

## Transnational corporations' role in promoting the creation of middle class in China

### Rezumat

Comaniile transnaționale care și-au deschis filiale în China au contribuit nu numai la creșterea volumului de investiții, a productivității muncii și la crearea de noi locuri de muncă, dar și la promovarea clasei de mijloc. Acest articol prezintă în principal factorii cheie în acest domeniu și rolul companiilor multinaționale în procesul continuu de creștere a rolului clasei de mijloc și al contribuției acesteia la dezvoltarea economiei Chinei.

### Transnational corporations' investment in China: current conditions and trends

Since the start of reforms in 1978, China has made great achievements in absorbing foreign direct investment (FDI) to promote economic growth. FDI inflows to China have surged from almost nil to

USD40~50 billion per year in the second half of the 1990s (see Table 1 & Chart 1). During this course, transnational corporations (TNCs) took active roles in helping China absorb FDI, although the value of investment fluctuated according to economic environment, which can be reflected in Chart 1.

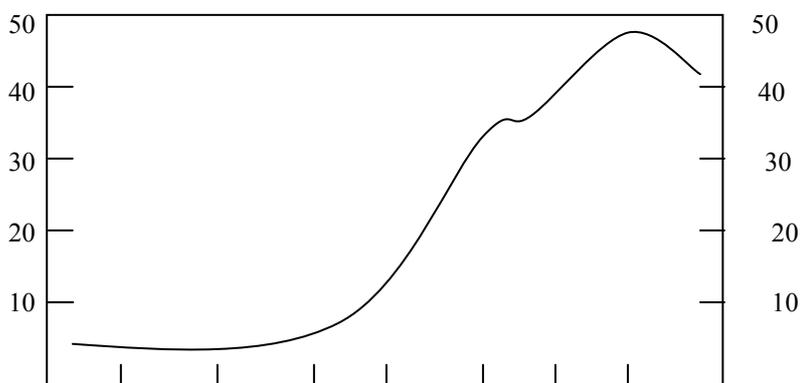


Chart 1 China FDI inflows 1984~2000  
(In billions of US dollars)

From 1984 to 1989, FDI inflows were only \$2.3 billion. However, the situation changed greatly in the early 1990s, following Deng Xiaoping's tour of the southern coastal areas where reaffirmed China's continued commitment to reforms and policies to open up economy to the outside world. China absorbed FDI climbing to \$4.37 billion at this year. Although FDI declined slightly during the Asian financial crisis happened in 1997, they pick up again in 2000 partly in anticipation of China's WTO accession. In 2002 the figure climbed up to \$52 billion, compared with \$46.88 billion in 2001. As a matter of fact, China has become the second largest recipient of FDI for several years after United States, and the largest recipient among developing countries, accounting for about 25~30 percent of FDI flows to all developing countries. The growth of FDI inflows to

China averaged about 26.7 percent per year from 1991 to 2001. China has been the most potential investment paradise because of its dynamic economy in the world.

### TNCs' quantity investment has promoted China's economic growth, which could be demonstrated in several ways

1. TNCs have contributed to GDP growth. This effect is estimated to have contributed about 0.4 percentage points to annual GDP growth in the 1990s. The direct contribution to GDP growth has been highest in provinces that have attracted most foreign investment and ranged from almost 4 percentage points per year in most inland provinces. On the other hand, TNCs contributed to higher

GDP growth through their positive effect on total factor productivity (TFP). Empirical research suggested that TNCs has raised TFP growth in China by 2.5 percentage points per year during the 1990s. This effect was found to be strongest in provinces that have received most FDI. In general TNCs have contributed nearly 3 percentage points to potential GDP growth for China.

**2. The establishments of Foreign Funded Enterprises (FTEs) have contributed to GDP growth directly and by creating positive spillover effects from FTEs to domestic enterprises.** FTEs tend to be the most dynamic and productive firms in China's economy. Output of FTEs in the industrial sector has expanded at four times the rate of other industrial enterprises during 1994~1997, while their labor productivity is almost two times that of public sector enterprises. In addition, empirical research has found that domestic enterprises appear to have benefited from the presence of FTEs, both through increased sales and positive spillovers. The latter come about when FTEs introduce new technologies and management skills. This externality is thought to have become progressively more important as more links began to develop between FTEs and domestic enterprises in the 1990s.

