisition.

In this case, the Chinese side rarely engaged with or was exposed to Western trade unions or collective bargaining because these norms and practices do not exist at the Oklahoma plant.



The Chinese norm of trade union presence and the practice of collective agreement is unchanged in SL's management team, which works with local sectoral ACFTU units in Ningbo to ensure their compliance with ACFTU's requirements on wages and the collective agreement coverage rate. Trade union organizations were established in SL's Ningbo factory sites, under the leadership of the local ACFTU branch. But the SL's senior manager admitted that sectoral ACFTU pressure is light: the local ACFTU usually asks SL to provide figures on the collective agreement coverage rate without making any substantial efforts beyond reporting figures. In practice, though a collective agreement exists, most employees know little about it and negotiate terms directly with their employers. The role of the sectoral ACFTU for SL's industrial relations does confirm Friedman's finding on Zhejiang province, as the local sectoral ACFTU tries to address wages issues by taking a sectoral collective approach, but failed with little enforcement or effect (Friedman, 2014).

The senior director said SL's management team supported the ACFTU's activities and requirements, including paying sufficient membership fees to the ACFTU from the company's account instead of asking individual employees to pay them. This reduces the financial burden on employees because they do not need to pay ACFTU membership fees from their salaries; the company pays the 2% of salary fees.<sup>112</sup>

None of the industrial relations practices at SL's home site in China are linked to their OFDI investment in the US. In the US, the inactivity of trade unions on the ground explains the lack of exposure and the absence of signs of transmission or diffusion. This is quite different from the Geely, where there were pre-existing and active Swedish trade unions that began talking with the Chinese side right at the start of the M&A.

#### 4.4.2.3 Occupational safety and health

The most significant labor diffusion outcome for SL through M&As in the United States was related to occupational safety and health practices in SL's plants in Ningbo. As the senior director said, SL's production lines in Ningbo adapted the same settings as its newly purchased

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<sup>112</sup> According to Article 35.2 of the "Trade Union Law of the People's Republic of China" ([http://www.npc.gov.cn/wxzl/wxzl/2000-12/05/content\\_4564.htm](http://www.npc.gov.cn/wxzl/wxzl/2000-12/05/content_4564.htm)), monthly allocations of 2% of the total wages of all of its employees paid to a trade union as funds by the entity that established a trade union organization. In practice, some companies put this 2% fee towards individual headcount, while some companies choose to pay it through an extra corporate budget and do not leave it to individual employees.

factories in the US, with the aim of standardizing the production process, practices, and settings. Reviewing and adjusting domestic production and management practices in China to standardize practices in Ningbo and Oklahoma made SL more efficient and productive.

By standardizing, the settings of management and assembly line operation in Ningbo were imported from the US. Examples of these imports include SLPT (a fast, high-quality response tracking board) used to identify quality issues, the change point management visualization board that familiarizes employees more quickly with layout and process flow on the assembly line; and a production board, which was placed in front of the entrance to record hourly output and OK rate.

Because safety protection measures are stronger in the US than in China, adopting US assembling line settings for SL's factories in Ningbo has improved occupational safety and health conditions. At the factory visit in Ningbo, I noted emergency exit signs were painted in many spots inside factory halls and was told that the exit signs had the same format as those in the United States. The point management visualization board imported from the US has given employees in China a visual understanding of assembly line layout, including locations and paths for emergency evacuation. The board also contains a personnel task matrix, so all workers know everyone is doing in the assembling line. This matrix helps staff remember their colleagues' tasks and positions so employees can respond quickly to accidents during the production process, either by giving first-hand assistance or cutting off the assembling line and evacuating the factory hall.

Safety information is now posted on large boards at the entrance of the factory hall in Ningbo to highlight the correct way to wear personal protective equipment (goggles, earplugs, uniforms, safety shoes, etc.), with pictures and bilingual instructions (in Chinese and English). Spotlight signs and labels hang on the walls of factory halls to remind workers to follow safety instructions, e.g., "Must wear protective goggles," "Must wear protective gloves," and "Must wear protective shoes." The senior director stated that the design and layout of these protective signs and labels are the same as in SL's American factories.

SL's adopting the US style of working practices improved occupational safety and health conditions, which could be supported by official statistics for Zhejiang province, where SL is



located. Table 4.3 shows reported Injury Rates in Zhejiang province from 2008-2014, covering SL's investment period. The number of Injury Rates continued to decrease over this period.

Many private manufacturing firms in Zhejiang province actively invested in advanced economies after the 2008 financial crisis. From 2005 to 2012, the M&A-type OFDI amount from Zhejiang grew annually by 70.5%. By 2013, the US, Germany, and Japan were the top three M&A OFDI destinations from Zhejiang province.<sup>113</sup> A more recent report for Yinzhou District of Ningbo, an administrative district where private manufacturing firms, including SL, are concentrated, shows that the number of Injury Rates dropped by 16% in 2017, and by 15% in 2019.<sup>114</sup> Thus, official statistical data may comport with positive diffusion of occupational safety and health practices from the US to China after OFDIs.

Table 4.3: Injury rates in Zhejiang province

<i>Year</i>	<i>Number of Injury Rates</i>
2008	12,475
2009	12,062
2010	12,010
2011	11,673
2012	11,574
2013	7,365
2014	7,605

Source: Data comes from the ACFTU's *Chinese Trade Unions Statistics Yearbook*

SL also imports many management practices from the US factories it purchased to its sites in Ningbo to improve its internal performance monitoring system and increase productivity.

#### 4.4.2.4 Case summary

The case of SL, a private firm investing in an advanced economy of the US, clearly demonstrates labor diffusions from the Global North to China through M&A-type OFDI. SL achieved its business objectives for its OFDI, since it benefits from the technological and

<sup>113</sup> Source: a report released by Zhejiang International Investment Promotion Center (October 2013).

<http://www.zjfdi.com/news/2015327/n61482429.html>

<sup>114</sup> Source: [https://www.sohu.com/a/359315025\\_120207618](https://www.sohu.com/a/359315025_120207618)

management advantages conferred by its US production plant. Its investment has greatly strengthened its vital supplier status for many major international automobile brands. While it sought to achieve this business objective, SL adopted US-style factory layout and standards in its Ningbo factories, diffusing labor standards and practices that improved its occupational safety and health conditions. SL's case supports *Hypotheses 1a* and *1b*.

But the lack of exposure to trade unions and collective bargaining/agreements practices at the factory sites it purchased in the US accounts for the lack of labor diffusion on the outcome variable of industrial relations to SL's home sites in Ningbo.

#### 4.4.3 Private firms investing in developing countries – Huawei in Brazil, also compared to Huawei in Sweden

##### 4.4.3.1 Huawei's expansion worldwide

Huawei is one of the world's fastest-growing private telecommunication companies. Since it emerged from a small assembling workshop in Shengzhen in 1987, it has grown into the largest and most advanced telecommunications corporation, spreading into almost every corner of the world. Before 2004, Huawei mainly focused on China, but has since then expanded abroad. Most of Huawei's global operations are Greenfield investments. Huawei sends Chinese managers, engineers, and construction teams abroad to establish local offices. In most developing countries, Huawei focuses on telecommunications businesses, like building and operating network and base stations. In advanced economies, Huawei has further diversified its profiles to include private retail products, innovative research, and a market sales network.

Information on Huawei's labor practices in Brazil and Sweden is drawn from my interviews with two current employees of Huawei, one in Beijing (March 2018) and the other in Stockholm (July 2019). One employee is an engineer who has worked for Huawei since 2011 and has expat experience in Brazil and Indonesia. The other is a supply chain manager who works in Huawei's Stockholm office.

Brazil was one of the first destinations of Huawei's global expansion. Huawei's Greenfield investment entered the Brazilian market in 2008, with a focus on expanding the



market, especially in communication infrastructure and equipment. This is typical of Huawei's business profile in developing countries because many countries in the Global South do not yet have reliable telecommunication networks and infrastructure. According to the interviewee, most of Huawei's employees in Brazil are expats sent from China.

Huawei's development in Sweden – an advanced European economy with strong telecommunication capacity – differs significantly from the company's Brazilian development. Huawei's Greenfield investment entered Sweden in the early 2000s with a primary focus on research and innovation. Huawei saw Sweden as a country of engineers. Huawei's operation in Sweden aims to attract talents from the local market to compete with Ericsson, an advanced Swedish ICT competitor. According to the Huawei engineer, who had worked in Brazil and Indonesia, *"Huawei only cares about a few ICT competitors in the market that may threaten Huawei's future. The list includes ZTE (China), Cisco (USA), Nokia (Finland), and Ericsson (Sweden)."*<sup>115</sup> Recently, Huawei's business in Sweden expanded to retail markets for private electronic devices like smartphones and laptops, making the company more reliant on local employees for its sales network.

In Huawei's rapid OFDI expansion in the international market, it has taken two different approaches to deal with labor protection practices, depending upon its investment destinations. This is a perfect opportunity to compare the effects of investment destinations on labor diffusions, as proposed in the 2\*2 box in Figure 4.1. According to the engineer, in developing regions like Southeast Asia and Latin America (Indonesia and Brazil), Huawei is not much interested in incorporating local labor protection regulations and practices into its operations. Instead, most of Huawei's Chinese employees work under a shield (like a Great Firewall) that prevents them from engaging with local labor regulations and practices. Many of Huawei's Chinese employees are strongly influenced by Huawei's charismatic founder and chairman, Mr. Ren Zhengfei, who emphasizes that Huawei's vision is to make China stronger and greater through hard work; the name "Huawei" literally means "a promising China" (Tao, 2018).

