Lund University, School of Economics and Management
Department of Economics
Bachelor's Thesis
1st of June 2009
Supervisor: Karin Olofsdotter

Applying CSR to Foreign Investments

Incentives of MNCs and Effects on Host Society: The Case of China

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Abstract

Corporate Social Responsibility (CSR) is a fairly new concept that acknowledges the social and environmental responsibility of Multinational Corporations (MNCs). This thesis sets out to investigate the incentives for Multinational Corporations to engage in CSR and, if they choose to do so, what effects such an engagement has on development in the host country of investments. The study focuses on development effects in China, since it is one of the largest receivers of Foreign Direct Investments (FDI) in the world today.
In order to address the research question, the theoretical framework behind FDI and CSR is thoroughly examined to sort out the different angles from which one can approach this subject. The theories are used to analyze empirical findings of development effects coming of FDI and CSR, which are further supported with three specific case studies of MNCs operating in China.

We reach the conclusion that CSR and the development effects linked to it depends on the actions and choices of the corporation. The analysis shows that a partnership relation between the corporation and the host country is more favorable than a vertical relationship where the corporation invests with the pure incentive to benefit from the host country's abundant factor of production (such as labor) and does not intend to create a long lasting business relationship. In order for vertical relationships to become more CSR friendly, it is suggested that CSR policies become subject to more structured regulations, imposed and follow up by some kind of international organization. Moreover, we suggest that the collection and presentation of statistical data of development effects that CSR could bring with it becomes more organized and follows an international standard. If so, the effects of FDI and CSR work made by all MNCs could be easily contrasted and compared. This should work as a mean for stakeholders to compare MNCs and their actions, thereby influencing them to take a greater responsibility and somewhat forcing them into a beneficial relationship with the host country their investing in.

Keywords: Corporate Social Responsibility (CSR), Multinational Corporations (MNCs), Foreign Direct Investments (FDI), Development effects, China

Table of Contents

1. Introduction 5
1.1 Methodology 6
1.2 Limitations of the current literature 7
1.3 Disposition of the thesis 8

2. Theoretical framework 9
2.1 Foreign Direct Investment - introduction 9
2.1.1 Vertical FDI 10
2.1.2 Horizontal FDI 11
2.2 FDI and development; Old Development Paradigm 12
2.3 The New Development Paradigm 13
2.3.1 Challenges for the New Development Paradigm 17
2.4 Corporate Social Responsibility - introduction 17
2.4.1 The development of CSR 19
2.4.2. The economics behind CSR 19
2.5 How and why do MNCs engage in CSR activities? 20
2.5.1 Corporation's responsibility according to Carroll 20
2.5.2 The relationship of social performance and financial performance 21
2.6 The internal and external effect of CSR activities 23
2.7 How to measure CSR 25
2.8 MNCs CSR implementation and the host society 26

3. Analysis/Empirical Findings 27
3.1 The Chinese economic development 27
3.2 FDI in China 28
3.3. Development effects of FDI in China 29
3.4 CSR in China 33
3.5 The Chinese workers 35

4. Case Studies 36
4.1 Case Study: Wal-Mart: the world's largest retail store 37
4.1.1 A study of Wal-Marts suppliers 38
4.1.2 Wal-Mart's effect on the Chinese society 38
4.2 Case study: Reebok 40
4.2.1 A visit to Reebok's supplier factories in China 41

4.2.2 What effects does Reebok's CSR commitment have on the Chinese society? *42*
4.3 Case Study: ABB 43
4.3.1 What effects does ABB have on the Chinese society? *44*
4.4 Reflections of the case studies 45
5. Discussion 46
5.1 Critical evaluation of the study 50
5.2 Suggestions for further research 51
6. Conclusion 51
References 53
Appendix