**3. TNCs created employment opportunities.** The creation of employment opportunities – either directly or indirectly – has been one of the most prominent impacts of TNCs in China. Looking only at the direct effects, employment in FTEs in urban areas quadrupled between 1991 and 1999 to a total of 6 million, accounting for 3 percent of China's urban employment. This has been particularly important in ameliorating unemployment pressures stemming from ongoing reforms of state – owned enterprises. FTEs are particularly important employers in the coastal provinces, accounting for over 10 percent of urban employment in Guangdong, Fujian, Shanghai, and Tianjin as of 1999.

**4. TNCs has built a highly competitive and dynamic manufacturing sector for exports.** The growth of China's trade since 1978 has been four and a half times that of world trade, and China's share of world trade quadrupled from 0.9 percent in 1978 to 3.7 percent in 2000 – an achievement that has not been matched by any other country. FTEs played a key role in this achievement. Between 1985 and 1999, the share of exports accounted for by FTEs grew from 1 percent to 4.5 percent; FTEs accounted for half of overall export growth and one – third of import growth during this period.

**Recent trends of Transnational in China.** The development of TNCs in China can be divided into three stages. The first stage called investigation and tentative period happened in the 1980s. During this period, TNCs invested in China primarily in the mode of joint ventures (equity joint venture and cooperative venture). Their principal objectives aimed at being familiar with local economic and political environment and seeking advantageous investment opportunities. During this period, FDI of TNCs was tentative and small in value. From 1984

to 1989, for instance, FDI in flowed to China were only \$2.3 billion. The second stage occurred in the 1990s. After several years' contacts with China enterprises and government, Transnationals have accumulated a great deal of empirical experience and were familiar with China's open policies. TNCs began to invest in a large scale at a very high speed. For example, the average value of individual investment was over \$10 million in this period. Some projects were even more than \$100 million. In the late 1990s, the coming of new century, TNCs faced with a new stage owing to anticipation of China's accession to WTO. Their investment strategies changed greatly. They reconsidered China's market from the point of global strategy to realize optimal resource distribution. Nearly 400 firms have experienced investment in China among 500 the largest TNCs according to statistical data from world investment report (2001), adapted by the Commissions of Trade and Development of United Nations. Many Transnationals have built their production basis, procurement center or R&D institutes in China over past few years, such as IBM, Microsoft etc. have built R&D centers in Beijing. It is very clear that more and more TNCs are expected to build up subsidiaries, R&D center or regional headquarters in China.

### **Entry to China market of TNCs stimulates formation and growth of China middle class**

Controversies on TNCs have been existed for many years. Proponents of the philosophy of globalization argue that TNCs promote the growth of local economy, rational resource distribution and enhancing technological progress in the process of globalization of economy. Others, however, point to the side-effects on world economy brought by TNCs. Whichever point of view you approve, I think, you have to acknowledge that the rapid development of TNCs around the globe really produce important impacts on economy and politics of host countries. They lead to the incorporation of international market and domestic market as well as the creation of international culture across boundaries. On the other hand, what I have to mention is that TNCs also directly produce a professional management group who are called as "white collar" class, the theme of this paper, discussed by following paragraphs in more details. This group has the characteristics of high IQ, comparative high salaries as well as high capability.

As we know, the formation of middle class in developing countries will be a very slow process owing to their weak economic power and lower level of industrialization. Therefore this "white collar" class in TNCs naturally becomes a dynamic group to accelerate the rise of middle class in these countries. They create high added values in production and circulation fields. Meanwhile they drive other social group work hard for improving their economic positions because of their intensive demonstration effects and indirectly make contribution to national economy development and social progress. In a way, TNCs' entry to developing countries along with interactions between internal factors favor the

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creation of a newborn middle class not just only a “white collar” group.

To some extent, the rise of middle class in China kept pace with the reforms and adjustments of social economic structure happened in the early 1980s. During the course of reform, production power was liberated gradually from old economic structure. China experienced with transition from agricultural society to industrial society on the one hand. While at the same time, reforms and open policies implemented by central government led to the change of ownership structure Private economy, individual economy and FFEs have been basic components of economic structure of China. Therefore, under the interaction of above dual factors, China social structure changed from to strict structure to elastic structure.