In advanced economies, Huawei seems to have embraced labor protection regulations and practices in investment destinations or has at least tried to understand and adopt them to increase

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<sup>115</sup> The interview took place in Beijing (March 2018). The engineer worked at Huawei for seven years and had expat experience in both Brazil (2 years) and Indonesia (1.5 years).

its competitiveness. For example, Huawei adopted the international CSR reporting scheme in 2008, which allowed workers to establish trade union organizations within Huawei's offices in some advanced economies like Sweden.

#### 4.4.3.2 Industrial relations

Labor protections in Brazil is weaker than those in advanced economies because the judiciary and legalization management are less effective in Brazil (Huang W., 2012). The effect of trade unions on employment relations has been declining there for years (Frangi & Memoli, 2014; Carbonai, 2019). Because Brazil has fewer local engineers and weaker research capacity, Huawei relies heavily on Chinese expats sent from home, rather than on local professionals as it does in Sweden. Since the share of Chinese expats in Huawei's Brazilian branches is larger, Huawei does not encourage them to engage with local communities in depth.

The engineer, who had worked in Brazil, said that trade union units had been established in Huawei's Brazilian office. However, according to his statement, the leadership of such trade union branches remains within the control of Chinese managers and employees, since there are so many more Chinese employees than local workers. Retaining Chinese leadership of trade union organizations allows Huawei to promote its corporate practices and ideologies in Brazil, namely "the Wolf Culture."<sup>116</sup> For example, employees in Brazil are encouraged to voluntarily surrender their annual leave in exchange for financial rewards or future promotion opportunities, just as they are in Huawei's home sites in Shenzhen.

The engineer believes that the Chinese leadership of trade unions in Huawei's Brazilian branch can safeguard Huawei's Chinese corporate culture and practices. This could also be a defensive measure to prevent labor diffusions by Brazilian local staff and trade union activists from influencing Huawei's Chinese employees in Brazil. According to the engineer, many of his Chinese colleagues sent to developing countries are dedicated to Huawei's "Wolf Culture" and the official labor doctrine the ACFTU advocates in China because they believe labor practices in the Global South will reduce efficiency and income.

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<sup>116</sup> Huawei describes its corporate culture as "the Wolf Culture", which reflects its fighting spirit and a pursuit of efficiency, competition, and its belief that personal welfare should be exchanged for greater corporate profits (Sun, 2009).



Huawei's branch in Stockholm, Sweden, also has trade union organizations, where the workforce and active trade unions are strongly associated (Murhem, 2012; Håkansson & Isidorsson, 2014), just as they were for Geely's acquisition there. Huawei's attitude towards trade unions in Stockholm differed markedly from its attitude in Brazil. The Chinese manager I interviewed in Stockholm said that Huawei's Sweden office welcomes and embraces Swedish trade unions, which is a rare but telling hint that Huawei is transforming and adopting labor protection practices from advanced economies.

The supply chain manager I interviewed said that the CEO of Huawei's Sweden branch, a native Swedish businessman, initiated the establishment of Huawei's trade union in the Stockholm office in 2018. This trade union is a branch of UNIONEN, one of Sweden's largest white-collar trade unions. Huawei's Swedish offices employ many local European workers,<sup>117</sup> a result of Huawei's CSR strategies in localization. This highlights Huawei's commitment to hiring local staff to achieve sustainable development goals that increase Huawei's reputation and competitiveness in advanced economies. Huawei's CSR policies encourage its branches around the world to ensure that at least 80% of their employees are local (a threshold of positive performance) as a contribution to local employment. Supporting local employment has become an increasingly important compliance standard in the international business community. Huawei's acceptance of trade unions can be interpreted as a labor diffusion through a voluntarily competition mechanism.

Both the Chinese manager from Huawei and the Swedish trade union members in Gothenburg (Geely's case) claimed that many locally hired European employees feel positive about trade union and employee representation practices in Sweden over the long term. This sentiment led Huawei to establish trade unions. The role and balance of power with local employees could have a critical effect on Huawei's labor diffusions. The CEO of Huawei Stockholm is a local Swedish manager who supports the traditional Scandinavian-style employee-employer relationship, as do many other Swedish engineers and salespeople working at Huawei.

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<sup>117</sup> The ratio of non-Chinese to Chinese employees in Huawei's Swedish office is approximately 7:3, according to a Huawei employee in Stockholm, interviewed on July 5<sup>th</sup>, 2019.

Huawei also hires local and European employees at the retail end to sell Huawei's electronic devices, like laptops, smartphones, and smart watches, so their business in many advanced European economies is not limited to traditional communication infrastructure, base stations, transmitters, and servers, but expands to individual consumer parts. Given the large share of local European employees and the much smaller number of Chinese expats from Huawei's offices in China, the Chinese manager in Stockholm said most of her Chinese colleagues and top leaders accept trade unions as Scandinavian social traditions. In contrast, in Brazil Huawei relies primarily on Chinese engineers. Hence local employees have less bargaining power, which reducing the exposure of Huawei's Chinese expats in Brazil to foreign trade unions, far below the level of exposure for their peers in Sweden.

My interviews in Sweden also revealed that an important motive for Huawei to accept and establish the UNIONEN branch within Huawei Sweden is to preserve its ready access to employment visas for Chinese employees in Sweden. This is the same motive as in the Geely case described above. UNIONEN is one of the trade unions consulted by the Swedish immigration office in the telecommunication sectors. Having a UNIONEN trade union unit within Huawei's Swedish offices makes it much easier to get visas for employees Huawei wants to send from China to Sweden, so Huawei does not oppose trade union representation in Sweden.

#### 4.4.3.3 Working hours

In China, an outstanding characteristic of Huawei's "Wolf Culture" is working overtime. Huawei's employees are proud of working longer hours, and Huawei encourages them with high economic incentives and financial rewards (Shi, 2012).

The practice of working overtime is common among Huawei's Chinese employees in Brazil. The relatively stronger balance of power on the Chinese side, both at the management level and the technical side, means that Huawei's Brazilian offices operate like similar facilities in China. According to the engineer, his colleagues often complain that local Brazilian employees are stubborn in defending their usual work-life balance. Because of the time difference between Brazil and China, the Brazilian office commonly accommodates the preferences of Huawei's headquarters for meetings and discussion, which means that Huawei's staff in Brazil must be in the office either early in the morning or late at night. Brazilian employees are not used to this



overtime schedule, despite receiving adequate financial compensation. The confrontation between Chinese and local employees on working hours remains problematic for Huawei's internal management in Brazil.

In Huawei's Swedish office, all employees, both European and Chinese, follow local regulations and practices on working hours and leave, including parental leave. The 12-month parental leave period for employees surprises many Chinese expats, perhaps because most expats that Huawei sends from home to Sweden are male engineers; China only grants six months of maternity leave. Compliance pressure from Swedish authorities and the active presence of local trade unions discourage Huawei's management team in Sweden from asking employees to work overtime but, according to the engineer, this has minimal effect on working hours back in Huawei's headquarters in Shenzhen, where working long hours remains a common practice.

#### 4.4.3.4 Other Chinese practices

Huawei's home practices, like the "Wolf Culture," meet with different reactions in Brazil and Sweden. In Brazil, most Chinese expats and engineers still embrace the "Wolf Culture." One reason they are loyal to Huawei's practices is that they usually work exclusively with Chinese colleagues in an internal loop. They even live together in apartments and compounds the company provides, essentially cut off from social connections in local society. Many Huawei employees in Brazil also hold business visitor visas and are not registered as full-time employees under Brazilian labor laws, which means that Brazilian labor regulations do not protect them. Chinese firms commonly send employees abroad on a business visiting visa in developing countries where labor market enforcement capacity is limited. All these practices isolate Chinese employees, who do not learn about or engage with foreign labor protection regulations and practices in Brazil, thus limiting diffusions back to China.

European employees have much more power relative to Chinese staff in Sweden and Sweden's stronger labor protection enforcement capacity creates resistance against Huawei's corporate culture. The supply chain manager in Huawei's Stockholm office admitted that Huawei has tried to advocate its "Wolf Culture" to all employees, especially foreigners, by disseminating materials from its home offices, including books Ren Zhengfei wrote about his life, ambitions, and visions. Huawei's management expects foreign employees to be inspired and work as hard as

their Chinese colleagues in Shenzhen, but the relatively large share and robust power of European employees in Sweden make such efforts unwelcome and unsuccessful in Stockholm, where most Swedish employees reject Huawei's "Wolf Culture." An outcome of this is that Huawei's local employee turnover rate is high in Sweden. Huawei does not appear to be overly concerned about high turnover since it is confident that it can replace departing staff from an enormous pool of potential candidates. The passive and reluctant reaction of European colleagues to Huawei's advocacy of Chinese corporate culture and spirit may lead Chinese employees sent from China to Sweden to reflect and rethink the "Wolf Culture" and their attitudes towards work and life.

The supply chain manager is involved, on a daily basis, in adopting the CIPS certification in Huawei's procurement process. CIPS is another potential improvement and diffusion to Huawei's home operations through the competition mechanism. As I mentioned in Chapter II, CIPS certification requires a strong commitment to labor protections like the ILO's fundamental conventions. Huawei has voluntarily adopted CIPS in its procurement and supply chain operations to increase its competitiveness in international markets, which could diffuse some labor protection practices back to China.

