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Bad Work or No Work? The Ethics and Economics of Chinese Female Labor in FDI-Industries

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Abstract

Foreign direct investment (FDI) has been an important tool for developing countries to thrive in the globalized economy. The exploitation of desperate, unskilled labor around the world has complicated the seemingly flawless opportunity of FDI. China presents an interesting ethical and economic case. It is the developing world's largest recipient of FDI while millions have been lifted out of poverty. Simultaneously, Chinese culture and political goals of gaining power have reverted workplace gender equality norms and prioritized profits over people. An economic investigation and ethical analysis suggest a reevaluation of international investment priorities.

What is Foreign Direct Investment?

Foreign direct investment (FDI) occurs when a firm or party in one country invests in another country for business purposes. Foreign-invested enterprises (FIEs) that conduct foreign direct investment can do so a few different ways. Most often, foreign direct investment occurs in joint ventures between a foreign firm and a local Chinese firm, when FIEs acquire assets in China, and greenfield investments which are when FIEs build and establish infrastructure and institutions in China. Often FDI is horizontal, meaning an FIE establishes the same type of enterprise in a different location. An example of this is when a store sets up other store branches abroad. FDI can also be vertical, meaning an FIE establishes a different but related enterprise in a foreign country. An example of this is setting up a factory in a foreign country to produce goods to be sold in the FIE's country. Horizontal FDI could be called domestic-oriented while vertical FDI could be called export-oriented. Both have different impacts on host countries' economies and FIEs have different reasons to pursue either in different countries.

Overall, foreign direct investment is coveted because it usually brings infrastructure, development, and employment to the community and to the host country. As opposed to free trade, foreign direct investment is a long-lasting relationship that brings steady investment and a closer relationship between two countries.[1] When FDI employs foreign labor, more economic interactions occur due to increased wealth. Then, those workers consume more, pay more in taxes, and increase demand for more services—all around growing the community. Another undeniable benefit of FDI, although difficult to measure directly, is knowledge spillover. Its effects are recognized in the host country's productivity increase in the sector where FDI was present. Knowledge spillover may occur in a few different ways: an FIE brings new technology to the host country, certain processes are done more efficiently, and research and development in the host country.[2]

China exemplifies one of the greatest successes of FDI. Globalization began with the "opening" of China through the 1990s, but accession to the World Trade Organization in 2001 liberalized foreign investment. Slackened regulations overwhelmingly welcomed new investment in FDI, leading to China becoming the developing world's largest recipient and the second largest in the world.[3] As of 2016, FIEs accounted for "greater than 20% of sales, employment, and value added in China's industrial sector," contributing about 10% of China's GDP. When considering the indirect impacts of FDI on the consumption of employees and the development of supply chains, FIEs account for 20% of GDP. Accounting for additional services and infrastructure, the amount jumps to 33% of GDP

[1] T. Kennedy, R. Bardy, and A. Rubens, "Economic Growth and Welfare: How Foreign Direct Investment Contributes to Improving Social Order in Less Developed Countries," *Journal of Organizational Transformation & Social Change* 9, no. 2 (2012): 200.

[2] Y. Todo and K. Miyamoto, "Knowledge Spillovers from Foreign Direct Investment and the Role of Local R&D Activities: Evidence from Indonesia," *Economic Development and Cultural Change* 55, no. 1 (2006): 173.

[3] E. Braunstein and M. Brenner, "Foreign Direct Investment and Gendered Wages in Urban China," *Feminist Economics* 3, no. 3-4 (2007): 214.

and 27% of China's employment.[4] Leaving out the immeasurable impacts of spillovers and diffusion of tech, values, and knowledge, China has clearly prospered from FDI.

Foreign direct investment has a dark side as well. At its worst, FDI facilitates exploitation of low-skilled labor, a host country's weak economy, and its leaders' corrupt tendencies. Throughout the 20th Century, the U.S. company United Fruit controlled large parts of 12 Latin American states to export bananas around the globe. To maximize profits and dominate the emerging market for bananas, United Fruit controlled railroads, dictators, and workers with bribes and violence. Guatemala, the scene of United Fruit's initial development, was picked for its political and economic vulnerability. While the company brought some development and modernization, Guatemala's economy reels in the history of violence, corruption, and poverty today.[5]

Mixed success more often occurs today as ethical questions about profit and labor rights reach the media and academia. Many rights organizations condemn sweatshop labor in Asia for excessive overtime, insufficient wages, and health and safety standards, but many economists would suggest this employment still brings wages and development to the region. Similarly, stories from "maquiladoras" in Latin America emphasize restrictions on unions and little opportunity for career advancement, raising questions about the role of multinational corporations (MNCs) in developing countries to provide decent work.