Abbreviations

COC = Code of Conduct

CSR = Corporate Social Responsibility

FDI = Foreign Direct Investments

HDI = Human Development Index

ILO = International Labor Organization

MNC = Multinational Corporation

NOI = Net Outward Investment

OECD = Organization of Economic Co-operation and Development

SME = Small and Medium Size enterprises

UNCTAD = United Nations Conference on Trade And Development

WTO = World Trade Organization

List of figures

Figure 2.3a Comparison between ODP and NDP…………………………………………….16

Figure 2.3b Mechanism through which MNCs affect host country development……………17

Figure 2.5.1 Carroll's pyramid…………………………………………………………………..21

Figure 3.1 Economic Growth rate in China, USA and Sweden (1980 – 2005)………………27

Figure 3.2 FDI inflows in China 1990-2005(billions of dollars)………………………….…29

1. Introduction

Over the past thirty years, corporations have to an increasingly larger extent started to operate across borders. This has made Multinational Corporations (MNCs) bigger and more powerful and today they have grown into one of the most powerful players on the international arena, next to state governments and international organizations. As the era of privatization continues and global integration advances the question pending is what role Multinational Corporations should play. MNCs, through their foreign investments and operations abroad have large effects on the host society. Researchers and interest groups have recognized this and calls for MNCs to be more aware of their responsibility towards the host societies where they operate. As a response to this, the concept Corporate Social Responsibility (CSR) was founded.

There is not a universal agreement of what CSR exactly entails but in general it can be said that it acknowledges the social and environmental responsibility of corporations. Today most large MNCs have implemented a CSR policy and committed themselves to engaging in activities that will contribute to a sustainable development where they operate. CSR policies and the implementation of the policies are voluntary, not internationally standardized or monitored by an executive authority. Corporations usually form their own CSR policies, which lead to an individual implementation of those policies. Because of this voluntariness it is interesting to look at the corporations' incentives for working with CSR. It has often been questioned whether the corporations just want to "make themselves look good" or actually intend to have a beneficial effect on the society and environment.

Traditionally, MNCs are located in industrialized countries and operate in less developed countries (LDCs). For host countries the attraction of foreign investments has become an important way to create economic growth and government policies are adjusted to enhance the attraction. This adjustment sometimes leads to that the protection of the labor force and the environment is reduced. It is therefore interesting to look closer into the effects that can be found from MNCs CSR activities.

In investigating the incentives of corporations for CSR implementation and what effect the implementation has on the host country of the investments we have chosen to focus our research on China. Our choice of country is based on the fact that China is the largest receiver of Foreign Direct Investment (FDI) in the world among developing countries and among the top three of all countries. China also has the largest population in the world, providing an enormous work force and due to this China has sometimes been called "the workshop of the world" (Chan 2009 p. 60). Over 50% of the country's export comes from the manufacturing sector using low-skilled labor, China's most abundant factor of production and also what attracts most MNCs to the country (Naughton 2007 p. 419). China is also very relevant for the issues discussed in this paper as reports on, for instance, abusive labor standards have streamed out of the country.

This thesis sets out to investigate how the Chinese economy and society is affected by the fact that Multinational Corporations (MNCs) make Foreign Direct Investments in China and what happens when these corporations chose to apply CSR policies to their investments.

The research is therefore focused on trying to answer the following research questions:

1. What are the economic incentives for MNCs to apply CSR to their investments?

2. How has the prevalence of CSR affected the MNCs in their operations in China?

3. How can MNC's CSR policies affect the development of the Chinese economy and society?

Methods for answering these questions, limitations to our study and the outlines for this thesis will be presented below.

1.1 Methodology

The method used to present the theoretical framework and answering the research questions is a qualitative one, with some quantitative elements. Almost all information and theories used to support the research will be collected from academic papers, research, and economic journals found on the Internet. The reason most sources are found the Internet is because the

theories used and the empirical findings supporting them come from relatively recent research and therefore much of it have not yet been published in book. Nevertheless, the sources can be found to have a high level of validity since they are supported by academic research and, in most cases, are recognized by several other researchers. Some textbooks written on a specific topic, like the Chinese Economy or a certain theory, have also been used.
The empirical evidence and analysis at the end of the thesis consists of qualitative findings concerning the effects of MNCs investment and the implementation of CSR in the Chinese context. As mentioned above, some quantitative data will also be used. The empirical section is followed by three case studies on MNCs CSR implementation in China.