Just as industrial revolution happened in western society brought about the rise of middle class, the creation of middle class in China are also in a similar method during the process of industrialization, which were created in two different ways.

**One-way is called “external driven” mode, that is, TNCs directly bring up middle class.** When they enter China, consideration of need for localization, TNCs usually employ a group of professional staff from local society who have ability to engage in management and technological development and so on (e.g. Accountant, management and consultation, financial service, market analysis) They are the earliest and typical middle class in China with several characteristics of their own completely different from common blue collar class.

**(1) High level of salary and welfare.** In order to attract the excellent employees as well as to conform to international practices, TNCs usually pay for a comparative high salary for China employees, especially advanced staff. Maybe the salary is lower than international standard level, nonetheless it is higher than that of state-owned enterprises’ workers or private sector employees received. When most blue workers are still paid for low salaries, advanced staff in TNCs led affluent lives and enjoys themselves happily as China white collar. High income also enhances their social status and economic position.

**(2) Dedicated to their devoted causes.** In light of current situations, working in TNCs is a signal of success in China. These employees not only earn high salaries but also are admired and respected by common Chinese such as “blue collar” workers, farmers or even staff in government. Therefore all of them try their best to work hard in order to grasp the employment opportunity. Many employees work diligently with no spare time on working day, which could be contrasted with managerial staff in state-owned enterprises. Sometimes they voluntary go to company on weekend. All these China employees work hard, study hard and keep good terms with leaders and colleagues.

**(3) Apt to accept western mode of life.** Generally speaking, China TNCs employees mostly have good background of education that have graduate or post graduate diploma. Some of them experienced with education at abroad. In accord with a recent investigation, more than 11.6 percent of postgraduate worked in FFEs,

which usually are subsidiaries, or branches of TNCs in China, compared with only 3 percent of postgraduate worked in collective-ownership enterprises. Because of their good quality and open mind, they are more likely to accept western modes of life. For example, they can speak English fluently and usually communicate with colleagues in English. They like to purchase goods on credit or in deferred payment, which is a main mode of payment in consumption market in western society. They have their own cars and departments, dressed in fashionable garments. They spend more money on tourist, entertainment and education. In a word, a deep impression is built up in their minds with the characteristics of western middle class.

**The other way is called “internal driven” mode which means that the creation of middle class stem from internal reform.** It can be further divided into two dimensions.

**One dimension is from monopoly industries under planned economy such as finance, tourist electricity telecommunication and tobacco.** Under the control of central government, profits earned in these industries mostly are allocated to some inefficient state-owned enterprises. After removal of planned economy system and foundation of socialist market economy, combined with the rise of white collar class in TNCs, employees in these monopoly industries desire for a more high salary to balance wage difference. Under the pressure of employees from such industries, authority have to consider the situation seriously and increase salary level dramatically. Data from national bureau of statistics indicate that the average salary in these industries is far higher than ever, 50 percent to 120 percent higher than the figure of national average level, which is near to international standard level.

**The other dimension comes from private entrepreneurs who emerged in the early period of 1980s.** By mid-1990s, with further enhancement of China industrialization combined with intensive competition from TNCs, Internal separation occurred gradually within the private entrepreneurs. On the one hand, some private entrepreneurs dropped from market because they can’t undertake intensive competition and became “blue collar” workers. For instance, when international retailer giant such as Carrifour, Wal-mart marched into Shanghai city, the financial hub of China, a great impulsive force hit on private or individual enterprises. Some entrepreneurs went to bankrupt or forced to leave Shanghai. On the other hand, some enterprises developed robustly and expanded in large scale during the same period. These phenomena were owned to national protective policies and entrepreneurs’ strenuous innovation spirits. For example, Huawei in Shenzhen city, TCL in Guangzhou city, which once were small private enterprises engaged in producing electronic products labeled as capital and technology intensive goods, have now become famous companies at home and abroad. All these modern companies are with the characteristics of TNCs. In order to compete with TNCs abroad as well as to enhance competitive advantage, these famous enterprises have to pay for the same salaries as TNCs pay for their

employees with the expectation to attract advanced staff specialized in management and technology. In recent years, one often hears the report that one company pays for RMB100, 000 to hire advanced manger, vice manger or sectional directors. This is a forceful testimony. Once they are hired, they will soon become members of middle class.