Foreign Direct Investment in China

Cross-country studies have theorized general impacts of FDI on host country's economies, labor forces, and domestic businesses. One consensus is that the impacts of FDI depend highly on the host country: government strength and stability, emphasis on labor rights, composition of the labor market in terms of skill and gender, social norms about gender and work, mobility of the MNC's capital, and degree of FDI liberalization.[6] As the developing world's largest recipient of FDI, much research details the history, process, and effects of FDI in China.

China is largely sought after for FDI because of its welcoming investment policies. China was closed to trade and international development throughout its communist period, trade growing throughout the 80s. Regulations were strict about joint venture partnerships and which industries trade and investment occurred. The 90s saw increased liberalization of FDI policies, causing FIE investment to surpass that of joint ventures.[7] Media coverage and studies of foreign direct investment largely focus on the manufacturing industry, but FDI occurs in many others in China. As of 2017, manufacturing was the largest sector of

[4] https://www.scmp.com/week-asia/opinion/article/2108351/heres-why-incoming-fdi-far-more-important-china-thought

[5] https://www.nytimes.com/2008/03/02/books/review/Kurtz-Phelan-t.html

[6] See Fang, Shamseldin, and Xu (2019); Ouedraogo and Marlet (2017); and Bui, Vo, and Bui (2018).

[7] C. Lau and G. Bruton, "What We Know and What We Need to Study Next," *Academy of Management Perspectives* 22, no. 4 (2008): 31.

FDI inflows at 25.5%, but tech services were second at 15.9%. Real estate and leasing services trailed at 12.8% and 12.7% respectively.[8]

Even within manufacturing, there are distinctions based on type of good and skill level. The manufacturing sector could be divided into low-tech, high-labor jobs such as textiles, footwear, clothing, and toys, or high-tech, low-labor jobs such as electronics and semiconductors.[9] Low-skilled workers tend to work in the low-tech, high-labor industries while high-tech, low-labor industries seek somewhat skilled labor. MNCs respond to this with varying degrees of capital mobility—how easily the MNC can find other locations and labor markets for their purposes. For example, a foreign-invested enterprise that needs software engineers seeks high-skilled labor with few alternatives, giving the host country and those workers more bargaining power for wages and labor rights.[10] Eastin and Zeng find that wage and overtime violations more often occurred in the low-tech sector. They theorized that since this type of labor was more abundant, the MNC held greater power and higher capital mobility since no training was involved and the increased labor supply meant more desperate workers. Finding varied differences in health conditions and safety violations between both types of manufacturing, they found both industries illustrated much sexual discrimination.[11] To be discussed later, Eastin and Zeng exemplify the complexities of the effects of FDI on different laborers. The massive impact of FDI on China's labor market interacts greatly with China's culture. Shu, Zhu, and Zhang in 2007 describe it so: "Economic globalization creates new types of jobs and changes the rankings of existing jobs, while local cultural tradition and gender norms determine how men and women come to occupy which jobs in the new economic order."[12]

Gendered Effects of FDI in Chinese Labor

Most of the academic literature on foreign direct investment and women's work falls into two camps. Some economists believe FDI could increase women's wages because through simple labor market dynamics. With the new demand for low skilled labor from the incoming FIE, low-skilled wages and female employment increase. Other economists use more complex reasoning to suppose that FDI hurts female workers. They suggest women face greater hiring discrimination and maintain little bargaining power, funneling them towards low-paying, low-skilled jobs with little opportunity for advancement. While both sides share parts of the story, specific questions of domestic employers' role, which

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[8] https://santandertrade.com/en/portal/establish-overseas/china/foreign-investment

[9] J. Eastin and K. Zeng, "Foreign Direct Investment and Labor Rights Protection in China; A Tale of Two Sectors," in *China in the Twenty-First Century*: *Challenges and Opportunities*, edited by Shiping Hua and Sujian Guo (New York: St. Martin's Press, 2007), 90.

[10] S. Seguino, "The Effects of Structural Change and Economic Liberalisation on Gender Wage Differentials in South Korea and Taiwan," *Cambridge Journal of Economics* 24, no. 4 (2000): 4.

[11] Eastin and Zeng, "Labor Rights Protection," 96.

[12] Shu Zhu Zhang 2007p. 1328

industries receive FDI, and the various indicators of work quality necessarily complexify this issue.

