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# Dazed and Confused: The Impact of Multinational Firms on Local Labor Markets

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ABSTRACT

In this high-speed globalization era, the opportunities for multinational companies (MNCs) have become vast. In such situation, these companies can obtain maximum profit only if they know how to use workforce properly. This paper aims at analyzing how these MNCs can use international workforce without violating ethics, universal labor rights, and human resource rules. For this purpose, two most favored countries i.e., China and Indonesia have been taken and compared throughout the paper. The first part of this paper deals with the introduction of the profile of above mentioned two countries and opportunities to the MNCs. The second part deals with the roles of institutions in dealing with labor workforce. The third part indicates divergent paths and the convergence of the globalization with its impact over host countries. The final part concludes the entire discussion in a few paragraphs. The entire paper has been developed keeping the scholarly work, journal articles and critical analysis factor under consideration.

## 1. Introduction

The rise of globalization, understood as the fast cultural, economy and institutional integration between countries furthered by the development of the Euromarkets and the Petrodollars gave prominence to the MNCs as protagonist actors in the international scenario <sup>[1]</sup>. Acquiring scale economy and acting globally, those companies

have become rivals with governments in size and power that can be noted prominently. Although powerful, those companies face challenges when need to adapt to local markets, and, in the fluid society that emerged with globalization, the human resources become the flexible tool capable of reducing those costs. Labor and local institutions are the key variables of MNCs when they interact at national levels <sup>[2]</sup>.

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Asia, one of the motors of the second wave of globalization due to its territorial size and population <sup>[3]</sup> was the leading receiver of Outward Foreign Direct Investments-OFDI-, since the 1970s, fueled by the “Asian Tigers” and more recently by China, since China has emerged as one of the countries having strong and low-cost labor for large production, it has been considered one of the best places for foreign investment by MNCs. MNCs have traditionally chosen the continent due to the cost of labor, its traditional competitive advantage, as part of their strategy to reduce production costs, under the global markets, creating tensions between the needs of the population, the existing legislation and institutions and the search for profit <sup>[4]</sup>.

The present work will analyze the tensions between the globalization and the autonomy of the States, under the light of labor relations in People’s Republic of China and Indonesia. It will highlight the divergences and convergences between the labor and employment relations in the target countries, aiming to understand how the trend towards the deregulation and free markets emphasized the unitarist vision in terms of workforce powered by the globalization, leading to a higher convergence of the human resources practices <sup>[5]</sup>. The above stated countries were chosen due to the existing contrast between them: the high intervention of the Chinese government in the management of the foreign firms and in the regulation of workforce through the presence of Unions, and, the discretionarily of the Indonesian government, closer to the *laissez faire* since the structural reforms of the 1990s, though of higher risk due to the absence of legal mechanisms which clarify the set of procedures which can be adopted. Hence, it is fair to offer a hypothesis that labor and workforce rules after the acceleration of the globalization in both countries are convergence in the practices.

## 2. Methods

A systematic review of the literature has been conducted. Inclusion criteria will be that (a) sources contain the key terms of “multinational companies/MNCs”, “labor”, “Indonesia”, “China”, and “foreign investment”, (b) that sources are published in English, (c) that sources are published within latest 4 years of period. Exclusion criteria are that nonacademic sources will be omitted as sources published in languages other than English and no earlier than 2018. Electronic databases from Monash University Library Australia will be used. In general, the application of the results of the paper can be as a reference for the Government of Indonesia and other international economic players in determining regulations relating to international industrial relation, foreign investment, and

labor welfare. This paper is employing a content analysis approach. It means that by reviewing the published works of other scholars, thus taken a descriptive argumentation based on the justifications given by the previous studies.

## 3. Results

MNCs companies reflect the culture of their home country. The globalization makes these different sets of practices used to solve firm’s local problems interact with a new framework, where values and rules are different. This is the case of General Motors, for example, characterized by the individualism and pragmatism of the American society, which needs to adapt to the environment of each of 160 countries, which it is present.

### 3.1 China Profile

People’s Republic of China rose from a middle power in the 1990s to the world biggest economy in 2014 <sup>[6]</sup>, when it turned its strategy of “open doors” to “go out” being the higher receiver of OFDIs, mostly in the format of MNCs. The current labor structure of China has a workforce of 750.4 million <sup>[7,8]</sup>, occupying almost a half of its labor force in agriculture, 23% in industry and 27% in services <sup>[9]</sup>.

Chinese industrial relations reject autonomous workforce organization to prioritize central trade unions, putting the state enterprises in the center of production and distribution of resources. The ACFTU (All-China Federation of Trade Unions) is the official link between the worker’s needs and the party-state. In China, the State-owned enterprises are the rule and the temporary employment, where the government controls and assigns each task is the predominant model <sup>[9]</sup>. Globalization impacted positively in the country’s economy, transforming it from a developing nation in the 1970s into the leading trading nation in 2014. The employment relations were also transformed, through the flexibilization of the labor rules, as Joint-ventures and Private Owned Enterprises entered in the market. MNCs had a profoundly role, firstly acting as joint-ventures with the Chinese government, and, since the 2000s, as private entities <sup>[11]</sup>.