The case studies are used since this method is found it to be highly descriptive, foreseeable and helpful for analysis. All of the information used in the case studies is collected from the Internet; partly from the corporation's own websites, otherwise from academic revision already performed on the specific corporations. This makes the inter-reliability of the material quite high since the reader easily can revise most data. When performing case studies the issue of generalization must be considered. Many authors highlight the difficulties to generalize from case studies, something that has been considered in this paper as well (Bryman 2004 p. 87-88, Alvesson & Sköldberg 2008). To improve the possibility of generalization it is suggested to perform more than one case study (Bryman 2004 p.89). The three case studies in this paper are meant to entail different characteristics in corporations' investments and CSR policies. The reader should be careful not compare the case studies too much with each other or make too wide generalizations from them.

1.2 Limitations of the current literature

Due to the fact that CSR is a fairly new concept the academic literature and empirical research done regarding this topic is limited. It is especially hard to find any research about the effects that CSR work might have on the host country of the FDI. Most of the existing literature on CSR is focused on business management and investigates the relationship between corporate social performance and corporate financial performance. The business research contributes to helping the corporation on how to design their CSR policy, how to communicate it to their costumers and how to achieve long-term profitability with CSR (Yu 2008 p. 514). There are very few papers, within the field of economics, written about the effects that CSR work has on the host community. This paper attempts to fill that gap and it will be carried out by looking at empirical evidence of development effects in China due to FDI and CSR and presenting case studies of MNCs operating in China. We find it quite intriguing that the existing literature is so focused on corporations' profitability and not on the societies that the CSR work is affecting, since that is thought to be there core reason for corporations to engage in CSR.

1.3 Disposition of the thesis

The theoretical framework for FDI will firstly be presented, in order to give further understanding to what FDI entails and how theory can be used to analyze FDI. Continuing with the theoretical framework for CSR, the reader is presented with the different approaches to CSR, investigating the meaning of the concept and providing tools for analyzing MNC's CSR work. The empirical findings and analysis that follows that section focuses on the Chinese economy and the effects FDI inflow and CSR implementation might have had on the Chinese society.

The empirical findings are embedded in a shorter analysis of how well reality verifies the theoretical framework. As a complement to that section, three case studies are presented in order to illustrate how different MNCs choose to work with CSR in China, analyzing the problems and effects it might bring with it. The analysis is followed by a longer discussion about the empirical information presented, relating it to the research questions and lastly some general conclusions about the research are drawn. The conclusion includes suggestions for further research and a critical evaluation of the methods and findings of this thesis.

The sections in this paper are parted by numbers with subsections, which are given an additional number in attempt to make it easier to navigate within the paper. References are made using the Harvard Reference system, with a short reference given in the text and the full reference list after the last section of the paper. Graphs and tables are presented along with the text, as they are believed to serve a more useful purpose when alternated in text since it makes them easier to relate to than if they were to be placed in the appendix.

2. Theoretical framework

In this section, theories are presented partly to give better understanding of FDI and CSR but also as tools for analysis that will be conducted on the in the Chinese context. Firstly FDI will be defined, and separated into different types of FDI. The reader will follow the path which demonstrates how the theoretical framework have changed from just investigating the incentives and structures of FDI expanding into what effects FDI have on the surrounding society. Dunning's three theories: The OLI theory, Investment Development Path (IDP) and New Development Paradigm (NDP) are presented. NDP reflects the debate of increased pressure on MNCs to take larger responsibility of their effect on the surrounding society and calls for CSR commitment. This is followed by an introduction of the CSR concept, how it has evolved, as well as a further explanation of the topic. The theoretical framework is finished off by discussing effects of CSR activities on host society, which we find suitable since it is followed by our analysis of the Chinese specific case.

2.1 Foreign Direct Investment - introduction

Foreign Direct Investments (FDI) increases every year as the world economy becomes more globalized. According to the latest World Bank report, FDI flowing from industrialized countries to less developed countries (LDCs) more than tripled during the period between 1990-2001, from about $21 billion to $161 billion (Liu 2006 p.177). During the same period, China's FDI inflow increased by twelve times, from $3,5 billion in the 1990s to $44 billion in 2001, making them the largest receiver of FDI in the world (Liu 2006 p.177). In 2005, China was still among the top three recipients of FDI in the world (UNCTAD 2007) (Braunstein & Epstein 2002 p.10).