Some considerations must be given to the role of women in the Chinese workforce. China maintains one of the highest labor force participation rates for women in Asia although it has been decreasing. In 2019, 60.5% of women maintained some formal job as compared to 75.3% of men.[13] Of these and other women in the informal job market (jobs that pay undisclosed, untaxed wages), they face great barriers to economic advancement. Female-led businesses tend to maintain fewer political connections, have access to less formal and informal capital, operate at a smaller scale, and less efficiently produce.[14] It must also be mentioned that Confucian culture generally sees women as weaker and submissive, a fact that could contribute to domestic and foreign enterprise hiring trends.[15] Praised as caregivers, women are expected to stop work to raise families. The data bears this as well: women spend three times the time that men do on unpaid household work.[16] Foreign direct investment affects women's work in China in many unique ways. The literature addresses wage growth, wage inequality, employment discrimination, job opportunities, and female entrepreneurship among other topics.

Foreign direct investment can impact female entrepreneurship differently depending on the industry. A global study by the World Bank suggested nuanced effects of FDI. First, countries with high labor force participation rates exhibit fewer obstacles for female entrepreneurs, greater facilitating female-firms competition with foreign firms.[17] In the context of China, however, cultural views of women as inferior workers to men clash with supposed positive benefits of high labor force participation. Second, they confirmed their business size hypothesis that FDI greater affected smaller firms.[18] Women dominate low-level manufacturing employment because of a generally low-skill level in FIE industries.[19] Women also dominate low-level service sector employment because of similar skill availability and employer assumptions that women set an attractive, welcoming atmosphere for customers. Within the same industry as the FIE, female firms suffered due to the competition. In different industries such as the service sector, however, female firms grew due to the inflow of wealth into the community brought by the FIE. Lastly, their resource bias hypothesis postulated that since female-led businesses tend to have fewer financial, social, and political connections, male-led businesses have a resource

[13] https://www.catalyst.org/research/women-in-the-workforce-china/

[14] S. Fang, H. Shamseldin, and L. Xu, "Foreign Direct Investment and Female Entrepreneurship," (Working Paper No. 9083, World Bank, 2019) 6, SSRN (3507831).

[15] Eastin and Zeng, "Labor Rights Protection," 104.

[16] https://www.catalyst.org/research/women-in-the-workforce-china/

[17] Fang, Shamseldin, and Xu, "Female Entrepreneurship," ___.

[18] Ibid, ___.

[19] Eastin and Zeng, "Labor Rights Protection," 104.

advantage when competing with new MNCs.[20] Aside from connections, there are general concerns about the crowding out of investment for domestic firms.[21] While they could not confirm this hypothesis for all the developing countries they examined, a separate study found that female entrepreneurship was not deterred by FDI.[22] This likely occurs because female-led businesses start and grow in industries other than which the MNCs dominate. Overall, female entrepreneurship seems to grow when FDI arrives to Chinese communities.

The next consideration is for wages. Theory suggests that an increased demand for low-skilled, i.e. female, labor increases wages. Similarly, allegedly higher MNC wages continue to push up female wages in the community. The real effects are a bit more nuanced. Generally, wages seem to have increased for women since China's opening towards FDI, but gender wage inequality has increased. Dr. Braunstein, a leader in the subject of the Chinese labor market, and Dr. Brenner confirmed that no matter the sector of the FIE, wages increased for men and women.[23] Wage inequality tended to increase because FIEs usually hired men for upper management positions and women for low-skilled manufacturing positions. Employers subscribed to the idea that men were the more productive workers, discriminating against women for higher-paid positions.[24] To the credit of FIEs, however, women are generally employed in lower-paid industries and positions. Additionally, it has been shown that FDI inflows bring migrant and low-skilled women into the labor market, increasing their future chances of formal or better employment later.[25] With this in mind, continuation of historical hiring trends would lead to increased gender wage inequality anyway.

Foreign direct investment further complicates wage movement for female workers. First, foreign low-wage workers in general possess little bargaining power to increase their wages.[26] They first face the asymmetrical power dynamic of a massive, multi-national corporation controlling how much poor, low-skilled, low-education workers receive in wages. If one worker were to demand a higher wage, much less better working conditions or basic labor rights, the corporation could easily fire them and hire a less problematic, more desperate worker. Similarly, some corporations reportedly restrict union

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[20] Fang, Shamseldin, and Xu, "Female Entrepreneurship," ___.

[21] Ibid, ___.

[22] R. Goel, "Foreign Direct Investment and Entrepreneurship: Gender Differences Across International Economic Freedom and Taxation," *Small Business Economics* 50, no. 4 (2018): 892.

[23] Braunstein and Brenner, "Gendered Wages in Urban China," ___.

[24] Ibid, ___.