#### 4.4.3.5 Case summary

The case of Huawei demonstrates that potential labor diffusion outcomes are greatly affected by conditions in the investment destination, supporting *Hypothesis 1a*. For instance, HI,<sup>118</sup> another giant telecommunication firm from Hangzhou, China, follows a pattern for its development in Thailand that is almost identical to that of Huawei in Brazil. Comparing Huawei's OFDI in Brazil and Sweden demonstrates that OFID to Global South destinations generates almost no labor diffusion back to China, while the relatively stronger labor protection regulations and social settings in advanced economies, especially Western European countries, push Huawei to accept and adapt local practices on industrial relations and working hours.

This finding supports *Hypothesis 1a* that investment destinations in advanced economies offer greater possibilities for labor diffusion than destinations in the Global South. Still, there is no clear sign that diffusions back to Huawei's headquarter in Shenzhen have shaken the dominant influence of Huawei's "Wolf Culture." Huawei's Greenfield OFDI pattern may make diffusions

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<sup>118</sup> The name of the company has been changed at the interviewee's request.



less likely than M&As, as predicted by *Hypothesis 1b*. The telecommunication sector in China, including Huawei, ZTE, and HI<sup>119</sup> has not changed much from its previous settings on labor protections, as demonstrated by their insistence on the “Wolf Culture” and “996<sup>120</sup>” practices at home.

#### 4.4.4 SOE investing in advanced economies – SP in Italy

SOEs from China have explored the global market for almost three decades. M&As conducted by Chinese SOEs have been ongoing since the 1990s, but the semi-governmental structure of SOEs makes it hard for external researchers to obtain detailed information on their practices. As I described in the research design section above in this chapter, I made many attempts to contact SOEs about their OFDI activities, but almost none were willing to share information.

A senior procurement manager of SP<sup>121</sup> was one of the few SOE employees who were willing to share limited information about SP’s internationalization process and tell me about her experience in Italy after the OFDI of SP. Though my information on SP is limited, it still captures elements of a large SOE investing in advanced economies.

##### 4.4.4.1 SP’s internationalization

SP is a giant SOE in the petroleum industry, which drills, refines, trades, and sells oil and other natural resources. SP began to explore overseas markets after the Going Out strategy was launched by China’s central government at the beginning of the 21<sup>st</sup> century. The OFDI operation accelerated after the financial crisis of 2008.

SP has different strategies based on its investment destinations. In advanced economies, SP prefers M&As and has purchased many assets in the US, Australia, Japan, and Italy to expand its profile. It has focused on valuable assets, technology transfer, staff training, and improving financial performance. In developing countries, SP takes a different approach, seeking more

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<sup>119</sup> *Ibid.*

<sup>120</sup> The “996” practice is a work schedule from that runs from 9 a.m. to 9 p.m., six days per week. This is a common practice for employees in telecommunication, IT, and internet platform firms in China in recent years (Wang, 2020).

<sup>121</sup> The interview took place at Beijing in July of 2018.

natural resources and taking on large-scale infrastructure projects through Greenfield investments. It also sends Chinese engineers and workers from home to these Greenfield projects abroad.

The senior procurement manager was personally involved in SP's M&A-type OFDI in Italy and spent a year there receiving training in sales and customer management. SP's joint investment in Italy during her training period was between SP and an American company; they jointly purchased an Italian petroleum corporation oil factory. SP sent some Chinese staff to this newly acquired factory to learn management practices to improve their management capacity.

#### 4.4.4.2 Industrial relations

The interview yielded limited information on industrial relations after acquiring the Italian site by SP. The manager recalled that SP generally did not send Chinese staff to engage directly with local trade unions. She said that after SP's takeover, local workers in a warehouse that belonged to the factory went on strike, but no Chinese managers or employees helped handle the strike. Instead, SP relied solely on previous existing industrial relations settings, such as local HR officer, to deal with it. Chinese employees in Italy, including the interviewee, had no opportunity to learn any details about local industrial relations or to engage with local trade unions.

This approach aligned with SP's overall strategy in Italy. SP mainly used its factory in Italy as a training base for its management team and sent Chinese managers there to learn business practices. SP did not intervene at all in managing the site and the pre-existing Italian governance and human resource body continued to run the daily business. This investment strategy kept all the Chinese expats – a much smaller group than local employees – outside the Italian system. The interviewee also said that SP did not plan for any business integrations between the Italian factory site and SP's home operations in China. This passive approach further limited interactions between SP's home sites and the Italian sites it had purchased, thus reduce the possibility of labor diffusions.

#### 4.4.4.3 Chinese practices

During the interview, the Chinese manager emphasized that the Communist Party of China's organization and Party members' management were central pillars of SP's management of overseas Chinese employees. Consolidating the Party leadership among Chinese expats sent



overseas is common in SOEs. According to the interview, at least within SP, all Chinese expats who belonged to the Party at home<sup>122</sup>, regardless of their employment status at the investment destination (business visa or local employment contract), are organized by local Party units abroad. These Party units are also responsible for labor protections, specifically, the welfare and benefits scheme for Chinese expats. SOEs inside China usually combine Party management tasks and trade union functions together and designate their management to the Party unit in the corporation; SP does the same. It believes that a strong, active Party leadership can effectively gain support from all employees and, at the same time, strengthen the authority of the Party among employees.

This practice extended abroad after OFDI in response to challenges and difficulties that could undermine the Party's leadership. SP has an internal Enterprise Resource Planning (ERP) system for Party activities and organization for all sites across the globe. It requests that the director-level manager of all SP's directly managed entities abroad be a Party member, while locally hired employees can only be assigned to the deputy director level the highest. According to the interviewee, most of SP's senior managers are proud to have this extensive Party network to manage SP's activities abroad, because most expats believe that the Party unit can help employees gain benefits and welfare like an extra allowance for expats. This same reliance on and support for an active Party organization is not found in most private firms that invest abroad.

Placing the Party organization within the corporate governance structure is a feature of many SOEs in China than private sector firms (Nee, Oppen, & Wong, 2007; Lin & Milhaupt, 2013). This parallel personnel system — one for regular corporate management and the other one for the Party (*Nomenklatura*) — is seen as a feature of Chinese state capitalism that protects the Party's political primacy (Chan, 2004). Throughout OFDI expansions abroad, SOEs rely on this unique and existing feature to appease Chinese employees and gain their support, while the authority tries to build up a Great Firewall to defend itself from labor-related diffusion and external social influences. SP's practice of an ERP system on the Party network is one instance of this SOE practice.

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<sup>122</sup> According to the interviewee, a large number of Chinese expats of SOEs are Party members, especially for mid to senior level managers.

#### 4.4.4.4 Case summary

Like many SOEs with more extensive experience of OFDI abroad, SP has developed a variety of internal regulations and practices to keep Chinese employees abroad away from labor protections exposures at investment destinations. During her one-year working period in Italy, the manager barely had any connection to European labor protection practices and remained within the shell of SP's SOE network. During that time, SP continued to provide her with social security coverage, pension, and other benefits for regular SOE employees in China.

SP's approach of isolating Chinese employees sent abroad from labor protection regulations and practices at investment destinations, and the emphasis on Party leadership, seems to prevent direct engagement and potential diffusion channels after OFDI in advanced economies. This case highlights practical resistance from SOEs to diminish the effect of labor diffusion, despite the conditional effects of M&As at the investment destination. This case supports *Hypothesis 2* because the condition of SOE significantly limits the possibility of labor diffusions, even for Chinese investments in the Global North.

#### 4.4.5 SOE investing in developing countries – B\*<sup>123</sup> in South Africa

##### 4.4.5.1 B's internationalization path

B is a large-scale state-owned automobile manufacturer in Northern China established in the 1950s and sustained throughout the central planned economy years and the later period of Reform and Opening Up. The SASAC branch at the municipal level of B's headquarters supervises B's daily operation and B is one of the core SOEs in the automobile industry of China.

B began to explore the international market after the Going Out strategy was implemented in the early 21<sup>st</sup> Century. Until 2019, B has made two attempts at internationalization: one unsuccessful effort to acquire a bankrupted European car producer, and another Greenfield investment in South Africa. Here, I focus primarily on B's Greenfield investment in South Africa, a Global South economy. As an SOE, B's expansions abroad closely adhere to the Chinese government's overall strategies and policies guiding OFDI directions. Although the acquisition

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<sup>123</sup> The actual name of this company has been hidden upon the request of the interviewees.



attempt in Europe after the financial crisis ultimately failed, its goal still fits China's policies, and the aim was to obtain advanced technologies from Western Europe to boost and upgrade the domestic automobile industry in China. B's Greenfield investment in South Africa aligned with President Xi Jinping's state visit to South Africa at the end of 2015<sup>124</sup> and is part of the larger goal of the Belt and Road Initiative to expand China's global reputation and influence.

This information about B's investment in South Africa was based on two interviews in Beijing. The longer interview was with an operations manager in charge of B's sales in South Africa. I conducted a secondary interview with a former project manager of B, who was also involved at an early stage of B's internationalization activities in the 2010s.