Besides the above two sources of middle class, workers in shareholding companies and state-

owned companies as well as graduate students with special major knowledge (lawyers, doctors, accountants) also can earn high salaries. According to a recent interview, for example, salaries paid for graduate students or professional staffs by domestic enterprises are near or even higher than the figure did by TNCs.

**The difference of monthly salary among different economic units**

**Table 1**

Enterprises' trait	Private firms	Mixed firms	State-owned firms
Monthly salary(RMB)	1192	958	699

Source: collective data (1996)

Obviously, workers in private firms or firms with mixed economy earn higher salaries than those in state-owned firms. It is natural that workers in these sectors are more likely to become "middle class" or "white collar" class.

From above analysis, we understand that both "internal driven" and "external driven", based on different operational system, have been vital channels in China to stimulate creation of middle class..

In view of the fundamental roles of middle class in the course of reforms and development, the following paragraphs will mainly focus on discussing their social characters, and then their contributions to China economy.

### **Analysis on social characters of China middle class in TNCs**

Based on the industrialization and Chinese traditional culture, the Chinese employees in TNCs not only have the general character of western middle class, but also embody their certain character.

**1. High Intelligence quotient and good education background.** One research says that the education have great impact on the Chinese citizen. More and more parents send their children to the best school in China. Even in adult, adult education is very popular.

In general, Chinese education system has no discrimination; any Chinese citizen who has talent can get best education. But the Chinese general economic level limits everyone to receive senior education. On the other hand, TNCs request Chinese employee to own good education, such as foreign language, computing, good P.R. So if one can be employed by TNCs, he must own talent and good education.

Because of the good condition of Chinese employee, the foreign companies in China got good working efficiency. In the office of TNCs, it is the standard of Chinese employee: neat clothing, appreciated manner, holding a fluent foreign language. Conversely, TNCs pay great attention to talent is helpful for China to improve his education condition.

**2. Working hard, making great effort to go forward.** Some scholars think that income is the only reasonable foundation why the middle class is engaged in work. In China, compared with developed countries, whose

entering into TNCs are a symbol of talent, wealth and social status. Anyone who is in TNCs never wants to lose the job, and the Competitive pressure makes Chinese employee work hard.

Chinese employee's working hard lies in external mainly. The national condition of China is more people less job. And Chinese middle class is different from western country. Chinese middle class knows this clearly. They know only by hard work, and then they can succeed. And TNCs has also offered good outside condition for the development of Chinese employee. For example, in H.P. Company (Shanghai), the supervisor gives his subordinate a plan, which is for the employee's development in the future. This will develop employee's talent fully.

**3. Western way of life.** After a long history of opening policy, Chinese people have accepted western way of life slowly. In the eastern region of China, it is very popular for a restaurant to set up a big brand which is written some words, such as "coffee", "bar" etc. Amusements are very important for Chinese middle class because the only way they can relax themselves is western way of life.

Because of special training by TNCs, the Chinese employees have the character of the middle class in western society. Those employees have special feelings to western culture. By keeping touch with western culture closely, including watching TV, reading newspaper, talking with foreigners, their life style has been changed greatly. Firstly, their consciousness of consume has been changed to consume instead of thrift which was treated as a basic morality in china previously; saving was not the main aim of life. Secondly, their consume habits have been changed to new fashion. As a symbol of success, several famous clothes, mobile in-fashion were essential and common to them. Last, the targets of consume have been changed to make life comfortable. Price was not the deciding factor they thought, the savor and the value was most important. As a new class in China, middle class has new character, which is different from other class: they can accept new conception easily, and they prefer convenience

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food to cooking by themselves, having certain risk consciousness (table 2).

The analysis on Chinese consumer forms

Table 2

Segment market	Upstart	Yuppies	Salariat	Labor
Quantity	200,000	6,000,000	330,000,000	800,000,000
Spreading region	Coastal city	Big city	City	Town and rural
Income (family/year)	Higher than \$5000	\$1800-5000	\$1150-1799	Lower than \$1150
Highest diploma	Uncertain	University	High school	Junior school
Profession	Entrepreneur; The circle Personage of literature and art Some government officials	Administrator Professional Technician	Worker Teacher	Laborer Peasant
The way of life	Luxury	Often go out meal and travel	Budget carefully	Difficult
Consumer consciousness	Strong	Middle	Weak	Most weak
The attitude of new thing	The creator of trend	The leader of idea	Imitator	Hysteries
Risk consciousness	Strong	Middle	Weak	Most weak

Data sources: Geng Cui: The Different Faces of the Chinese Consumers, The China Business Review, July – August 1997, p.36.