[25] R. Ouedraogo and E. Marlet, "Foreign Direct Investment and Women Empowerment: New Evidence on Developing Countries," (Working Paper 18/25, IMF, 2018) https://www.imf.org/en/Publications/WP/Issues/2018/01/26/Foreign-Direct-Investment-and-Women-Empowerment-New-Evidence-on-Developing-Countries-45597 .

[26] Ibid, 214.

membership or complicate the resignation process.[27] Unions would resolve the bargaining power problem through collective action, but corporations often restrict unionization. Lastly, wage movement depends on the FDI industry. For workers in high-tech manufacturing, FIEs try harder to retain workers with higher wages because of skill specialization over time. Wages range from $.69 to $3.37 per hour. Manufacturing in textiles and apparel require fewer skills, so wages start and remain much lower: about $.18 per hour.[28] Women overwhelmingly contributed to the manufacturing workforce in either industry with men being employed more in high-tech manufacturing and management level positions.[29] Those are both higher paid positions, contributing to gender income inequality.

Chinese women face a number of considerations when pursuing low-paid jobs with multi-national corporations. Standard economic analysis misses much cultural and social complexity. There lies an additional dimension of ethical complexity in this situation as well.

Ethical Considerations—Is bad work better than no work?

A popular question in the media and academia considers the employment effects of FDI and their ethical issues. The maquiladoras of Mexico, the sweatshop workers of Cambodia, and the manufacturers of China face similar challenges. Horrid health conditions. Substandard safety training. Exploitatively low wages. But while these aspects sound at least dissuading and at most violating of international labor rights, many are employed by these industries. Paul Krugman explained this simplistically: “In praise of cheap labor: Bad jobs at bad wages are better than no jobs at all.”[30]

Few economists recognize the disconnect between the economic perspective and the social or personal perspective of labor. While perhaps a poor job is better than poverty on paper, questions of human dignity and global progress are often ignored. Dr. Kurt Ver Beek criticized the labor rights debate when he examined the situation of the maquiladoras of Honduras in 2001. First, he noticed that both sides of the discussion talk past each other because of differing standards of rights. Economists like Krugman who support international labor often use absolute standards that are difficult to agree upon. International labor standards and living wages are a good start, but the debate blurs when the discussion progresses much further. Second, he noticed that those on the other side unfairly compare labor conditions in developing countries to higher wage, better quality jobs in developed countries. Simply, the straw-man comparison inappropriately supports the idea that most international labor is exploitative because the control group will undoubtedly always be preferred.

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[27] Eastin and Zeng, “Labor Rights Protection,” 103.

[28] Ibid, 97.

[29] Ibid, 104.

[30] K. Ver Beek, “Maquiladoras: Exploitation or Emancipation? An Overview of the Situation of Maquiladora Workers in Honduras,” *World Development* 29, no. 9 (2001): 1553.

Another way the discussion derails is exactly what each side addresses. Often, the discussion varies between material versus social or human concerns. While wages are useful in determining the value of labor, the supposed "lost" wages of an MNC choosing another country mischaracterize the first host country's labor market. While there would be fewer jobs once the FIE decides not to stay there, it does not necessarily mean would-be-employed workers would be unemployed. More broadly, wages are not the only concern of a job. Increasingly the literature and culture around work has shifted from strictly material compensation towards a wholistic experience. More must be demanded from a job, many argue, than sufficient compensation: decent hours, leave policies, workplace respect, and dignity. The economics literature has rarely approached such topics when considering international labor rights.

One general ethical consideration is the asymmetrical power dynamic between foreign invested firms and host country workers. Host country workers need the employment often more than the company needs low skilled labor since companies could move their capital among developing countries easily.[31] Any situation like this where one party holds so much more bargaining power than the other raises questions about the ethical treatment of the weaker party. While developing country governments aim to protect their citizens from exploitation, they also seek foreign direct investment which circulates more wealth in their economy—the classic choice between targeted losses or dispersed gains. Most focus on the asymmetrical power dynamic between the developing country's government and the MNC, but the more pertinent one concerns the relationship between the workers and the corporation once they decide to settle in China.

Women face a particular asymmetrical power dynamic because of cultural norms and their role in the labor market. As covered earlier, the patriarchal norms of Chinese culture as well as the legacy of the one child policy first encourage women into the home to care for families. This is partly because of assumptions about women. Eastin and Zeng theorized that MNCs in China tend to hire women because they are supposedly more submissive, less available to strike, and easier to harass without retribution.[32] Women's "nimble fingers," obedience, reliability, and trainability are other reasons manufacturing industries in particular prefer women.[33] This situation is a positive feedback loop: because women are supposedly easier to exploit and more submissive, MNCs hire them. Because MNCs have a high demand for female, low-skilled labor, it is rational for these women to continue pursuing these jobs. Women are the more vulnerable party in this interaction because of this segmentation into MNC industries.[34] The labor force participation rate increases, however, indicating a potential future shift towards gender equality in the

[31] Seguino, "Effects of Structural Change," 4.