#### 4.4.5.2 Industrial relations

While South Africa is a developing country in many respects, its labor system is well-established. The automobile industry in that country is like that in many European advanced economies (Barnes & Morris, 2008; Trimikliniotis, Gordon, & Zondo, 2008). B entered South Africa through a local partnership linkage with the Industrial Development Corporation (IDC), a South African national government agency that promotes international capital in investment projects in South Africa. This partnership facilitated B's business operation in South Africa, but it also forced B to deal with the local labor market alone, without any support at the firm level. Unlike M&A-type OFDI that brings Chinese investors to a local firm that can support daily operations, IDC is a governmental agency that provides no specific or operational support for B's daily operations. The operations manager from B admitted that B had not been well-prepared for the challenges that arose around labor protections, and especially for industrial relations aspects after entering South Africa.

B's internationalization in South Africa faced strong local trade union pressures since it began to set up the Greenfield investment on the ground. According to the operations manager, even before the investment, B's staff shared a typical hostile attitude, or at least a lack of understanding and knowledge of industrial relations abroad. Their views toward local trade union organizations and regulations were similar to those of the Chinese government and the ACFTU's

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<sup>124</sup> For details of President Xi's visit to South Africa in 2015:

[https://www.fmprc.gov.cn/web/ziliao\\_674904/zt\\_674979/ywzt\\_675099/2015nzt/xzxfgcxqhbh\\_684980/zxxx\\_684982/t1320804.shtml](https://www.fmprc.gov.cn/web/ziliao_674904/zt_674979/ywzt_675099/2015nzt/xzxfgcxqhbh_684980/zxxx_684982/t1320804.shtml)

official doctrine. Once operations in South Africa began, the operations manager found that *“personnel from South African local trade union organizations (at the sectoral and regional level) always come to my office for trouble and I cannot tolerate their continuous bothering.”* The automobile industry in South Africa is heavily influenced by European manufacturers (like Volkswagen and Mercedes), so labor practices on industrial relations in the industry are similar to and in solidarity with those of advanced economies in the West (Bolsmann C., 2010). Most automobile manufacturing plants in South Africa have trade union organizations.

The operations manager realized that local labor regulations allow any company with more than 50 employees to have the possibility to establish a trade union organization, as long as there is a request from employees. Once the trade union organization was created, the sectoral trade union organization sent a specialized external staff member to this firm to supervise and manage all trade union related issues. The firm is responsible for the cost (salary, office, etc.) of hosting this residential trade union staff at the plant. Local trade unions often send officers to B's locations to persuade B's employees to create trade union units, which triggers further resentment to trade unions among Chinese expats.

B's employees in South Africa include both Chinese staff sent from home and locally hired African workers. Chinese employees make up the majority. The operations manager said that *“none of my Chinese colleagues, nor any locally hired employees, wanted an external trade union officer to sit in their offices for nothing.”* Frequent persuasions from local trade unions increased the negative impression that this manager and his Chinese colleagues had about trade unions and industrial relations in South Africa. He reiterated B's rejection of local trade union representatives and emphasized that B's employees did not want a trade union branch or for local trade unions to send external staff to B's office and force them to cover the costs. He asked local trade unions to stop campaigning at the firm.

The choice of Greenfield investment exposed B directly to foreign industrial relations, without prior knowledge or assistance from local partners. The manager found it hard to gain support from local partnering firms or governmental agencies when he encountered local trade unions. The operations manager had the frustrating task of handling industrial relations by himself, and he often asked for suggestions from other Chinese SOEs operating in South Africa. But, according to the interviewee, most Chinese SOEs in South Africa have little experience or



knowledge of foreign trade unions. For example, Sinotruk, a large Chinese automobile SOE operating in South Africa, encountered frequent strikes and confrontations between Chinese management and local trade unions. Exchanges between the manager and Chinese expats from other SOEs further solidified their negative perception of local trade unions.

Both interviewees also complained that B's domestic employees were incompetent in this matter, particularly the ACFTU branches in B's headquarters. They said that when they encountered challenges on industrial relations in South Africa, the expat team was not given any substantial assistance or advice from their headquarters in China. B's trade union officers in China are devout believers in and practitioners of the CPC and the ACFTU's official positions and doctrines on industrial relations and trade unions. The operations manager in South Africa said that it was useless to even raise any industrial relations questions with his trade union colleagues back in China because headquarters did not care about industrial relations challenges outside Chinese territory. Trade union officers at B's headquarters only follow the central ACFTU mandate and ignore overseas problems. Meanwhile, the interviewees admitted that trade union officers in B's home offices have neither the professional knowledge nor the foreign language skills to provide meaningful support for meeting challenges on industrial relations that emerged from OFDI.

#### 4.4.5.3 Chinese practices

According to both interviewees, most Chinese employees working in B's office in South Africa only hold a business visiting visa in South Africa, instead of a formal employment visa for foreigners issued by South African authorities. This is common among Chinese companies, especially in SOEs and telecommunication companies. The contracts of B's regular employees in China are guaranteed under the SOE human resource scheme, so they can usually work until retirement age without any uncertainty. SOE HR regulation and practice in China have little flexibility or freedom in allowing Chinese employees to have dual-contract status both inside and outside China. Because of the generosity and stability of employment at home, most Chinese SOE staff are not willing to trade their "iron rice bowl"<sup>125</sup> domestic employment status in exchange for a short-term working contract abroad, so they prefer to retain their home contracts.

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<sup>125</sup> Details on the "iron rice bowl" system are discussed in Chapter I of the thesis.

Under these HR practices, Chinese employees must often travel between China and their working countries to comply with tourist/business visa regulations.<sup>126</sup>

This HR practice prevents Chinese expats from exposure to labor regulations at the investment destination. Most of B's Chinese expats are not registered as employees under the South African labor regime, which means they have no interaction with or connection to the Western setting of labor protections throughout B's OFDI.

#### 4.4.5.4 Case summary

B's rigid SOE style of internal management regulations and practices, and the absence of understanding of and respect for South Africa's Western-style labor regulations and practices, create challenges for B's Greenfield investment in the country. B's managers in South African do not see any positive effects or benefits from embracing or supporting Western-style labor protection regulations or practical working conditions. Limited interactions between Chinese and local employees merely strengthen existing negative impressions in the Chinese mind.

Consequently, these managers remained defensive about Western industrial relations, blocking potential labor diffusion from South Africa to China. B's Greenfield OFDI in South Africa demonstrates an SOE investment pattern that diffuses few or no labor protection regulations or practical working conditions back to China. Instead, this type of OFDI activity may increase the gap of labor protections between China and the external world. This case supports *Hypothesis 3* that Chinese investments entering the Global South are unlikely to be a source of labor diffusion back to China.

### 4.5 Summary from cases

Table 4.4 summarizes the five cases mentioned by listing pertinent information on the OFDI activities of each firm.

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<sup>126</sup> For instance, tourist/business visit visas in most countries require the person to stay for a maximum of 90 days. Hence, many Chinese employees travel often to avoid violating visa length regulations.



Table 4.4: Fact sheet on cases

Firms	Geely	SL	Huawei	SP	B
Conditions on OFDI (2*2 box in Figure 4.1)					
Types of firms	Private	Private	Private	SOE	SOE
OFDI destination	Sweden	USA	Sweden, Brazil	Italy	South Africa
M&As	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Greenfield	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Motivations of OFDI					
Market access	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Supply chain and technology upgrading	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accessing raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acquiring management and business know-how	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Response to governmental policies	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Diffusion outcomes					
Increased knowledge on Western type of trade unions	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Improvement of occupational safety and health conditions	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Adaption of higher standards	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Retention of Chinese practices (working hours, Party leadership)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Diffusion mechanisms					
Compliance pressures	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Competition	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Learning effect	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### 4.5.1 Conditions on OFDI and labor diffusions

The combined results of all five cases analyzed in the last section support my three hypotheses on the roles different conditions of OFDI play in labor diffusion. For the type of firm ownership, private firms have greater labor diffusion outcomes than SOEs. Geely, SL, and Huawei in Sweden all recognized the importance of labor protections in their OFDI activities,

and there are signs of diffusing labor protection practices back to China related to trade union elections and occupational safety and health measures. Private firms are also more flexible than SOEs in dealing with foreign trade unions. SOEs have more rigid internal management and tend to stick with their home practices. Because SOE offers relatively stable and decent employment conditions, their employees have taken a passive or hostile approach towards foreign labor protection regulations and practices. They show little interest in understanding and engaging with Western labor protection norms and practices. Instead, they strengthen their existing internal arrangements, including the Party leadership and the presence of ACFTU units, which shield Chinese expats and home sites against diffusions of non-Chinese labor norms and practices from abroad.

The condition of investment destination also influences labor diffusion outcomes. Advanced economies, like those of Western and Nordic Europe, have more positive effects on labor diffusion. In Nordic countries, the influence of trade unions extends from labor protections to other social welfare benefits. One Chinese employee I interviewed was greatly impressed by the role of trade unions in Norway when she learned that the trade union could even offer its members a discount on the interest-loan rate for purchasing properties. Whether privately owned or SOEs, Chinese firms respect the presence of local trade unions after their investments in advanced economies. But in many developing countries, Chinese staff often cannot see benefits after engaging or interacting with local trade unions. Instead, they see trade unions as an unnecessary burden or even “a troublemaker.”<sup>127</sup>

Similar to firm ownership and investment destinations, M&A-type OFDI does have a conditional effect on labor diffusion. Of the three private Chinese firms that invested in advanced economies, Geely and SL took the M&A path, while Huawei was a Greenfield investment. This difference did affect the width and depth of exposure to labor protections abroad. Geely and SL showed evidence of diffusion back to China, but there was no clear sign of it for Huawei; the effect of M&As might explain this outcome. Geely and SL had more direct interactions with well-established labor protection settings through acquiring entire production sites abroad, while Huawei built up its operation in Sweden from scratch and might not have had as much labor exposure as companies that engage in M&A-type OFDI.