FDI appears when a company chooses to locate parts of its firm or buy a part of a firm in a country other than where the parent company is located. Or as "Economy Watch" puts it: "A parent business enterprise and its foreign affiliate are the two sides of the FDI relationship. Together they comprise a MNC. It is believed that the parent enterprise through its foreign direct investment effort seeks to exercise substantial control over the foreign affiliate company. 'Control' as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares or access to voting rights in an incorporated firm" (Economy Watch 2009-03-25). Thus to make a distinction between investing in a foreign project and making a foreign direct investment, the difference is that an investment in a foreign project can consist of a one time transaction, e.g. building a well in Africa while a foreign direct investment should be related to the reconstruction of a company or the acquisition of a company in a foreign country and the investment should be sustainable and ordinarily be of at least 10% of shares or voting power in the foreign company.

One of the reasons to why MNCs engage in FDI is due to differences in factor prices between economies. Traditional trade theory states that a country will export the commodity that uses the country's relatively abundant factor of production intensively. The country has a comparative advantage in this commodity (Markusen et al. 1995 p.106). In LDCs, including China, labor is usually the abundant factor of production and therefore the trade pattern in the world today makes LDCs serve the international market as a supplier of labor-intensive products (Fukao & Wei 2008 p.7).

A classical scenario of FDI can be expected where a MNC, makes a Foreign Direct Investment by buying a part of a factory in China. The investment, which is made in order to draw the advantages of their labor, creates a so-called vertical relationship of investment (Markusen et al. 1995 p.106). The opposite of vertical investments are horizontal investments, which also exists on the international market today. So far, China has mostly attracted vertical investments but horizontal investments are increasing. Before we continue the analysis on Chinese trade and FDI these two different kinds of investments will be presented in detail.

2.1.1 Vertical FDI

Vertical FDI is, by definition, the kind of trade that traditional trade theory emphasizes since they occur due to differences in factors of production or factor prices (Fukao &Wei 2008 p.1). Vertical investments create, what we call, an intra-firm vertical division of labor, which is sometimes defined as forward vertical or backward vertical. Intra-firm, implies that the MNC divides different parts of the production chain between different locations, usually creating the relationship where the labor abundant economy is supplying the parent company with intermediary goods. There are different theories about why firms choose to engage in intra-firm trade, but it is enough for the extent of this paper to understand that investments are done due to the comparative advantage of the host country either due to abundance in the factor used for the traded good or due to favorable factor prices (Markusen et al. 1995 p.106) (Zitouna 2002 p.4).

As opposed to backward vertical investments where the host country corporation serves as a supplier to the MNC, forward vertical trade means that the part of the company located in the host country serves as a distributor for the parent company. (Investopedia 2009-03-25 p. ULC) An example of forward vertical FDI could be a situation where a company wants to distribute its products on a foreign market but cannot do so due to e.g. some legal or geographical restraints. The solution in this case would be for the company to merge with a company in the host country and distribute their products through them. Backward FDI, on the other hand, is the more classical situation where the corporation buys, merges or cooperates with a factory in the host country in order for it to supply the parent company with finished or partly finished products such as garments or toys (ibid.). The reason for MNC's to take the actions of creating a backward vertical FDI is usually to draw advantages from lower costs for raw material, lower costs of key production components and/or lower factor prices.

2.1.2 Horizontal FDI

Horizontal FDI opposites Vertical FDI in the sense that it does not necessarily occur due to differences in abundant or scarce factors or factor prices. In fact, theory assumes that the characteristics of the origin country and the host country are fairly similar. Horizontal FDI creates an inter-firm division of labor between the countries, meaning that the labor working in the origin country have similar tasks as the labor in the host country (Fukao & Wei 2008 p. 1). Horizontal FDI often occurs within e.g. financial services where the main reason for investing is to access a new local market rather than to make use of its resources. Horizontal FDI can also appear for reasons like the multinational corporations trying to skip trade barriers, for example, a Japanese car company establishing an inter-firm branch in Europe in order to skip trade regulation between the Japanese and European market (Fukao & Wei, 2008 p. 1). This being said, it can be stated that China has a double location advantage as they have a growing high-skilled working force and are abundant in low-skilled labor.