One of the key points is that in a state planned economy as China, the work of reconciling the interests of groups as workers and owners is left to an admirative structure, with government guarantees. China, though, aiming to align its economy to the global markets, inside its “open doors” policy made diverge the work’s interests and of its managers, what is expressed by an increase in the number of labor disputes, from 33,000 in 1995 to 155,000 in 2001, when the country passed through its

higher opening in terms of regulation, when new institutions were introduced: contractual labor relations, tripartite labor disputes, collective consultation in workplace. The unions kept holding power, influencing, mostly the State-Owned Enterprises, where they are part of the management. Notwithstanding, the unions lost power in the private owned and joint-ventures. Nowadays, the Labour Law established changes towards the liberalization of the contracts, reducing the safety net of workers and increasing the firm's possibilities<sup>[10]</sup>.

### 3.2 Indonesia Profile

Indonesia, by its turn, adopted policies to improve the financial and economic sectors, through foreign direct investment and international trade insertion, MNCs preference to Indonesia is due to low economic investment with maximum gaining<sup>[11]</sup>. The new economic policies, paired with a new transportation infra-structure and information technology, improved the Indonesian position in the world trade, though, the high intervention of the State in the economy, the political scenario and its discretionarily kept the risk of investing in the country high<sup>[8]</sup>.

Since the 1980s, the Indonesia has deregulated its economy, becoming attractive to the MNCs due to the cost of labor, facing international criticism due the violations to the worker's rights. In the 1990s, the Asian financial crisis caused a significant impact on the country's economy<sup>[11-13]</sup>. Operating costs increased because of the collapse of the Indonesian Rupiah, when in June 1997 it depreciated from around 2,300 per US dollar to about 10,500 per US dollar in September 1998<sup>[13,14]</sup>. The deregulated market reduced wages. In an environment where State action was already reduced, labor was subject to the oscillation of the market.

Aiming to recover from the crisis, there have been major changes in labor market policies Indonesia. A minimum wage was established in 1999, though it is not enforced<sup>[15]</sup>. Notwithstanding, after the crisis, the pressure of labor increases, existing constraints on trade unions were largely removed. Under the consecutive Ministers of Labor, the government increased the right of workers and wage claims. The minimum wage was increased by more than 90 percent in three years from 1999 to 2002. The regulations also introduced market rigidities in hiring process, guaranteeing employment rights, resulting that nowadays labor policy of Indonesia is one of the most stringent in Asia<sup>[16]</sup>.

### 3.3 Role of the Institutions

Although the countries mentioned above are favored destinations for Multinational Corporations (MNCs) to

invest their capital resources, due to the low cost of labor, the ease to obtain natural resources and, most importantly, the consumer market. Institutions matter, in this sense, because they reduce transaction costs, and for that reason MNCs will tend to choose to develop and expand their resources in a developing country that has minimal State intervention, which increases the capacity of the management process of the MNCs firms. It is noteworthy which the costs to adapt to different cultures can be minimized when there is a convergence in the labor practices<sup>[17]</sup>.

MNCs were attracted by governments of developing countries, seeking investments both in terms of capital and resources, aiming to receive a spillover effect in their economies<sup>[18]</sup>. However, when a country is trying to attract foreign companies, the presence of the company can reduce or even eliminate the power and role of the state government itself, due to the capacity of imposing contracts, which in the practice means the control of social interactions<sup>[19]</sup>. There is an expected, thus, convergence worldwide brought by globalization and its main actors, the MNCs.

## 4. Discussion

*Divergent paths: the convergence of the globalization impacts asymmetrically in the host countries*

Globalization, understood as integration of the markets, benefits from the convergence of rules and practices, reducing adaptation and transaction costs<sup>[20]</sup>. The driven actors of the globalization, the MNCs, provide employment opportunities, training and knowledge, transfer of technology and improve the skills of local workforce<sup>[21]</sup>, which increases levels of labor productivity<sup>[22]</sup>. Notwithstanding, the successive financial crisis-1994 in Mexico, 1995 in Russia, 1997-1998 in Asia, 1999 in Brazil, 2001 the dot-com bubble and Argentina, 2008 the world financial crisis, de-legitimated the neo-liberal model and the globalization as its consequential process. The deregulation and opening of markets led to a creative destruction process, reducing the social welfare and increasing the frictional and cyclical unemployment through the path<sup>[23]</sup>.

Industrial relations were deeply transformed by the globalization in the analyzed countries, where there is expected a convergence between labor law and the erosion of the State power towards the MNCs, which with its capacity to impose contracts in a transaction economy, would mold the new institutions. China and Indonesia followed divergent paths. The neoliberal model which emphasizes the individualism, A term indicating preference to the individual labor, and the Unitarian approach, lost terrain in Indonesia, where unions regained power, though, China reduced the role of the unions, mainly due the need to cut

costs when privatize companies in the 1990s and early 2000s<sup>[1]</sup>.

