

The Impact of Labor-Management Relation Changes in China on China's FDI Inflow

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Abstract

This study demonstrates stabilized cooperation in labor-employer relations: focusing on steadily growing foreign direct investment in China despite stiffening of labor market and increasing labor wages. The improvement of stabilizing industrial relations by building a cooperative relationship between labor and management could promote foreign direct investment. Thus the main purpose of this study is examining the factors of attracting foreign direct investment. Deregulation is not always invited

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pre-requisite to foreign direct investment. In spite of deregulation in the labor market, a classic example of increasing foreign direct investment implicates 'Deregulation and Investment'. China is not attracting foreign direct investment through low labor wages, but it is attracting investment by guaranteeing corporate activities through labor-management stabilization. It is shown that foreign companies for the purpose of low income are small capital scales or low technological skills. In early period of reformation and the Opening of China, foreign capital firms show these tendencies. However the recent foreign capital enterprises have large capital scales and high technological skills to market share in China. A company that has large capital scales and high technological skills reaches cooperation in labor-employer relations and stabilization. Therefore in case of China, the companies in pursuit of localization play positive role to changing China's labor policy.

Keywords

China, Foreign Direct Investment, Labor Policy, Cooperation in Labor-Employer Relations, Investment Environment

I. Introduction

Foreign direct investment (FDI) in the world market is unstable, and the inflow of foreign direct investment into China is steadily increasing. According to a United Nations Conference on Trade and Development (UNCTAD) world investment report (WIR), FDI in the world sharply declines in 2008 and 2009 compared to the previous year, however China is not affected much. In spite of the fact that labor regulations have been

strengthened in China due to the implementation of the Law of the people's republic of China on employment contracts in 2008 and the labor wages of Chinese workers have been rising, foreign direct investment inflows to China are steadily continuing. In general, rising labor wages affect the decline of foreign direct investment, but in the case of China it is different. The factor that attracting investment into China is no longer a cheap labor force. This study starts with the recognition that the factors that determine the flow of foreign direct investment into China and finds out the answer to the question that the change of the labor policy of the Chinese government for the stabilization of the labor-management relation is a positive role for foreign direct investment inflow. In order to prove this argument, this study analyzes the preceding studies and examines the process of China's labor policy change based on this analysis and analyzes how the industrial relations of China change. It also dissects the changes in the foreign direct investment flows into China and the changes in the investment environment. The stabilization of the labor-management relation through stabilization of workers' protection policy improves the investment environment, thus promoting foreign direct investment into China. Therefore, the purpose of this study is to identify the inflow of foreign direct investment in China, and the influx factor is the stabilization of the industrial relation.

China has proceeded to grow and evolve since its reform-opening policy. In this process of growth and development, labor policies have undergone many alterations. In the early days of opening the socio-economic paradigm of quantitative development, China promoted pro-business policies to drive high growth. Chinese society has experienced problems of expanding regional and economic disruption after the high growth due to indu-

trialization and marketization. This has become a serious social problem and in order to solve this, the Chinese government has established a paradigm of economic growth for balanced growth and distribution, and labor policy has shifted in this direction.

These policies are designed to protect and strengthen workers' rights. It has changed from pro-business policies to pro-worker's labor policies. This implied that labor market stickiness in China and rising wages, and many controversies occurred during the enactment of the labor contract law. Nonetheless, foreign direct investment in China has continued to increase. It can be concluded that the low labor force and flexibility of the labor market are no longer a factor in drawing foreign direct investment into China. In this case, what are the factors that motivate investment in China? This study focuses on the steady increase in foreign direct investment inflows to China despite the labor market stickiness and rising labor wages, and analyzes the components that determine such inflows as stabilization of labor relations. Factors that determine foreign direct investment inflows include low labor force, market size, trade opening, political stability, geographical proximity, and democratization. This study concentrates on the development of the Chinese system among the various investment incentives and analyzes the process of establishing and improving the legal system for China's labor policies.

In China, since the implementation of the labor law in 1995, employment relations in the labor market have shifted from worker-centered to user-centered. As a result, in the 1990s, workers in China became subject to easy dismissal without protection from the state, not only in low labor costs and environment of exploitation, but also in labor contracts and union

protection. This eventually led to serious problems such as the polarization of Chinese society and the human rights of workers, and it became a turning point for the social stability, the balanced growth and the redistribution of the results.