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<sup>127</sup> The phrase “troublemaker” was quoted from the interview with B’s manager working in South Africa.



#### 4.5.2 Diffusion mechanisms

Of the theorized mechanisms leading to labor diffusions, compliance pressures were mentioned for all Chinese firms in the case analysis. The pressure was stronger for investments in advanced economies because they have higher standards than China. Whether they are private firms or SOEs, most firms in the case analysis pay the most attention to compliance with local labor regulations. Chinese media, academic, and governmental agencies are learning more from unsuccessful Chinese OFDI cases on compliance with foreign laws and regulations and official sources, the business community, and foreign scholars often emphasize these negative lessons as reminders for future OFDI (Irwin & Gallagher, 2013; Zhang & Sun, 2016).

The latest development in addressing the importance of compliance at the national level in China was an official notice on “*Compliance for Chinese Firms Operating Abroad*” issued jointly by many powerful ministries and commissions from the central government in Beijing.<sup>128</sup> The document explicitly mentioned “*labor rights and labor-related issues*” and asked Chinese firms to increase their knowledge and understanding of labor protections and to comply with related regulations abroad. This notice primarily targets private firms investing in developing countries because there were several damaging incidents related to labor rights that were caused by private firms. For instance, significant violations of local labor regulations for Chinese gold mining firms (private) in Ghana had a severe negative effect on China’s diplomatic relations with this African country (Debrah & Asante, 2019). The emphasis on compliance from the Chinese government may increase the role of mandatory compliance in labor diffusions through OFDI.

The motives that drive the above-mentioned firms in the case analysis to OFDI fit the literature of competition, as firms from China mainly pursue business strategies for their OFDI operations, including acquiring strategic assets, knowledge, technologies, and market access. The Chinese government advocates these efforts and supports firms through its political agendas like the Made in China 2025 and Belt and Road Initiative (Li, Li, & Wen, 2009). SOEs and private firms share a consistent pattern of investment objectives in response to Chinese governmental policies, particularly among large enterprises. A practical reason behind this phenomenon is the

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<sup>128</sup> On December 31, 2018, the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs (MFA), Ministry of Commerce (MOFCOM), the People’s Bank of China (PBOC), State-Owned Assets Supervision and Administration Commission (SASAC), State Administration of Foreign Exchange (SAFE), and the All-China Federation of Industry and Commerce (ACFIC) jointly issued this notice to emphasize the importance of compliance. Full text in Chinese: [http://www.gov.cn/xinwen/2018-12/31/content\\_5353734.htm](http://www.gov.cn/xinwen/2018-12/31/content_5353734.htm)

foreign exchange regime and MOFCOM's foreign investment approval regime. Any Chinese firm wishing to invest abroad must submit documents to MOFCOM for approval. Only firms that receive approval from MOFCOM can obtain foreign currency to carry out investment abroad because foreign exchange policy in China is very restrictive – there is no free conversion between the Chinese Renminbi (RMB) and foreign currencies under the capital account.

The cases of Geely, SL, and Huawei show that their pursuit of advanced technologies and productivity may incline them to adapt higher labor protection practices to increase their competitiveness; for example, SL voluntarily adopted higher occupational safety and health measures and Huawei adopted CIPS procurement certification. Technology and management skill upgrades show that the learning effect can also lead to labor diffusions, such as the diffusion of business know-how and best practices from investment destinations back to China. This finding aligns with the literature on knowledge transfer through Chinese expats who work in Europe (Zheng & Smith, 2018).

Most hypotheses proposed in Section 4.2.6 were supported, since private firms have stronger labor outcomes than SOEs, and diffusions from the investment destination back to China are more common and stronger in private firms investing in the Global North than in developing countries. M&A-type OFDI could have additional effects that facilitate the diffusion process. Occupational safety and health conditions are improving as foreign protection methods are adopted and there are preliminary signs of industrial relations diffusion as the Chinese side becomes more interested in the process of electing trade union representatives. But there are also many barriers to labor diffusion and Chinese firms retain many previous home practices after investment abroad (e.g., working hours). It will take more time to monitor significant diffusion outcomes on these home practices.

#### 4.5.3 Resistance and counter diffusion from China

The interviews and case analysis show a growing consensus among Chinese investors, senior managers, and government officials that there are significant differences between China and the Western world. These differences are apparent in their approaches to labor protections. In response to this difference, defensive measures are increasingly being implemented by the Party



in various aspects and a Great Firewall<sup>129</sup> has been established. Chinese trade union officials and human resource managers, particularly in SOEs, may realize that their domestic labor protection settings cannot cope with external labor norms, well-organized and experienced trade unions, or collective labor movements in advanced economies. Therefore, building a Great Firewall to prevent foreign labor influence from affecting Chinese employees on both expats and home headquarters would be a rational and feasible response from the Party and the ACFTU side to defend China's official doctrines on labor protections.

The passive and defensive reaction from the ACFTU and SOEs highlights their Great Firewall approach. SOEs in China usually have well-established trade union units that follow the leadership of both ACFTU and Party leadership. Initially, SOEs tend to rely on the ACFTU and domestic industrial relations strategies to deal with labor-related challenges abroad, like the operations manager mentioned in the above-mentioned case of B in South Africa. The literature also has extensively covered an earlier case of Shougang (a giant SOE) in Peru's Hierro mining and used it to illustrate the negative consequences of relying on Chinese industrial relations patterns (Irwin & Gallagher, 2013). The situation in Peru was escalated by Shougang's massive layoffs of local workers and managers, whom they replaced with Chinese workers (Guo, 2015). In the beginning, Peruvian trade union representatives were invited to visit China by their ACFTU counterparts in Shougang, Beijing, where they would learn the ACFTU's doctrine on *"harmony between employee and employer."* Chinese trade union officials from Liugong Group, a heavy equipment producer for construction sites from Guangxi, also got involved in Liugong's M&A of HSM in Poland after inviting Polish trade union delegations to visit Liugong's headquarters in China and introducing China's labor norms on the combination of firm growth and employee benefits.<sup>130</sup>

But neither of these firms achieved an ideal outcome by copying domestic ACFTU patterns and applying them to foreign workers. Once they recognize the complexity of the industrial relations SOEs face abroad, and admit their lack of capacity (knowledge, foreign language, motivation), ACFTU and SOEs might instead to shift their focus from the offensive to

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<sup>129</sup> *The Global Times*, a Chinese media outlet with a radical nationalist position, published an article describing the Great Firewall on the Internet as a weapon to defend China from penetration by Western society. The term Great Firewall then became popularized as shorthand for Chinese approaches to defending itself from foreign political influence. I discuss this in more detail in Chapter II. <https://opinion.huangniu.com/article/9CaKrnJUWgm>

<sup>130</sup> Source: <http://www.miem.org.cn/html1/report/1511/892-1.htm>

the defensive. In recent years, SOEs no longer seek supports from the ACFTU when they encounter labor-related issues abroad. Instead, they rely on law firms and human resource management professionals to tackle them. The ACFTU and the Party prefer to preserve their existing understanding of labor protections among Chinese employees by cutting potential engagement and diffusion channels. The strategy of isolating Chinese expats from the local community and shielding them from exposure is intended to keep the support of these workers when they return home to China.

A priority for the ACFTU's reform since 2016 has been increasing its presence among workers and gaining support from labor. At the same time, the government cracked down on labor-focused non-governmental organizations (Crothall, 2020). This effort from the top leadership can be seen as a countermeasure in building the Great Firewall to fight against external influence. For decades, the ACFTU has been out of the core loop of the Party's political leadership. Some scholars in China have even described the ACFTU's functions and roles merely as "*flattering, sporting, playing music, and singing songs*"<sup>131</sup> instead of dealing with the "*true labor issues*." The urgency of ACFTU's drive to gain domestic support might be partially driven by threat and competition from abroad through the OFDI channel.

Despite the daily bureaucratic tasks and hierarchical orders of top officials, most domestic ACFTU officials, especially at the grass-roots level, do not fully understand the possible external challenges, but they are busy implementing the ACFTU's central-level strategies to consolidate their legitimate representation among workers. They even became involved in the Party's agenda on poverty relief by distributing allowances to low-income workers.<sup>132</sup> For instance, in an electronic manufacturing factory in Tianjin, China,<sup>133</sup> the Party members runs trade union leadership, although these Party members occupy different positions in the firm (like clerk, manager, assembly line worker, and administrative staff). The trade union leadership in this factory implements the Party's strategy of increasing the presence of ACFTU among workers through the "Three Ones initiative." Three Ones means that, in every calendar year, the trade

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<sup>131</sup> Based on an interview with a scholar from a university in Beijing in the summer of 2018. The exact Chinese phrase describing the ACFTU's four functions are "吹、拉、弹、唱".