2.2 FDI and development; Old Development Paradigm

There are plenty of theories one can use to approach the different types of FDI in the world and analyze the incentives of the corporations to make foreign direct investments. Many different studies have been made to determine the characteristics and relations between host countries and its investors. Relevant theories that will be explained in this subsection are the OLI paradigm and the Investment Development Path (IDP).

The first theory called the OLI paradigm was developed by John Dunning in the mid 1970's. It states that the choice of MNCs to make a Foreign Direct Investment depends on the three parameters ownership (O), location (L) and internalization (L) (Dunning 1995 p.467). Ownership refers to the decision a company has to make when relocating their production. They have to take into account the extra costs of relocation, which can be everything from setting up a new factory to learn about the local culture or social costs. Basically it calls for that the benefits must outweigh the costs when remodeling the ownership structure of the MNC. Location stands for the decision of where to locate the affiliate, which can be very much affected by the efforts of the country to attract FDI. Costs being taken into account when choosing location can be economic, socio-cultural, and political costs. Internalization emphasizes the benefit of the company to integrate with a foreign market instead of doing business with them at a distance, for example dealing with trade barriers etc. (Möller & Svensson 2009 p.9-10 : Dunning 1995 p.466). As shown above, both vertical and horizontal FDI are made with the incentives to internalize the production processes within the company and reach lower costs of production in order to generate higher profits. However, the statements made in the OLI theory about ownership and localization does not give us the tools to analyze the development effects in the host country where MNCs chose to locate but rather explains the strategic issues regarding MNCs structure of investment.

In the 1980's Dunning continued to develop the OLI paradigm into a new theory, the Investment Development Path (IDP) (Fonseca, Mendonça & Passos, 2007 p.2). IDP still emphasizes on the three related conditions for MNCs; Ownership Location and Internalization but further investigates its *"main hypothesis: as a country develops, a structural change occur in the conditions faced by domestic and foreign companies, affecting*

FDI inflows and outflows which, in turn, changes the country's economic structure" (Fonseca, Mendonça & José Passos, 2007 p. 3). The theory suggests that development is measured through looking at the Gross Domestic Product (GDP) or GDP per capita and the country's net outward investment (NOI). Net outward investments are defined as the difference between outward direct investment stock and inward direct investment stock (Dunning & Narula 1996 p. 1).

Through these measurements the theory states that a country can be placed into one of the five stages of development, where stage 1 refers to an economy that is a net receiver of FDI, most possibly due to its natural resources. A stage 5 economy is a fully industrialized country such as the USA or Japan, where net outward and net inward investment sums up to zero. In a developed economy the theory believes that FDI inflow and outflow is very little connected to its natural resources, but rather to its human capital, technology creations and organizational structures (Dunning & Narula 1996 p. 1). Regarding the classification of development made by the IDP theory, China is ranked at level 2. This level implicates that the country experiences *"increased inflow of FDI, even faster than the GDP growth, while outward investment remains low or negligible"* (Fonseca, Mendonca, & Passos 2007 p. 5). Indeed, as a country develops, the improvement of its location advantages leads to a growth of inward FDI, specially in primary commodities and natural resources, as well as in industries that are intensive in physical capital and low-qualified work, i.e. sectors whose endowment of created assets are scarce (ibid.).

The conclusion of this theory is that as FDI inflows increase, poorer countries will get better infrastructures, which will be beneficial for further investments bringing with it technological spillovers. As this happens, domestic firms will increase their integration with the MNCs at site (ibid.). Through this development, know-how and human capital will increase and as the GDP level improves the country moves towards a new level of development.