In China in the late 2000s, collective strike of workers increased explosively in relation to labor wages, contract expiration and termination. This has been a serious hindrance to the company's production activities, and the Chinese government has improved its labor-related system, including improving wage levels, legalizing labor contracts, and strengthening workers' welfare. In particular, the Labor Contract Law and the Labor Dispute Mediation and Arbitration Law of the People's Republic of China have the purpose of solving the problem of collective labor strikes that have been starting to increase rapidly since the 2000s. Additionally, direction of China's labor policy is to stabilize the labor market through the protection rights of workers and reinforced welfare function. Unstable labor market and industrial relations not only cause a decrease in foreign direct investment, but also expose inequality problems out as serious social problems. Therefore, China has set its main policy goal of solving the problems. Furthermore, in this period, China's growth strategy has changed the main growth industries from the manufacturing growth center for the service industry and the high value added technology industry. As a result, the foreign direct investment flows into China are also shifting. This means that changing from an inexpensive labor force to an industrial structure with a demand for technical labor. Since labor demanding cheap and low technical power is easy to supply, the deviation of the labor force is not a big burden and the voice of the workers is not transmitted to the users.

In other words, there are other supply forces to replace them. However, in the technology industry and the service industry, the supply of the technical labor force is relatively inconvenient. Therefore, it is more important for users to have a stable labor-management relationship that can prevent their departure.

In sum, it can be stated that the stabilization of industrial relations with China is more influential on the bodily functions of enterprises than the rise of labor wages. Foreign-invested enterprises that have recently entered China are not the processing industry or the manufacturing industry that utilize cheap labor, but the technology industry or the service industry aiming at the domestic market in China. This is based on the assumption that China's economy and income levels are growing to a certain level. Thus, China's labor wages should not be judged to be at the initial stage of reform and opening. The growth of the domestic market, the increase in the number of foreign-invested enterprises, and the change in the demand for technical labor are more important to prevent the labor force from deviating from the labor wage in foreign investment decisions. Therefore, the factor that attracts foreign direct investment in China should be seen as stable labor-management relations, which is due to the improvement of labor policies rather than low-cost labor.

This study suggests that deregulation is not necessarily a prerequisite for inducing foreign direct investment. Despite the general view that deregulation is a key variable to attract investment, China's experience of increasing foreign direct investment inflows demonstrate many questions to the viewpoint of deregulation and investment attraction. The labor policy of China, which is focused on in this study, is strengthening the regulations

on labor to protect the rights of workers and stabilize industrial relations. Nonetheless, the fact that the foreign direct investment inflow into China is steadily maintained or increasing may prove the point of view of this study.

This study is composed as follows. In Chapter 1, the introduction is presented. In Chapter 2, the existing theories on determinants of foreign direct investment inflows are examined. In other words, this study demonstrates the logical validity of this study to improve labor policy and the stabilization of industrial relations. In Chapter 3, changing the labor-related policies such as the Chinese labor law and the labor contract law are identified. Chapter 4 analyzes the trends of foreign direct investment in China, what changes are occurring, and the status of labor strikes and disposal. Consequently, in Chapter 5, the conclusion of this study is to examine the impact of labor policies, especially industrial relations, on the inflow of foreign direct investment into China, and suggest some implications for Korea and future direction of future research.

II. Previous research

With the globalization of the late 20th century, multinational corporations shifted their production facilities to the labor-intensive industries in search of cheap labor with rising production costs due to rising wages. They preferred to invest in a country where the labor market was rigid or where the labor market was flexible and regulated, rather than countries with strong labor regulations. This flexible labor market is an important determinant of investment by multinational corporations (Whyman & Baimbridge, 2006;

Sin, 2016: 3). Multinational corporations looked at wage factors as a motive for priority investment in order to reduce costs. When unions try to increase wages, increase working conditions, and political input, multinational corporations will make the union weak in bargaining power due to the threat of unemployment by using transnational decision-making structure and scale of management fund structure(Kim J. H., 2011: 66). Thus, in the investment-friendly countries that provide low-cost labor, it implements a pro-business policy for users, which leads to a poor working environment and an excessively low wage level, resulting in collective strikes of workers and workers' rights. Social dumping in Europe in the 1980s is a concern.

If a multinational corporation enters into the target country with low labor power as a determining factor, multinational corporations can determine to reduce investment or withdraw investment if the labor wage increases or strikes increase in the target countries and strong labor unions appear. It is traditionally hoped that rising labor wages, increased labor strikes, and strong labor unions will have a negative impact on foreign direct investment. In general, deregulation and flexibility of the labor market are expected to draw foreign direct investment. In contrast, this study focuses on the regulation and rigidity of the labor market. Regulation and rigidity of the labor market can have a negative impact on the reduction of labor strikes and the stability of industrial relations. Increased strikes and unstable labor-management relations have had a negative impact on the disruption of production and investment activities of multinational corporations. Therefore, strengthening the functions of labor unions and stabilizing industrial relations in order to reduce strikes can be an important factor in investment decisions of multinational

corporations.

Factors that determine the influx of foreign direct investment are as follows: market size per capita GDP, level of corporation tax, degree of institutional development, level of industrialization, liberalization of trade barriers such as FTA and opening level, reduction of transportation costs, securing of market, availability of natural resources, the quality of bureaucracy, urbanization, the level of regulation and flexibility of the labor market, the stability of industrial relations, the difference of labor costs, geographical position, and the same language culture. There are already a variety of studies analyzing the incentives of foreign direct investment. In particular, research on economic factors and political factors has been actively conducting. However, research on the effects of wages, labor market, and industrial relations on investment as a social factor has been comparatively few.