Contemporary Human Resource Management on an MNC does not require a third party to facilitate interests of investors and workers, where reducing costs, relations are understood as short-term contracts. The HRM, thus, prefers as policy replacement or eliminating labor union<sup>[24]</sup>. In China, to attract foreign investment, the government also issued a policy in favor of the owners of capital resulting in reduction of the role of unions. So far, the Indonesian government was pushed to force the revision of Law No. 13 of 2003 related to the issuance of Presidential Decree No. 3 of 2006, which concerning on the Regulation of Investment Climate Improvement Package, trying to reverse the post Asian crisis measures of increasing the labor rights<sup>[12,16]</sup>. It is relevant to note which both countries continued to be strongly regulated by the State, even though the labor's rights were flexibilized, where flexibilization is perceived as foreign investment attraction in terms of competitiveness, but not reduced State intervention, to improve the environment of the private sector, which includes the MNCs<sup>[17]</sup>. In Indonesia, the opening of the economy and the structural reforms were reversed due to the financial crisis of 1997-1998, giving power to unions and prioritizing the labor, though those measures are not enforced.

The globalization, the basis of growth of Indonesia and China, under the Industrial Relations did not behave as expected, which was the convergence of labor rules and practices, through the integration of those economies in the world market. It can be highlighted which both countries are fully members of the World Trade Organization and the ASEAN plus three, and, participated actively in the global economy. China, the country immune to the world financial crisis in 2008, established the Consensus of Beijing<sup>[6]</sup>, exercising power in the international scenario. Even though, MNCs did not change the labor relations as profoundly as the State controlled economy did. The opening of the country was to further the entrepreneurship environment, already a cultural characteristic of China and not to conform with MNCs requirements<sup>[14,25]</sup>. Due to China size, it influences the MNCs more than is influenced by it.

Indonesia, also a heavily State intervened economy, does not have the strategic and economic importance of China, and, due to it, is subject to the MNCs pressures. The bargain between the labor rights and the firm's interests, though, can put in peril the fragile political institutions of the country<sup>[25]</sup> and, the government prioritizes, in the short run, the workforce interest, as it provides the legit government needs. This institutional equilibrium

can be reversed, when MNCs can provide establishment advantages overcoming the voters<sup>[17]</sup>.

It is clear that globalization, enabled by financial, technological and communication tools impacts in the Industrial Relations in the labor and workforce. Unions, the resulting variable between governments and employees try to react to restructure the equilibrium between diverging interests. Globalization is an integrating factor, when expands markets in time and space, it also interconnects contracts. The a priori trend is that it makes all Industrial Relations aspects converged, as it would reduce costs and improve the competitiveness of the firms. In this highly competitive and short-term market, unitarism would be prominent over pluralism and decentralized power should be the rule.

The present paper hypothesis was not confirmed. The studied cases demonstrate clearly a divergence between labor and workforce rules after the acceleration of the globalization, which occurred after the 1990s<sup>[3]</sup>. Historically, both are State planned economies. Both started an opening process that was intensified in the 1980s and 1990s, attracting heavily MNCs. Though, Indonesia suffered deeply the consequences of the Asian Financial Crisis and the Financial Crisis of 2008, whilst China was practically immune, due to the control of capitals it imposed. It was in the decade, which catalyzed the globalization that the divergence increased. Unitarism was part of a reduction of costs policy of China whilst Indonesia saw the emergence of the unions. Therefore, globalization must be understood together to local institutions that react to the MNCs to synthesize new social practices, which will become rules. The globalization impacted differently in Indonesia and China, thus, the resulting processes concerning labor relations also were different. For the practical implications, authors highlight the State structure, mainly the higher State power of the Chinese, and its geographical and economical importance as causes of its unique production model, intervened, but flexible<sup>[6]</sup>. Indonesia, by its turn, with fragile institutions, depends upon the game of power with voters and economics groups. In the short run, the weights favor the voters, explaining the increasing in formal rights of labor<sup>[25]</sup>.

## 5. Conclusions

With the rise of globalization, the entire world has become a small market where the resources of one country can be used in by second country's companies. Multinational companies are taking great advantage from such opportunities and expanding their production through use of low labour cost. Nevertheless, there are certain considerations that these MNCs have to take in view and this

paper elaborates all such aspects. The main aspects, which have been discussed in this paper, are preference to labour rights, unitarism, individualism, and divergence. Though within the native region, MNCs can work within the cultural boundaries but expansion to countries like Indonesia and China makes it better for such companies to utilize labour and economic sources in a better and profitable manner. A complete discussion has been done in this paper comparing both the above-mentioned countries and the resources which these countries can provide to the MNCs who are intended to invest within the boundaries of these countries.

### Author Contributions

All authors shared equal contribution to the manuscript writing. First author responsible in stimulated the discussions, developed the arguments among other authors and acted as corresponding author.

### Conflict of Interest

The authors have no conflicts of interest to declare. All co-authors have seen and agree with the contents of the manuscript and there is no financial interest to report. We certify that the submission is original work and is not under review at any other publication.

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