<sup>132</sup> China seeks to achieve a "comprehensive well-off society" by the end of 2020 by eliminating absolute poverty. [http://www.gov.cn/xinwen/2019-12/31/content\\_5465556.htm](http://www.gov.cn/xinwen/2019-12/31/content_5465556.htm) [http://www.xinhuanet.com/fortune/2020-02/13/c\\_1125566572.htm](http://www.xinhuanet.com/fortune/2020-02/13/c_1125566572.htm)

<sup>133</sup> The interview and site visits to the trade union branch in this factory were conducted in October 2019 at TEDA (Tianjin Economic – Technological Development Area) in Tianjin, China.



union organizes three activities for each trade union member: it (a) takes *one* suggestion from each member, (b) conducts *one* negotiation with the management team, and (c) implements *one* improvement measure.

The Three Ones initiative reflects the determination of the Chinese authority to defend its leadership position among Chinese workers within China, and its approach. Reliance on the Party network is a popular practice in the ACFTU's work at the grass-roots firm level, and it corresponds to SOE's emphasis on the Party leadership in OFDI activities. All these measures may strengthen China's resistance and thus diminish labor diffusions to China through OFDI activities.

#### 4.6 Concluding remarks

The world has witnessed a massive wave of outward Chinese capital in the past few years. Chinese firms and Chinese-owned companies can now be found in almost every corner of the globe, in both developing and developed countries. Engagement and interaction between China and the world have significantly deepened through the swelling Chinese OFDI wave. Many Chinese people have been brought into contact with the outside world as a result of Chinese OFDI, including entrepreneurs, business managers, engineers, construction workers, researchers, and governmental and trade union officials.

The concept of labor protections is a relatively abstract norm for most Chinese participants in the OFDI wave. For both Chinese entrepreneurs and ordinary employees involved in OFDI activities, labor-protection-related topics are probably the ones they least expected and were least prepared to encounter. They may have heard of phrases or terms like "trade union" ("工会" in Chinese), "strike" ("罢工"), and "collective bargaining" ("集体协商"), but most of them have limited practical knowledge and experience of these concepts. Chinese employees know more about practical working conditions like wages and working hours, but most take them as business as usual, instead of linking these practical working conditions to the broader concept of "labor protections" or "labor rights." Chinese firms usually do not understand and don't know how to prepare for challenges on labor protections, so when they enter foreign production sites and meet local employees, the situation soon becomes complex and difficult to manage.

This case analysis described a variety of experience Chinese firms had with labor protections abroad. I started with a theoretical diagram that addressed the effects of different OFDI conditions and used it to explore potential labor diffusions back to China. I found preliminary evidence to support labor diffusions back to China on occupational safety and health conditions, which also supports my empirical finding in Chapter II that injury rates drop as Chinese OFDI increases.

Though it is often difficult to tease out precise mechanisms that drive the diffusion process, this case analysis shows that diffusion back to China can occur through mandatory compliance, voluntary adoption of higher labor standards and practices to increase competitiveness, and learning. Compliance pressures and efforts abroad can improve compliance performance for Chinese firms at their domestic sites. OFDI in advanced economies enables Chinese firms to witness, acquire, learn, and adopt best practices from highly productive firms in Europe and North America, so that the Chinese home headquarters can benefit from these technological and management upgrades. With improved productivity, Chinese employees at home may also benefit. In addition, some Chinese firms are interested in understanding industrial relations practices, like the election of trade union representatives.

But my case analysis also demonstrates signs that China is resisting diffusions. Chinese investors, managers, staff, and domestic officials are increasingly aware of fundamental differences between China and the West on labor protections, particularly on the political aspects. Faced with the possibility of diffusion via OFDI, domestic labor institutions and Chinese firms may defend their existing labor doctrines. There is evidence that Chinese investors are deliberately keeping their distance from European trade unions to avoid direct contact (CCCEU; Roland Berger, 2019). The firm may adopt a defensive strategy and attempt to eliminate any inward diffusion to China. The defensive strategy may also align with the Party's efforts to consolidate its dominant position among Chinese workers.

Generally, Chinese people prefer to seek practical solutions rather than struggling in debates over norms and concepts (Xiang, 2020). This preference could generate confusion and misunderstandings when the Chinese interact with foreigners, and this could further reduce labor diffusions from the West to China. A senior French entrepreneur<sup>134</sup> who had run a business in

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<sup>134</sup> The interview was conducted in at the Pearl River Delta area (October 2019).



China for two decades described Chinese workers as diligent, flexible, and passionate about working opportunities and income, but said they had defects in professionalism, lacked respect for procedures and process, and did not look for reasons and causes behind the screen. The same entrepreneur saw Western workers, like the trade union in France, as focused on schedules, process, and certainty – the opposite of Chinese workers. Because France has a better social welfare system than China, French workers care less about business operations at the firm level; instead, they are primarily concerned with the interests and benefits of workers. According to this French entrepreneur, these differences lead to conflict between Chinese and European workers on working conditions, especially for overtime work.

China has embraced and integrated into globalization only since it acceded to the WTO in 2001. OFDI has been growing for a much shorter time than trade growth. But Chinese labor protection regulations and practices are deeply embedded in Chinese society, based on decades-long, strong historical, political, and cultural elements. It will take a while for newly arrived Chinese investors and expats to learn more about and gain experience in foreign labor protections. Given limited resources, the fact that Chinese OFDI began less than two decades ago, and the paucity of material available to investigators, I could not fully uncover the effects of Chinese OFDI on China's labor protections and report it in this thesis. More research is necessary to continuously monitor its effects and any further diffusions.

It is still too early to make any decisive judgment about whether Chinese OFDI will diffuse labor protections back to China. As they accumulate understanding, knowledge, and information, some Chinese may start to rethink their domestic labor doctrine and ask if the rapid economic growth model in China is sustainable over the long term. It will take a long time to see if large-scale diffusion of labor protections flows from the firm level to the national level in China.





## Epilogue

This thesis addresses the effect of Chinese OFDI on labor protections in China. The thesis starts by reviewing the development path of China since the 1980s and then identify a research gap in the existing literature on OFDI and labor protections in China. Three empirical chapters are developed to investigate this relationship. Results from Chapter II show that the relationship between Chinese OFDI and labor protections is complex. OFDI is positively correlated to some improvements in workplace occupational safety and health conditions, together with a higher labor dispute. Meanwhile, labor diffusions may encounter stronger political resistance from the Communist Party of China and the All-China Federation of Trade Unions (ACFTU).

Results from Chapter III show that as the amount of Chinese M&A-type OFDI enters European economies increases, labor protection regulations in China may increase. But there are no clear signs to indicate changes in working conditions like wages and working hours from the Chinese side. Results from Chapter IV show that labor diffusions back to China are more likely for private firms that pursue M&A-type investment in advanced economies. Mandatory compliance pressure, economic incentives for improving competitiveness, and learning effects are the main diffusion mechanisms. Labor diffusions showed stronger outcomes on occupational safety and health conditions. In addition, results also suggest that the Chinese authorities and state-owned enterprises are actively working to reduce potential labor diffusions through the OFDI channel.

Results from the above chapters may indicate a challenging future for labor protections in China. At the end of the thesis, it is important to have a broader view of China's internal and international circumstances in recent years in order to better understand the implications from empirical results and prospects of labor protections in China.

### 5.1 A larger picture

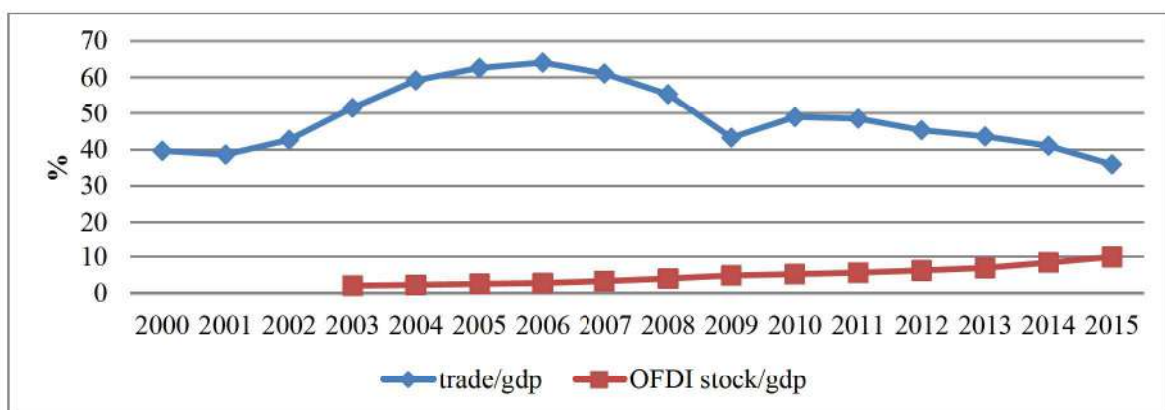
When I began my thesis project in early 2017, the world, and especially the advanced economies in Europe, had received an unprecedented inflow of capital from China. Active

purchases by Chinese companies across the world, particularly in advanced economies, triggered massive public discussions of the global implications of Chinese investments abroad.

Now, at the start of 2021, while the world suffers from the COVID-19 panic, domestic and international discussions about China have shifted sharply as China has changed from a nation reaching out to the world into a defensive, self-centered, muted stance under the core leadership of Chairman Xi Jinping. The world has seen China's views and attitudes towards the rest of the world grow more hostile, aggressive, and cynical, as represented by the so called "Wolf-Warrior Diplomacy"<sup>135</sup> to repeatedly emphasizes the uniqueness and advantages of its Party-State political system. From the beginning of the Trump administration, the US began to wage an unprecedented political attack against the Chinese communist regime through its "decoupling" efforts (Yu, 2019). The relationship between China and liberal Western society faces its most significant challenges since the 1989 Tiananmen Square incident.