The study on the effect of labor factors on investment is divided into two assertions. The traditional view is that lowering wages and the weakening bargaining power of trade unions increase the chances of attracting investment. Zhao(1988) argues that foreign direct investment increase the liquidity of multinational corporations among countries, so that the position of multinational corporations is to lower collective bargaining and union wages in all the investing countries. Naylor and Santoni(1999) suggested that high wages could reduce the potential revenue associated with investments, weakening the bargaining power of trade unions in potential investment countries and then increasing the likelihood of foreign direct investment in the target country.

Another point of perspective is that maintaining stable labor-management

relations can be a factor in attracting investment. Since labor disputes arising from foreign direct investment firms have the negative effect of losing investment motivation even to potential investors, understanding of labor-management relations of foreign-invested enterprises is very important(Matsuura, 1989; Cooke, 1997; Park & Yu, 2000: 66). Palokangas(2003) does not organize or negotiate with trade unions is like not having a reliable wage contract, so that if they do not have a reliable contract, trade unions can at any time demand more revenue from multinational corporations, which can be directly linked to corporate losses. It is therefore important to emphasize the importance of transparent and institutionalized labor unions and establish a credible contractual relationship through regulation. Lee(2008) suggested that it is reported that the improvement of the system has a positive effect on foreign direct investment. Through the analysis of the case of Ireland, stability of the rule of law and political economy, stable and predictable wage growth rate could provide important conditions. Predictable labor relations rather than an uncertain labor market are seen as conditions that attract foreign direct investment.

Kim J. H.(2011) suggested that the focus in on the concentration of multinational corporations in Europe, North America, and Japan where powerful unions exist. By examining the liquidity of multinational corporations with investment incentives and analyzing investment motivation and labor relations of multinational corporations that have entered Korea the pattern of multinational corporations forming labor relations is examined. He examines that the existence of strong unions is not a major consideration or even a consideration in determining foreign investment(Kim J. H., 2011: 93). In the case of Korea Gates and Bosch Korea Labor Relations in the

early stage of entry, it was conflicting, but since then the tendency of localization has increased, labor relations have changed steadily (Kim J. H., 2011: 95). In the case of multinational companies with investment incentives such as market entry and technological labor force utilization under a long-term investment strategy, the localization tendency of the country is high and labor-management relations can be stabilized as a result.

In sum, foreign direct investment, which is motivated by investment in the market and the utilization of technical labor force, moves toward stabilization of labor-management relations through localization. Transparent, institutionalized contractual relations and predictable labor-management relations are stable and long-It can be said that it supports. Thus, in order for China to establish a sustainable growth system in the transition period, a stable labor market and industrial relations can motivate the investment rather than the cheap labor force.

III. Changes in the Chinese labor market

1. Changes in labor policy: from pro-business to pro-worker

With the beginning of the third industrial revolution in the late 20th century, the world economic paradigm changed. The industrial structure centered on manufacturing has gradually expanded into the service industry and high technology industry, and the industrial structure of China has gradually changed in accordance with this trend. China has achieved economic growth centered on labor-intensive processing and manufacturing

based on cheap labor in the early 20th century, and promoted an economic paradigm strategy capable of sustainable growth in the 21st century. In the 9th 5-year plan, China shifted from export-oriented economic growth to domestic-oriented new economy growth strategy. In the 10th and 11th Five-Year Plan, the major policy goals were to advance the industrial structure and balance regional development. During the transition to tertiary industry, major growth industries have changed and thus the demand for labor has changed. The labor force structure has diversified into private and foreign-invested enterprises in the area of state-owned and collective sharing, and gradually shifted from manufacturing-oriented industries to commercial and service industries(Kim Y. J., 2011: 188). With the advancement of the industrial structure and the growth of the service industry, the demand for professional labor has increased more than the simple labor, and the perception of Chinese workers has changed with the economic growth.

With the advancement of the industrial structure and the growth of the service industry, the demand for professional labor has increased more than the simple labor, and the perception of Chinese workers has changed with the economic growth. The period of high growth China's quantitative growth strategy has caused serious social problems. In the early stage of reform and opening, the pro-business foreign direct investment preferential policies strengthened the user's authority in the relationship between company and worker. At that time, China's labor policy changed from full-lifetime employment, which was implemented under the planned economic system, to contract employment. In the case of foreign-invested enterprises, the basic rights of workers were not kept up. Enterprises were in a more absolute

position than workers, and enterprises and workers formed an unbalanced relationship. The Chinese labor law, enacted in 1994, focused on the flexibility of the employment relationship to make the most efficient use of the labor force. In the 1990s, efficiency-first policies that excluded fairness and labor policies to maximize the resilience of the labor market resulted in excessively low wages, excessive working hours, and unstable employment relations, and Chinese workers were in the shadow of high growth.