**4. The psychology of thirsting for fame and prestige.** White-collar stratum gets prestige through the style of dress, customer and company's reputation and special working skill. The movies and media's agitation enlarge the influence. But the prestige of White-collar worker that individual enjoys is not always decided by those powerful social forces, because their prestige is not immutable. The position of a lot of persons has the change of periodicity. This has caused the panic of middle class for self-position, so they often raise their position in a planned way in weekend regularly.

In China, this kind of psychological state also embodies on Chinese employee. Firstly, Chinese employee has formed the unified and unique taste in the aspect of garments. Secondly, they often raise their position by leaders, the working object and the reputation of company. Thirdly, Chinese employee's mixing language, which has mixed with Chinese and English, has become the symbol of them. In addition, white-collar worker's pursuing of prestige still embodies the implementing the plan of periodicity so as to raise his or her own position. They usually go shopping and amusing in weekend; in annual plan, touring is very important.

Prestige and success have close relation. Success can bring prestige and prestige is success's embodiment. Chinese employees try their best to work for the TNCs, even work overtime, for the sake of promotion, getting more prestige. We can see that the Chinese employee's source of strength is pursuing the prestige and success.

**5. Study of crossing boundary.** With the developing of globalization, one would be influenced by other culture in TNCs. This requests the employees to adopt it. Foreign languages as working language, communicating by intranet and working with foreign manager, all of them make Chinese staff have special feeling with western culture. Modern management and western achievement evaluating system make Chinese staff take delight in western working style. Based on Chinese traditional culture, Chinese middle class takes shape of their special culture.

From above, we can see that the Chinese employees' cultural characters is: insisting principle, desalinating human relationship, laying stress on actual effect, caring for economic benefit, liking challenging and risks, working and achievements are supreme. But their consciousness of patriotism and cooperate shows the trend of weakening.

## Middle class's impacts on Chinese economy and social development

TNCs' entry to China cultivates a group of local employees directly, promotes the taking shape of Chinese middle class. Because of the character of industrial society, the middle class will be the hard core of future China.

**1. The taking shape of middle class will change the structure of Chinese society, and being helpful to stabilization of china.** With the development of restructuring the market economy, Chinese society will change from "status" society to "contract" society (Zhu Guanglei, 1998). Because of high taking in, comfort life and the propagating by the media, the local employees in TNCs will be the models of many youths.

The psychology of vie promotes the income of some workers and staff members which belong to monopolistic industries. The authorities, such as electrical engineering power industry, tobacco industry, banking circles, etc, protect such industries. According to a research by Labor Ministry, in foreign trade, banking circles, touring, electrical engineering power industry, post and telecommunications and tobacco industries, in first half of the year 1995, the income of manager was higher 70% more than other profession, not including some subsidiaries and welfare. Adherence to policy bank and some nationwide general company, their employees' income was higher in 2-3 times than others (Dai Bingyuan, 1998). So some managers and staff in state-owned enterprises will enter the middle class in advance. On other hand, the psychology of vie provoked the Expectation value of managers and technicians who were in some rising joint-venture

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companies, large-size, privately owned companies and special organ, and they would enter the middle class.

The initiators of the psychology of vie is the media. After 20 years' opening, western life style had been accepted in China. As the symbol of western life style, local employees in TNCs will be the model of citizen. In short term, the imitation will be happened in youths, but it only embodies in surface, imitating the western consumption conception, habits and objects. But in long term, people will understand the connotation. The result is that parents will try their best to send their children to the best school, teaching them with the symbol of the employees in TNCs. The later is very important for China; because it prepares enough labor power for the modernization, and it is helpful to raise the income, which promotes the teacher, inter the middle class.

To sum up, as the model of society, the local employees in TNCs promote the forming of middle class, and it promotes ones interring the middle class, which is impossible in a "3 levels divide to stand" society. What more has meaning is that the group of government employees and teachers will enter the middle class. One of means for them to enter middle class is that government assigns redundant civil servants to other jobs.