Meanwhile, economic data show that China's dependence on the international market is steadily decreasing. Shares of Foreign trade and inward FDI have steeply dropped, making up less and less of China's GDP over the last decade (see Figure 5.1). The rapid growth of the Chinese domestic market and consumer demand can partially explain this phenomenon, but Beijing may also be deliberately reducing its economic dependence on the Western economies, driven primarily by a lack of political trust.

Figure 5.1: Trade and OFDI as a percentage of China's GDP



Source: World Development Indicators, the World Bank Group

<sup>135</sup> For more information on the "Wolf-Warrior Diplomacy", see an article from *The Diplomat* in May 2020. <https://thediplomat.com/2020/05/interpreting-chinas-wolf-warrior-diplomacy/>



Even though the proportion of China's reliance on the international market is decreasing, the absolute amount of its foreign trade and inward and outward FDI is still vast. Counter to the expectations of the outside world, China has grown more willing and more capable of using trade and market influence as leverage in its effort to export its political will, and of fending off other nations' attempts to influence it by exporting foreign values and norms through trade or FDI leverage. In 2019 China launched a political campaign against many Western MNCs that display "Taiwan" as an independent country on their websites and the campaign illustrates this pushback. Dozens of MNCs in commercial aviation, hospitality, consumer goods, and other sectors were forced to standardize their description of "Taiwan" to the phrasing China preferred. Another example is the outbreak of Hong Kong protests since the summer of 2019 and a pro-Hong Kong protest tweet from American sports manager, Tracy Murray, almost erased the NBA's two-decade market expansion efforts in China.

There are countless similar cases, whenever business communities engage with China on sensitive "terms" like Hong Kong, Tibet, and Xinjiang. Many brands become victims of China's nationalism campaign and they had to yield their "right of freedom of expression" under the shadow of the Chinese market. The Communist Party of China (CPC) has succeeded in taking MNCs hostage and uses the compromises it exacts from the West to convince the Chinese public of its achievements and consolidate the Party's domestic authority.

State media also manipulates public opinion towards the West, especially the "democratic and liberal regimes." The state media have applied the dichotomy "China versus foreign" to many issues, in their efforts to manipulate and stoke nationalism. On social media (like Weibo, the Chinese version of Twitter), a pro-CPC group called "Little Pinks" (小粉红) has appeared. Little Pinks are mainly young people born after the 1990s (Zhang, Liu and Ren 2018), and this group and state media, like the *Global Times*, arbitrarily label discussions, information, and incidents as "China" or "Foreign." For instance, the Party's propaganda department and many state media agencies treat news or reports from foreign sources with suspicion and label them as conspiracies, regardless of their contents.

The widespread embrace of "nationalism," the aggressive and hostile attitude of the state media towards any foreign norms or values, all have largely shaped the impression many ordinary Chinese people have of the West. Since most Chinese people do not speak a foreign

language, the language barrier further limits their access to information, catalyzing strong anti-West sentiment in the Chinese public. This strong nationalism makes attempts to address China's domestic problems or conflicts, including labor protections, ineffective, especially when foreign players (government, NGO, treaties, etc.) participate. The involvement of non-Chinese participants can trigger stronger resistance from the Chinese regime and public, as arguments between China and Western democratic countries over national security law in Hong Kong recently illustrated.

Capitalism and market competition principles may ultimately be the fundamental rules, so that those who own most of the capital stock will ultimately have more leverage and be able to win out over other participants. As the Chinese economy continues to boom, China may accumulate and take control of capital supply in the international market in the coming years, which could place the rest of the world, especially advanced Western economies that used to supply most of the capital, in an awkward situation, reducing their voices and influence. As the largest capital supplier, China will project its own ideas, styles, and values on others, whether or not this is deliberate.

Discussions over human rights issues also show this tendency. Definitions of human rights tend to be political, emphasizing Western-endorsed values of freedom of expression, freedom of religion, freedom of association, etc. However, recently, the definition of human rights has been expanded from these political norms and values towards more material and economic poles, as China and other non-democratic developing countries exert their influence. This double-standard approach to human rights issues has primarily focused on the importance of a minimum standard of living and on development rights. The argument for this approach is that people can only pursue their political will if they reach a minimum basic living standard, and China is actively improving human rights domestically through taking measures to relieve poverty. In bilateral country dialogues and multilateral international forums and in the United Nations, we can also see China's efforts to shift human rights discussions from political rights to development rights.



## 5.2 An internal review

Prof. Xiang pointed out a feature of Chinese politics: “*Any political problem in China would come from a single source, i.e., lack of democratic legitimacy*” (Xiang 2020). Chinese people trust the Party if it consistently delivers economic development, like high-speed railway, modern airports, increased social welfare coverage, and higher-quality education. If the Party can achieve these outcomes and deliver benefits to ordinary people, the public will support a stable and growing Party-State regime as it leads the economy, at the cost of restrictive regulations on expression, political will, and privacy. The pursuit of higher efficiency and economic interests are key priorities in this equation, and the balance reflects a long tradition of legitimacy endeavor from Chinese political rulers: results and outcome of governance prevail over procedural justice (Xiang 2020).

Westernized political reform in China has hit a wall in the current Xi Jinping era. Foreign calls for political changes are considered as meddling in China’s internal affairs and a challenge to China’s sovereignty, as has been the case in the recent Hong Kong protests. Domestic unrest or protests about political issues, either on the ground or online, are considered treason (Xiang 2020). This strong Party’s control over the Chinese society seems unshakeable for the near future.

The CPC is attempting to standardize culture, lifestyle, and thinking across the whole country under Chairman Xi’s core leadership and is confident it can achieve these objectives (Pei 2018). Internal efforts to “strengthen the Party organization” (in Chinese “党建”) are implemented from the top leadership down to all 91 million Party members in China, supporting the CPC’s central role in leading China. Individual Party members must devote a large portion of their working time (sometimes more than 50%) to carrying out Party-building tasks<sup>136</sup>, both individually via the “学习强国” App,<sup>137</sup> and through seminars and competitions. All these efforts consolidate the Party’s control, including over labor conditions since it efficiently monitors employees and reacts to threats.

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<sup>136</sup> A labor scholar from a university of Beijing made this “50%” argument to me during an interview I conducted in Beijing (October 2019).

<sup>137</sup> Literally meaning “study and strengthen the state,” this app includes recent Party news, speeches, remarks, policies in the format of texts, videos, and audio. Party members must read enough pieces in this APP every day to earn enough points and are ranked by the app. Party organizations and units at the grass-roots level periodically rank all of their Party members’ scores and publish the ranking on the app.

Western pundits on Chinese politics and Chinese society hold and try to enforce rigid views on democratization, individualism, and universal values. They believe that democratization should be the ultimate destination of the CPC regime. Their argument is built on political discourse: the legitimization of one political system, for example liberal democracy, must be sustained by the delegitimization of another system, like CPC authoritarianism (Xiang 2020). The CPC stands against such Western norms and emphasizes the uniqueness of the thousand-year-long unification of the Empire of China. The CPC uses the combination of traditional Chinese history and successful economic development as powerful weapons in the fight against Western ideologies and prevents them from diffusing to the Chinese public.

### 5.3 Prospects on China and the world

The future of the relationship between China and the world, especially while the US leads liberal countries, depends on how well the world meets two challenges. The first is the challenge posed by domestic political and economic changes in China, and the second is the challenge of global competition, including a possible reverse trend of globalization.

Domestically, the CPC under Xi's leadership has launched "reforms" in almost every aspect of society. The direction of those reforms has increasingly worried the rest of the world because of its authoritarian directions. Former Australian Prime Minister Kevin Rudd, a China expert, described President Xi as the most nationalist and ideological leader in the history of the People's Republic of China since Mao.<sup>138</sup> The recent debate over the role of SOEs and the ultimate fate of the private sectors in Communist China<sup>139</sup> has triggered profound discussions about China's future path. Though several senior government officials made statements and remarks<sup>140</sup> they hoped would calm the situation and reiterated the CPC's long-standing support for the private sectors, the Party's emphasis on the "Chinese development model" seen in its

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<sup>138</sup> CNBC Interview, October 15, 2018. [https://www.youtube.com/watch?v=7F6\\_OeFQegM&t=273s](https://www.youtube.com/watch?v=7F6_OeFQegM&t=273s)

<sup>139</sup> See <https://wemedia.ifeng.com/77918883/wemedia.shtml> Some pro-CPC voices have suggested terminating the existence of private sectors in China and making China a place only with SOEs.

<sup>140</sup> The most important voice in response to this debate comes from the Vice Prime Minister Liu He through his Q&A interview with the official Xinhua News Agency, October 19, 2018. [http://www.xinhuanet.com/english/2018-10/19/c\\_137544857.htm](http://www.xinhuanet.com/english/2018-10/19/c_137544857.htm)



official propaganda campaigns have sparked panic and a lack of confidence in the regime among private entrepreneurs.

If the Chinese economy moves towards a more SOE-dominated pattern and the iron rice bowl regime returns in the coming decades, the diffusion of international norms and practices will meet much more durable resistance. The “地摊经济” (“street vending markets”) Premier Li Keqiang proposed in May 2020, which aimed to ease the economic recession and promote private sector employment, was walked back within few days and the phrase was abandoned by late May because President Xi preferred a planning economy to spontaneous economic behaviors. This once again illustrates the top leadership’s intolerance of small-scale private sector businesses. If China returns to a more ideologically driven economy that focuses on heavy industries (essentially the Stalinism on economics), the Party would most likely to install a Great Firewall to filter ideologies and norms at home. This would lead to a massive ideological barrier that will prevent the diffusion of external influences into China, including labor protection norms and practices.