In addition, as the opening up of marketization has begun, new forms of employment have begun to emerge, which have not been addressed in existing labor laws such as dispatched workers, probation, part-time and temporary workers(Yoon, 2009: 71). The continuing intensification of treatment complaints, such as poor working conditions centering on the peasant workers who are the protagonists of economic development in China demands for human rights such as infringement of basic rights, fair wage and appropriate wage increase reflecting inflation, continued to lead to labor disputes(Seo & Oh, 2015: 322). The gap between rich and poor, regional disparity, rural-urban disparity, and income inequality have become increasingly serious, and this has begun to arise due to the social crises and conflicts of various labor rights issues and labor strikes. Strikes in China in the 2000s are not only the problems of poor wage levels and working conditions in the international division of labor, but also the unstable jobs and unfair treatment of irregular workers, and the problems of labor crises in the current neoliberal system(Jang, 2015: 168). Industrialization and marketization of China have deepened labor-management conflicts. To solve these problems, China's labor policy has changed from a pro-business policy

to a pro-labor policy.

The Labor Contract Law, enacted in 2008, is aimed at resolving labor-related problems that have rapidly increased in China since the 2000s, and can be said to be a legalization of the contract employment relationship that has led to labor disputes. The Labor Contract Act is a good example of how labor relations are moving along the lines of recent social relations and reform and opening in China(Baek, 2008: 103). Moreover, the amendment of the 2001 Trade Union Law of the People's Republic of China is a measure to resolve the rapidly rising labor dispute in China. The labor dispute, which has increased in the form of collective disputes, has reached a serious level. The characteristic of collective labor dispute is that it occurs more frequently in foreign-invested companies, has unpredictability and spontaneity, and spreads rapidly mainly by farmers(Baek, 2001: 411). The rapidly increasing labor dispute reflects the fact that the rights of workers are being structurally infringed in the process of ownership reform, and the role of the union is not supported in the current labor dispute(Kim Y. J., 2011: 189). To overcome these problems and limitations, China is expanding and strengthening the role of the Trade Union. This is a measure to stabilize the labor market and labor relations. Unstable labor market and industrial relations can lead to a reduction in foreign direct investment. In order to solve the problem of equality of labor, which can be expressed by the decrease of foreign direct investment and the serious social conflict, it can be said that China has set the labor market stabilization as the primary policy objective.

2. Efforts to stabilize labor–management relations

Since the late 2000s, various laws have been enacted or revised, and many related policies have been changed. In particular, the changes in labor policies have attracted great attention in domestic and abroad. The alteration in labor policy has attracted a great deal of attention because labor policies have a large impact on foreign direct investment enterprises. The labor strikes in China, which surged in the 2000s, occurred mainly in the manufacturing sector, requiring low wage problems, welfare improvement and contract termination in major economic regions. Typical examples include the suicide of the workers at the Foxconn Shenzhen factory, the strike of the Honda automobile manufacturing plant in Nanhai District, Foshan, Guangdong, and the strike of Sungwoo Automotive Korea Co, Ltd in Beijing. In particular, the strikes that occurred in Honda automobile manufacturing plant in Nanhai District, Foshan, Guangdong were different from the previous strikes in various respects and showed the characteristics of starting point of new change. Thus, it is referred to as the ‘symbolic event’ of China’s labor relation change (Chan, 2011; Yang, 2014: 69; Baek, & Mun, 2017: 40). The strikes of the Honda automobile manufacturing plant in Nanhai District, Foshan, Guangdong have been an opportunity for workers to voluntarily organize their strikes because they could not represent workers well, and this has led to the limitation point of the Chinese society organization. Since the strikes of the Honda automobile manufacturing plant have made a clear Collective Agreement policy, the Trade Union gaining trust from the upper and middle class had become important (Baek & Mun, 2017: 52). The role of the Trade Union has been gaining attention to

overcome the instability of labor-management relations in order to increase the group of labor strikes.

There is a workers' organization in China called Trade Union (gonghui). China's Trade Union could be seen as union. In contrast, it must be understood differently from union in the capitalist economic system. The Trade Union is the only official labor organization currently recognized in China by the Civil Law and the ruling Communities. It is an organization established by the Communist Party and the major role of this organization is enforcing the leader's instruction of the Chinese Communist Party(Chung, 2013: 117-126). Under the planned economic system, the council has played an important role as an administrative body in charge of education and welfare of workers in order to promote socialism construction and production activities, rather than mediate conflicts arising from labor relations. The Trade Union is a workers' organization. However, it does not have independence because it follows the guidance of the Communist Party, and it does not have independence because it is financed mainly by corporation-paid public expenses. Because of the increase of foreign and private enterprises due to the deepening of the opening, modern business style and manpower management of the market economy are required.