[32] Eastin and Zeng, "Labor Rights Protection," 104.

[33] E. Braunstein, "Gender FDI and Women's Autonomy: A Research Note on Empirical Analysis," (Working Paper, University of Massachusetts Amherst, 2002) 6, https://www.peri.umass.edu/fileadmin/pdf/gls_conf/glw_braunstein.pdf.

[34] R. Vijaya and L. Kaltani, "Foregin Direct Investment and Wages: A Bargaining Power Approach," *Journal of World-Systems Research* 8, no. 1: 94.

culture.[35] Bringing women into the workforce is the first step, but China has one of the highest female labor force participation rates in Asia. This first goal has been completed. The question is no longer bad job or no job, but how current and future FDI jobs can improve.

Wages, labor rights, and safety standards depend on the power dynamic between the MNC and its foreign workers. A paper by Dr. Seguino highly referenced in the FDI-wage literature concluded that capital mobility negatively correlated with bargaining power for the female workforce.[36] In other words, wages remain low for female manufacturing workers because they need the job more than the MNC needs the individuals' work. Applying this logic to labor rights and safety standards yields the same result. While female workers may desire and demand better conditions or compliance with overtime regulations, the potential loss of the job is greater than the current obstacles.

Women in particular are seminal to the conversation of FDI and ethical employment. While women tend to have less education and fewer skills, the sustained hiring of women in low paid work perpetuates harmful, sexist norms. Continuing to hire almost exclusively women for low-skilled work while men overwhelmingly receive management and career-advancing positions enforces norms that women have been, are, and will continue to have less education and fewer skills. This not only harms the women who have the necessary qualifications or motivation to thrive, this hurts future women looking for decent work with potential to grow. Hiring women at all has increased and therefore improved the lives of many, however, the next step in developing more and better opportunities for them. One study proposed a golden rule for FDI ethics: "FDI is doing good by providing policy incentives that benefit both the social and economic environment of the host."[37] There are complex international political implications of strengthening China's social sector, but these considerations are for another time. Aside from those, the dignity of individual women is reason enough to invest in their humanity.

To close this section, I circle back to a question posed by Ver Beek: by whose standards should low-skilled labor be treated? Multi-national corporations could passably treat Chinese female workers to the fewest rights possible, either because the women had no previous work experience or the local work experience some have confirmed those conditions as normal. Some research indicates that cultural spillover occurs from the foreign-owned enterprise to the host country. A study of MNCs in China showed that those coming from more gender-equal cultures increased the host community's female employment in factory-level and managerial roles. Cultural spillovers then saw increased shares of female employment by domestic firms. The researchers conclude this likely occurred due to domestic imitation of MNCs that noticed positive returns to female

[35] OECD, *FDI Qualities Indicators: Measuring the Sustainable Development Impacts of Investment* (Paris: OECD Publishing, 2019), 121.

[36] Braunstein Brenner, "Gendered Wages in Urban China," 214.

[37] J. Paniagua and J. Sapena, "Is FDI Doing Good? A Golden Rule for FDI Ethics," *Journal of Business Research* 67 (2014): 808.

employment.[38] If MNCs treated foreign labor with greater dignity and opportunity, similar spillovers into the community could occur. Workers would not only be more productive, but quality of life could improve as well.

Many might say that the MNC has little to no responsibility to the host country for development. Coming from the free-market, liberal capitalism tradition, they would be right: every actor is and should be self-interested in order to achieve an efficient outcome. But perhaps there should be higher standards of conduct for the developed world. As discussed earlier, foreign direct investment is much more than just capital flowing between countries. It's livelihoods, values, cultures, and power. Their actions towards foreign labor should reflect their roles as apparent global leaders in standards of living and conduct. While developing countries also have a responsibility to regulate foreign direct investment to advocate for their citizens and nation, the relative position of the developed world warrants greater duty. To be clear, foreign direct investment in China overall elevates the economic status of so-employed women, but it could uplift so many more and in better ways. Until the developed world's priorities are revaluated, vulnerable women and developing nations will continue to struggle on indecent low-paid work.

[38] H. Tang and Y. Zhang, "Do Multinationals Transfer Culture? Evidence on Female Employment in China," (Working Paper No. 6295, CES Ifo, 2017) 27, SSRN (2917193).