From long term, Chinese society will still be "Pyramid type" in the beginning of next century, but with the development of productivity, the adjustment of the ownership structure and the changing of society system, Chinese society will change greatly. More and more rural residents will rush into city, substantiating blue-collar stratum, the lower level people in city will substantiate middle class continuously. At last, under the "pulling force" by market economy and the thrust of industrial revolution, Chinese society will be finalized the structure "Olive type" eventually, realizing the pattern of western developed country.

Western "Olive type" structure weakens the tension of society. It is maximum to alleviate the entanglement and the friction between different stratoms. Middle class also becomes the safe value of society that stabilizes. In China, this structure is more important.

(1) Middle class has certain economic foundation, turmoil will affect their personal benefit. They will be the steady supporters of society stabilization. The strength of middle class that has embodied the great achievement of china, and embodied the society system is becoming reasonable day by day.

(2) Middle class's social demonstration role has changed the focus that people paid to. Social psychological state is unified to longing for personal prestige and success. People will concern the economy and living standard, more working hard, more diligently to train their children. It is very important for a country in which politics took command for a lot of years.

(3) The good education background makes the middle class know inadequacy and advantage of Chinese society deeply. When their basic need is met, they will pursue the requirement that their higher self value

realizes. If it permits, they will change present silent state to express their political viewpoint though reasonable way, realizing society's political democratization.

**2. The middle class has formed a regular investment and consuming group.** Seeing from investment, the income of middle class increased continuously, for the improvement of family property structure, more and more people tend to possess different kinds of property combination (saving, bond, stock, etc.). Though different kinds of investment, middle class's property appreciates; scatters risk; promotes the maturation and growth of the Chinese financial market. Seeing from consuming, the employee in TNCs has typical western style, as soon as life is consumption mainly instead of saving. This new life style embodies on housing and car consuming. Since housing system is reformed, the enforcement of housing magnetization, the implement of installment and the loan for individual's buying vehicle, Chinese dream of car and house will realize in middle class. And then the relative industries, such as steel, building material and home appliance will be driven. Domestic need will be activated, so as to promote the development of entire economy.

**3. Forming the new professional dedication and morals in new times.** Chinese is famous of diligence and kindness. But under plan economic system, the system of everybody eating from the same pot popularize improperly makes national professional drop. The efficiency of state-owned enterprises and offices is very low. But in TNCs, Chinese staff must work more hard because of getting restrictions of modern management system and longing for fame and success. They will grasp any train opportunity that is helpful to raise their quality. This kind of responsible professional and personal attitude will be transmitted to the domestic units, which have close relation with TNCs. Firstly, in order to cooperate with TNCs, they must catch up the rhythm of TNCs' step. This makes those units have twisted professional idea firstly, enhancing working efficiency. Secondly, in order to compete with TNCs, local company must cultivate employee's professional ability and consciousness, supervise and encourage vigorously on management. So the employee's quality in local companies will be improved obviously. Thirdly, along with Chinese labor market's completeness, the mobility of people is also strengthening, including locality and TNCs' employees' two-way exchanging. The people who use to be in TNCs will find new job in local enterprise. They will bring TNCs' new management skill, and affect many colleagues around. Fourthly, for better service to TNCs and creating a good investment climate, the quality of civil servant must be raised. Fifthly, by the acknowledgement of society worth's judging system and media's popularization, it is useful to form a psychological state of desiderating success and prestige, promote social advance. Seeing from macroscopic, TNCs' entry to China has extruded the monopoly space of Chinese state-owned enterprise, increased the competition, and also normalized the behavior of state-owned enterprise and its staff, because overstaffing means destruction.

Close language

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In fact, it's insufficient to judge social structure only according to income structure. The finalization of social structure must be accompanied by the finalization of social spirit and cultural atmosphere. Only when the middle class, represented for the most of social members, has formed a brand-new society which all the members work hard and seek promotion and development, the social structure is just the genuine meaning social structure. The form of this kind of structure accompanies with the change, which is from Chinese traditional, with human relations as center, "making a point of feelings culture" to western industrial society, "making a point of business culture". It is helpful for the modernization of china undoubtedly.

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