Therefore, it is necessary to cope with the increasing complexity of new labor problems and labor conflicts. Furthermore, the lack of legal knowledge and expertise for the community is a serious challenge to the status of workers' rights protection(Lee, 2013: 430-431). Although the Trade Union is the only legitimate organization that represents the rights of workers in China, the dual mission of protecting workers' rights and representing the interests of the whole country is cracking up after the introduction of the

market economy, it has been suspicious of that role (Kim, 2010; Chang, 2013; Baek & Mun, 2017: 67). The necessity of introducing capitalist labor-management relations and the dynamics and environmental changes surrounding labor issues are complicated and have a great influence on the role and status of council (Kim Y. J., 2011: 63-190; Bae & Hwang, 2010: 26-41; Lee, 2013: 430). In Chinese state-owned companies, unions were formed through government intervention. However, non-state-owned enterprises could not intervene in the government and did not have legal basis to organize unions. Nevertheless, as a whole, it is not surprising that the basis of the union is no longer a state unit or a state governor, but a broad foreign or domestic private enterprise. Therefore, the role of the Trade Union is extended to foreign companies. In 2006, Wall-Mart established a union as a leader of foreign-invested enterprises in China, and as a result, the establishment of unions in other foreign-investment enterprises increased, and the role of the council began to be highlighted. The Trade Union is a legitimate labor organization recognized by the government and is expanding and strengthening its roles such as concluding collective labor contracts, arbitration of industrial relations, and prevention of labor disputes. The role of the Trade Union has changed in order to resolve the increase in labor strikes caused by unfair and complaints related to the termination and termination of labor wages and contracts, and to stabilize labor-management relations.

〈Table 1〉 Labor Disputes Accepted and Settled, China (2005-2014)

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cases	313,773	317,162	350,182	693,465	684,379	600,865	589,244	641,202	665,760	715,163
Number of Cases Settled	306,027	310,780	340,030	622,719	689,714	634,041	592,823	643,292	669,062	711,044
by Manners of Settlement										
• by Mediation	104,908	104,435	119,436	221,284	251,463	250,131	278,873	302,552	311,806	321,598
• by Arbitration Lawsuit	131,745	141,465	149,013	274,543	290,971	266,506	244,942	268,530	283,341	313,175
• Others	69,974	64,880	71,581	126,892	147,280	117,404	69,008	72,210	73,915	76,271
by Result of Settlement										
• Lawsuit Won by Units	39,401	39,251	49,211	80,462	95,470	85,028	74,189	79,187	82,519	82,541
• Lawsuit Won by Laborers	145,352	146,028	156,955	276,793	255,119	229,448	195,680	213,453	217,551	250,284
• Lawsuit Partly Won by Both Parties and Others	121,274	125,501	133,864	265,464	339,125	319,565	322,954	350,652	368,992	378,219
• Cases Mediated	93,561	130,321	151,902	237,283	185,598	163,997	194,338	212,937	215,595	227,447

Source: China labor Statistical Yearbook 2016, <http://www.chinalaborf.org/wp/wp-content/uploads/2016/08/1579b16388cfeabeb8468d324bd6a7a1.pdf>

One of the most important items that can determine whether the union's role is actually changing is the status of labor disputes in China and the role of Trade Unions in the occurrence and processing of labor disputes(Baek, 2001: 408). China's labor disputes have steadily increased since the 2000s and have increased sharply in 2008. However, it has gradually declined and most of the labor disputes that have occurred are likely to be dealt with. In 2010, there was more arbitration than in arbitration until 2010. However, since 2010, more arbitration is being made than

arbitration. Furthermore, the result of the treatment shows that the results of the victory of the workers were more achieved by 2008. However, the results of the partial winners of the employment units and the workers have increased significantly since 2008. This can be interpreted in the sense that most of the labor disputes that occur in China are increasingly the consensus of labor-management relations through intervention agencies such as the congress. The fact that the dispute settlement process leads to an arbitration suit is not a consensus or there is a great deal of conflict between labor and management. Moreover, the result of the victory of the workers can be understood as meaning that the infringement of the rights to the workers has occurred to a great extent. Based on this analysis, it can be seen that Trade Unions in China are strengthening their roles for stabilization of labor-management relations and effectively implementing them.

IV. Changes of foreign direct investment in China

1. Changes of investment trends: from production to consumption

Despite the global economic crisis, China is still growing and has become a major participant in the world economy with the United States. It is no exaggeration to state that foreign direct investment made a major role in China's high growth. It has already been pointed out in many studies that China has actively introduced foreign capital and technology after reform and opening to achieve its own industrial development and economic development. In order to attract foreign direct investment, the Chinese

government has supported economic growth policies centered on major industries. Moreover, the inflow of foreign direct investment has changed by industry. Since the accession of the WTO, China has been able to reduce indiscriminate preferential policies for foreign companies and to promote industrial structural reform, service industry development and regional development balance. Since 1992, the Chinese economy has been focused on investment and from the mid-2000s it has attempted to shift to the domestic market. As a result, the investment of foreign companies in China was mainly focused on the establishment of production bases of the manufacturing industry until the end of the 1990s. However, from 2000s it gradually changed into investment mainly focusing on R & D, management and marketing. Looking at the amount of foreign direct investment inflows by industry in China, it can be seen that investment in manufacturing industry has decreased, and investment in financial industry, real estate industry, rental service industry, computer software, scientific research and technical service industry are increasing.