The second challenge is posed by the uncertainty of globalization’s future. In Western economies, right-wing political movements have flourished in recent years; their political wills focus on national interests and they take an anti-globalization/anti-multilateralism position. The ongoing clash between the Trump Administration and China goes far beyond the initial “trade wars”<sup>141</sup> and could fundamentally shift the development path of globalization from the course it has taken over the last three to four decades. Though Joe Biden replaced Trump in January 2021, structural competitions between China and the United States may continue to increase over the next years, posing a great external challenge to China’s development and President Xi’s leadership. China’s response to “deteriorating international circumstance”<sup>142</sup> includes a strengthening effort of its global agenda, noticeably the Belt and Road Initiative, and may include a more self-sufficient approach that shifts its focus to the domestic market. Either way, the labor diffusion channel from the world (mainly the developed economies) to China will diminish to a trickle or be cut off completely.

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<sup>141</sup> The first round of the trade war is the 10% tariff imposed by the USA government on US\$ 200 billion imports from China to the US since September 17, 2018. <https://www.whitehouse.gov/briefings-statements/statement-from-the-president-4/>

<sup>142</sup> See President Xi’s latest opening remarks at the 3<sup>rd</sup> China International Import Expo about the international challenges that China now faces. November 3, 2020. <https://www.fmprc.gov.cn/web/zyxw/t1829358.shtml>

In China's long history and in its culture, domestic economic development has not necessarily been associated with external economic relations like foreign trade and investment. Even though the renowned Silk Road has long been a metonym for China's participation in globalization, the effect and scale of foreign economic ties were too marginal in terms of the size to affect the whole state (Xiang, 2020). This historical pattern may suggest that China's efforts abroad, including the Belt and Road Initiative, are merely tactics to support domestic economic development and it may link to the self-sufficient approach eventually. If so, this would further cut off connections between China and the West, both economically and politically.

The main targets of the ambitious Belt and Road Initiative are developing countries in Southeast Asia, Central Asia, and Africa, where labor practices and conditions are not at the same level as in Europe and North America. In comparison to many developing countries, China enjoys relatively high labor conditions in comparison, particularly for wages and social welfare systems at SOEs. Projects and activities under the Belt and Road Initiative would increase Chinese firms' exposure to the labor conditions outside the developed world, where they are unlikely to encounter higher norms or practices that they will learn and diffuse at home. China may also export its own labor norms and practices to those countries, especially its emphasis on technology innovation and efficiency over individual and collective labor rights. Either way, China is unlikely to move towards Western-style labor conditions.

China's potential economic development path towards a self-sufficient autarchy may further diminish the influence of the West on China. External influences can strongly affect domestic labor protection regulations and practices, especially in countries that rely heavily on foreign trade and investment. Successful pro-labor reforms in Vietnam, another Asian country with an authoritarian government, shows that pressures from Western buyers, foreign trade conditionalities, and external geopolitical situation (pro-Western) are key elements in stimulating debates and pushing reforms (Evans 2018). But as discussed in Chapter II, none of these factors exist in China, given China's growing tendency towards anti-West and self-isolation.

Today, most Chinese Small and Medium Enterprises (SMEs)<sup>143</sup> target the domestic market and do not want to expand internationally via export or OFD because the Chinese

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<sup>143</sup> Examples include the top 100 "Unicorn" companies in China, almost all of which only operate inside China:  
[http://www.sohu.com/a/225172456\\_323203](http://www.sohu.com/a/225172456_323203)



domestic market is booming rapidly, and Chinese people have increasing purchasing power. According to a Deutsche Bank research report (see Table 5.1), most Chinese firms produce their outputs only to serve the domestic market demand, especially in the manufacturing industries. Stronger governmental control over international business expansion, OFDI projects, and the fact that foreign exchange permits are reserved for SOEs<sup>144</sup> without participation from most private enterprises in China, could all push Chinese companies to increase their focus on the home market instead of expansions abroad.

Table 5.1: Export share of certain industries in China

Manufacturing Sectors	Export to Total Sale Share
All manufacturing sectors (average)	13%
Furniture	55%
Computers and electronics	35%
Textile and apparel	24%
Electrical equipment	21%
Food	3%
Metal	5%
Automobiles	5%

Source: According to a post on Chinese social media Weibo (last visited on October 19, 2018):

[https://www.weibo.com/u/1907214345?profile\\_ftype=1&is\\_all=1#1539931842929](https://www.weibo.com/u/1907214345?profile_ftype=1&is_all=1#1539931842929)

The outbreak of COVID-19 showed the outside world the CPC's power to control Chinese society. China has achieved positive GDP growth since the third quarter of 2020, with an annual growth rate of 0.7%<sup>145</sup>, while GDP growth for almost all advanced and developing countries dropped into the negative figures. With its advanced surveillance techniques and intense concentration of power, the CPC has developed unprecedented tools it can use to intervene in interactions with the external world.

<sup>144</sup> Participants in projects for the Belt and Road Initiative are primarily limited to SOEs; private companies are seldom allowed to join.

<sup>145</sup> Data source: National Bureau of Statistics, the People's Republic of China, October 20, 2020: [http://www.stats.gov.cn/tjsj/zxfb/202010/t20201020\\_1794939.html](http://www.stats.gov.cn/tjsj/zxfb/202010/t20201020_1794939.html)

COVID-19, the Trump Administration's tough and hostile position towards the CPC and the pressure it has exerted on its allies (Australia, Canada), have increased China's isolation from the Global North, even similar to its pre-1980s isolation. The Politburo of the CPC began emphasizing the importance of the "Inner Loop" since July 2020,<sup>146</sup> again illustrating its reliance on the domestic market and the decline of its dependence on the international market. It is likely that OFDI from China will become more government-oriented or planned, rather than more private and market-driven. The government already uses onerous regulations imposed by the State Administration of Foreign Exchange (SAFE) to limit foreign exchange requests for OFDI projects; this is just one tool the government can use to control OFDI activities and potentially diminish or eliminate potential labor diffusions back to China.

All these global and domestic dynamics may change the existing labor diffusion pattern via the OFDI channel, though it is almost impossible to predict the future path. Will the Sino-World relationship move towards the Soviet Union's lonely and isolated status of the 1920s? Will the Sino-US relationship move into a Cold War-era Soviet-US pattern, with almost no economic and cultural exchange, despite the failure of strong anti-China President Trump to win re-election? All these factors will significantly influence China's future directions after two decades of its accession to the World Trade Organization (WTO), including China's future labor protection regulations and practices. We need to continue monitoring and observing the dynamic between OFDI and labor protections in China in order to better understand China's future path.

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<sup>146</sup> Report from the Xinhua News Agency, July 30, 2020. "加快形成以国内大循环为主体、国内国际双循环相互促进的新发展格局." [http://www.xinhuanet.com/politics/leaders/2020-07/30/c\\_1126306023.htm](http://www.xinhuanet.com/politics/leaders/2020-07/30/c_1126306023.htm)





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### Preface

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### Chapter III

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#### **Chapter IV**

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## Appendix

### 1. The Composition of CBR Labour Regulation Index<sup>147</sup>

CBR Index	
Total	0 – 40
Sub-indices	
A. Different Forms of Employment	0 – 8
B. Regulation of Working Time	0 – 7
C. Regulation of Dismissal	0 – 9
D. Employee Representation	0 – 7
E. Industrial Action	0 – 9

### 2. Variables used in regressions for Chapter III

*Overall Labor Regulations* = Total (ranging from 0 to 40)

*Practical Labor Regulations* = A. Different Forms of Employment + B. Regulation of Working Time (ranging from 0 to 15)

### 3. An example of the gap operation of CBR index in regressions

$$\text{Overall Labor Regulations}_{(China-i)t} = |\text{Overall Labor Regulations}_{China,t} - \text{Overall Labor Regulations}_{it}|$$

Year	Overall Labor Regulations – China	Overall Labor Regulations – France	Overall Labor Regulations <sub>(China-i)</sub>
2007	14.33	31.78	14.33 - 31.78  = 17.45

<sup>147</sup> Adams, Z., Bishop, L. and Deakin, S. (2016) CBR Labour Regulation Index (Dataset of 117 Countries), Cambridge: Centre for Business Research.



#### 4. China's CBR Index and five sub-indices

<i>Year</i>	CBR Index	A. Different Forms of Employment	B. Regulation of Working Time	C. Regulation of Dismissal	D. Employee Representation	E. Industrial Action
2004	14.16	1	4.56	3.61	1.16	3.83
2005	14.16	1	4.56	3.61	1.16	3.83
2006	14.16	1	4.56	3.61	1.16	3.83
2007	14.33	1	4.73	3.61	1.16	3.83
2008	20.09	2.7	5.07	7.33	1.16	3.83
2009	20.09	2.7	5.07	7.33	1.16	3.83
2010	20.09	2.7	5.07	7.33	1.16	3.83
2011	20.09	2.7	5.07	7.33	1.16	3.83
2012	20.09	2.7	5.07	7.33	1.16	3.83
2013	20.09	2.7	5.07	7.33	1.16	3.83