〈Table 2〉 Foreign Direct Investment by Sector, China (2006-2015)

(USD 10,000)

Sector	2006	2007	2008	2009	2010
Agriculture, Forestry, Animal Husbandry and Fishery	59,945	92,407	119,102	142,873	191,195
Mining	46,052	48,944	57,283	50,059	68,440
Manufacturing	4,007,671	4,086,482	4,989,483	4,677,146	4,959,058
Production and Supply of Electricity, Gas and Water	128,136	107,255	169,602	211,206	212,477
Construction	68,801	43,424	109,256	69,171	146,062
Transport, Storage and Post	198,485	200,676	285,131	252,728	224,373
Information Transmission,	107,049	148,524	277,479	224,694	248,667

Sector	2006	2007	2008	2009	2010
Computer Services and Software					
Wholesale and Retail Trades	178,941	267,652	443,297	538,980	659,566
Hotels and Catering Services	82,764	104,165	93,851	84,412	93,494
Financial Intermediation	29,369	25,729	57,255	45,617	112,347
Real Estate	822,950	1,708,873	1,858,995	1,679,619	2,398,556
Leasing and Business Services	422,266	401,881	505,884	607,806	713,023
Scientific Research, Technical Service and Geologic Prospecting	50,413	91,668	150,555	167,363	196,692
Management of Water Conservancy, Environment and Public Facilities	19,517	27,283	34,027	55,613	90,859
Services to Household and Other Services	50,402	72,270	56,992	158,596	205,268
Education	2,940	3246	3,641	1,349	818
Health, Social Security and Social Welfare	1,517	1,157	1,887	4,283	9,017
Culture, Sports and Entertainment	24,136	45,109	25,818	31,756	43,612
Sector	2011	2012	2013	2014	2015
Agriculture, Forestry, Animal Husbandry and Fishery	200,888	206,220	180,003	152,227	153,386
Mining	61,279	77,046	36,495	56,222	24,292
Manufacturing	5,210,054	4,886,649	4,555,498	3,993,872	3,954,290
Production and Supply of Electricity, Gas and Water	211,843	163,897	242,910	220,290	225,022
Construction	91,694	118,176	121,983	123,949	155,876
Transport, Storage and Post	319,079	347,376	421,738	445,559	418,607
Information Transmission, Computer Services and Software	269,918	335,809	288,056	275,511	383,556
Wholesale and Retail Trades	842,455	946,187	1,151,099	946,340	1,202,313
Hotels and Catering Services	84,289	70,157	77,181	65,021	43,398
Financial Intermediation	190,970	211,945	233,046	418,216	1,496,889
Real Estate	2,688,152	2,412,487	2,879,807	3,462,611	2,899,484

Sector	2006	2007	2008	2009	2010
Leasing and Business Services	838,247	821,105	1,036,158	1,248,588	1,004,973
Scientific Research, Technical Service and Geologic Prospecting	245,781	309,554	275,026	325,466	452,936
Management of Water Conservancy, Environment and Public Facilities	86,427	85,028	103,586	57,349	43,334
Services to Household and Other Services	188,357	116,451	65,693	71,813	72,131
Education	395	3,437	1,822	2,097	2,894
Health, Social Security and Social Welfare	7,751	6,430	6,435	7,757	14,338
Culture, Sports and Entertainment	63,455	53,655	82,079	82,338	78,941

Source : China Statistical Yearbook 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016.

Since the 1990s, as the foreign capital and technology have made massive investments in China, these could become China the center of a global production system that is already a primary production system in the world. Now China is shifting from low-tech and low-value-added processing trade to high-tech, high value-added core areas, from production-oriented growth to domestic consumption-driven growth. The restructuring of the economic structure is inevitable for China to join the global economy and maintain sustainable growth. Therefore, the labor market is also changing as the industry is being restructured internally, and externally the market opening is expanded.

〈Table 3〉 China Population and labor force and Employment (%)

Sector	2008	2009	2010	2011	2012	2013	2014	2015
labor force participation rate	72.8	72.5	71.3	70.8	70.7	70.7	70.6	70.7
Share of agriculture in total employment	39.6	38.1	36.7	34.8	33.6	31.4	29.5	28.3
Share of industry in total employment	27.2	27.8	28.7	29.5	30.3	30.1	29.9	29.3
Share of services in total employment	33.2	34.1	34.6	35.7	36.1	38.5	40.6	42.4
Employment-to-population ratio	71.4	70.9	69.2	68.9	68.7	68.6	68.5	68.4

Source : International labor Organization (ILO)

The employment rate of the service industry is steadily increasing, while the employment rate of the manufacturing industry has increased until 2012. However, the trend is decreasing and the employment rate of agriculture is continuously decreasing. It can be seen that the labor demand for the service industry is increasing. As the trend of investment changed, so did the demand for labor. As the growth strategy of China changed, the tendency of foreign direct investment changed, and the purpose and industry of multinational corporations entering into China changed. The entry of companies into the domestic market has increased, and these companies prefer localization and stable labor-management relations. Therefore, it can be predicted that the government's efforts to improve the labor law and strive for labor strikes and stabilization of labor-management relations will play a positive role in attracting foreign direct investment.

2. Improvement of investment environment by strengthening cooperation between labor and management

In the previous section, foreign direct investment into China shows a decrease in manufacturing investment and an increase in investments in finance, real estate, and rental services. Despite negative factors such as increase in labor wage, reduction of preferential support policy, and abolition of various preferential support policies, there are various reasons for the decrease in foreign direct investment inflow to China. However, the legalization of labor-related system and stabilization of industrial relations and it can be said that the main cause is working. This is because the establishment of a legal system in the labor market and stable labor-management relations can be seen as measures to ensure business activities. China's labor wage, which has risen sharply in the 2000s, is no longer a powerful weapon to attract investment, and soaring labor strikes can also have a negative impact on China's investment incentives. China is striving to reduce labor strikes and stabilize labor-management relations by enacting the Labor Contract Law, the Employment Promotion Act, the Social Insurance Act, and strengthening the function of the council in order to solve problems that hinder investment attraction. This is a factor that improves the China's investment environment and can positively influence investment attraction.

The details of the labor market efficiency factor among the Global Competitiveness Index published by the World Economic Forum (WEF) every year will help to analyze the stabilization of labor relations in China. Labor market efficiency factors are evaluated based on 10 items. Looking at China's national ranking of cooperation between labor and management

among the 10 items, we can see that the index of 2008-2009 and 2016-2017 has risen from 65th to 47th among 140 countries.

〈Table 4〉 The Global Competitiveness Index in detail : Labor market efficiency, China Profiles 2008-2017 (Rank)

Sector	2008 -2009	2009 -2010	2010 -2011	2011 -2012	2012 -2013	2013 -2014	2014 -2015	2015 -2016	2016 -2017
Labor market efficiency	51	32	38	36	41	34	37	37	39
–Cooperation in labor–employer relations	65	60	58	51	57	60	58	62	47
–Flexibility of wage determination	52	53	56	52	77	94	84	73	82
–Rigidity of employment index, 0-100 (worst)	32	43	78	82	–	–	–	–	–
–Hiring and firing practices	53	77	62	44	42	28	15	17	25
–Redundancy costs weeks of salary	108	109	114	118	117	120	120	117	112
–Effect of taxation on incentives to work	–	–	–	–	–	42	36	58	60
–Pay and productivity	9	12	15	13	16	17	15	20	27
–Reliance on professional management	46	46	50	46	48	44	43	55	58
–Country capacity to retain talent	–	–	–	–	–	31	31	30	33
–Country capacity to attract talent	–	–	–	–	–	26	27	27	23
–Brain drain	36	39	37	33	39	–	–	–	–
–Female participation in the labor force ratio to men	32	20	23	34	34	36	60	60	56

Source : The Global Competitiveness Index Report 2008–2009, 2009–2010, 2010–2011, 2011–2012, 2012–2013, 2013–2014, 2014–2015, 2015–2016, 2016– 2017 /China profiles

The questionnaire item for cooperation between labor and management is as follows: “How do you see the relationship between workers and users

in your country (1: uncooperative, 7: cooperative)?” It can be evaluated as accomplished. In the period between 2016 and 2017, the number of cooperation between labor and management in China is 4.6 and 47, respectively. In the case of Korea, the item is 3.4 points, the highest score is 135, and China has a higher score. India and Vietnam, which are emerging, as investment target countries to replace China, are 4.4 and 67, respectively, while Vietnam is 4.3 and 79 respectively. In this way, China can appreciate that labor-management relations are relatively cooperative, and this is showing a gradual improvement trend.

〈Table 5〉 Foreign Direct Investment Confidence Index

Rank	2005		2007		2010		2012	
	Country	Score (1-3)	Country	Score (1-3)	Country	Score (1-3)	Country	Score (1-3)
1	China	2.20	China	2.21	China	1.93	China	1.87
2	India	1.95	India	2.09	United States	1.67	India	1.73
3	United States	1.42	United States	1.86	India	1.64	Brazil	1.60
Rank	2013		2014		2015		2016	
	Country	Score (1-3)	Country	Score (1-3)	Country	Score (1-3)	Country	Score (1-3)
1	United States	2.09	United States	2.16	United States	2.10	United States	2.02
2	China	2.02	China	1.95	China	2.00	China	1.82
3	Brazil	1.97	Canada	1.93	United Kingdom	1.95	Canada	1.80

source : A.T. Kearney Foreign Direct Investment Confidence Index, <https://www.atkearney.com/research-studies/foreign-direct-investment-confidence-index/2016>

Despite the sharp decline in the ranking of wages and productivity indices, which ranked highest in China, according with A.T. Kearney's Foreign Direct Investment Confidence Index, China is still the country with the highest ranking in the foreign direct investment index with the United States.

This can play a positive role in attracting investment from foreign companies that prefer stable labor-management relations. Stabilization of labor-management relations can play an important role as an incentive for attracting investment, as in China.

V. Conclusion

At the time of the enactment of the Labor Contract Law, labor policies that strengthen corporate labor regulations in China can resurrect the stable jobs and destroy the economic system of China. Furthermore, they are biased toward the protection of workers and led to controversy over the appropriateness of the possibility of increasing costs and negatively affecting the attractiveness of foreign direct investment to China. The Employment Promotion Act and the Social Insurance Act, which were implemented at the same time, were not significantly different. However, about 10 years after the implementation of the Labor Contract Law, foreign direct investment into China is still growing, not decreasing. This indicates that the deregulation of the labor market, such as low wages and excessive labor, is no longer a motivating factor in attracting foreign direct investment. Moreover, it can be understood in the sense that it can induce a positive consequence of promoting.

In the late 2000s, the surge of labor strikes in China resulted in a further

increase in business costs by hindering the enterprises' production activities. From China's point of view, China has established a strategy to sustain economic growth through the transformation of industrial structure from production to the domestic market, from manufacturing to service and technology. This was a pressing issue. The causes of labor strikes in this period stemmed from conflicts from industrialization and intensification of marketization. Demands for improvement in treatment such as poor working conditions, human rights, fair wages and appropriate wage increase reflecting inflation, occurred in the form of a collective strike around the new generation farmers. In solving this problem, China recognized the limitations of Chinese Trade Unions and strengthened its role as the trade union to mediate and coordinate conflicts between labor and management. In addition, the Labor Relations Arbitration and Arrangement Act were enacted and policies to resolve conflicts between labor and management were promoted to strengthen labor-management cooperation.

China is attracting investment by guaranteeing corporate activities through stabilization of industrial relations, not by inducing foreign direct investment through lower labor wages. Foreign companies that enter the market with low wages are those with small capital or low technology. Foreign companies that have entered China in the early stages of reform and opening show this tendency. However, foreign companies that have recently entered China have large capital size and high technology for the purpose of domestic market in China. Enterprises with large capital and high technical skill address to localization and pursue cooperation and stabilization between labor and management. Thus, as in China, policy changes to stabilize labor-management relations have played a positive role in attracting

investment. There is a limit for how that conclusion can be generalized through the example of China. In the future, we will need a generalization process for the conclusions of this paper through quantitative data collection and review process.

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중국의 노사관계 변화가 대(對)중국 외국인직접투자 유입에 미치는 영향

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한글초록

본 연구는 노동시장의 경직화와 노동임금의 상승에도 불구하고 중국으로 유입되는 외국인직접투자금액이 꾸준히 증가하고 있는 것에 주목하고서, 그 원인을 노사관계 안정화에서 파악하고 있다. 노사관계 안정화가 투자환경을 개선시켜 중국으로 유입되는 외국인직접투자를 촉진한다고 볼 수 있는 것이다. 때문에 중국의 외국인직접투자를 유입하는 요인에 대해 규명하는 것이 본 연구의 목적이다. 규제완화가 반드시 외국인직접투자 유치의 선행조건이 아니다. 노동 규제에도 불구하고 외국인직접투자 유입이 증가하는 중국의 사례는 '규제완화와 투자유치'라는 관점에 많은 시사점을 준다. 중국은 낮은 노동임금을 통해 외국인 직접투자를 유인하는 것이 아닌 노사관계 안정화를 통한 기업활동 보장으로 투자를 유인하고 있다. 낮은 임금을 목적으로 진출하는 외국기업은 자본의 규모가 작거나 기술력이 낮은 기업들이다. 개혁개방 초기 중국으로 진출한 외자기업들이 이러한 경향을 보이지만 최근 중국으로 진출한 외자기업은 중국의 내수시장을 목적으로 큰 자본규모와 높은 기술력을 가지고 있다. 자본이 크고 높은 기술력을 가진 기업은 현지화에 노력하고 노사 간 협력과 안정화를 추구한다. 이에 중국의 경우 현지화를 추구하는 기업과 노사관계 안정화를 위한 정부의 정책변화는 투자유치에 긍정적인 역할을 하였다고 할 수 있다.

주제어

중국, 외국인직접투자, 노동정책, 노사관계, 투자환경