2.3 The New Development Paradigm

Summarizing the ideas of the OLI paradigm and the IDP theory (further on referred to as the Old Development Paradigm, ODP) will lead the way to presenting the New Development

Paradigm (NDP). The theories above and the general approach towards FDI and development up until today is that the goals and characteristics of developing countries and industrialized countries are the same "except that the former are less developed than the latter" (Dunning 2004 p. 2). This way of reasoning would also agree to that if the less developed countries could just follow the same path as the industrialized countries had, they would develop. A question like the external social welfare cost of globalization has not been addressed within that framework nor has questions concerning *"the role of civil society and supranational agencies"* or *"the whole issue of ownership, and stakeholder capitalism"* (Dunning 2004 p.3).

The relationship between FDI and host country development was approached by the IDP theory, but always looking through the lens of the western society assuming that if countries could reach the industrialized countries' level of infrastructure and advanced level of know-how and technology, the developing countries would reach the exact same level of development. The New Development Paradigm reappraises those values and looks at how the role of MNCs can have an active effect on development of the already existing infrastructure in a specific country. The theory is defined through three main areas of investigation that calls for further improvement:

1. A new definition of development that encompasses more than just economic growth. The definition should align with holistic ideas.

2. A much stronger focus on institutions, not only as means towards development but as an mean in itself thus increasing the importance of MNCs ownership advantages and hence MNCs strategies and characteristics.

3. A broader perspective as to how MNCs can use their impact mechanisms to affect development.

(Dunning & Fortanier 2008 p. 5)

Sub questions that need to be asked when trying to give rise to a new definition of development are, for example, what level of aggregation might measure this development, what time-horizon should it encompass and what should the role of the actors creating the development be given. Opinions differ regarding what should be included and to what extent in different parts of the world, but an accepted definition seems to have been brought forward and states that: Development should include measurements of *"education, infrastructure, health, knowledge and capacity building*. (…)(and) *development strategy should be consistent with the natural environment within which it is embedded"* (Dunning & Fortanier 2008 p. 9). In fact, this definition of development is what has been the core inspiration for the UN Millennium Development Goals (Benn 2004 p. 8).

The most important field of investigation for the NDP is that of institutions because it is where it takes its strongest standpoint against the Old Development Paradigm. Douglass North (1991) defines institutions as *"The rule of the game that govern the way in which human beings structure their (commercial) interactions"* (Dunning & Fortanier 2008 p. 9). The NDP emphasizes that the extent, efficiency and quality of those institutions can affect how countries can create, attract and extract resources (R), capabilities (C), and access to markets (M) (Dunning & Fortanier 2008 p. 9). But the difference from the ODP is that the NDP sees institutions as a goal in itself (Dunning & Fortanier 2008 p.15). By doing so, the whole role of institutions changes and the role of MNCs become incorporated into the issue of development.

The former ownership advantages in the OLI-model gets extended, from just including how the MNCs are integrated due to regulations, to how the existence of MNCs affect regulations and thereby institutions (Dunning 2004 p.20) (Dunning & Fortanier 2008 p.16). By this definition it makes it possible to brake down investments into horizontal and vertical and derive the different effects from the different types of investments. The general idea is that horizontal investments in a certain sector helps to improve that specific sector in the host country, thus promoting entrepreneurship (Dunning & Fortanier 2008 p.16). Vertical investments on the other hand can give positive effects, such as technology transfer on local markets if backward vertical and affect market structures if forward vertical. The table on the next states the differences between the Old and New Development Paradigm.

Figure 2.3a Comparison between ODP and NDP

	ODP	NDP
Development means	Natural factor endowments(R) Little attention for capabilities(C), created assets Limited role of government and incentive structures (ln) Limited attention to process or dynamics of development	Resources: capabilities; entrepreneurship and markets (R, C, M) Institutions and institutional infrastructure (ln)
Development ends	Mainly economic Limited attention for public goods/bads Means (working conditions) not part of ends Limited attention for ownership sovereignty, equity, justice, human rights, environment, security	Development as freedom Human development Sustainable development New priorities like relief of poverty, women's rights, health care, quality of life, education, environment
Relating means and ends	Monocausal and unidimensional Static (single equilibrium models) Most government action assumed to be distorting	Multicausal and multifaceted Holistic and dynamic Non-market institutions/organizations can be major enablers
Prime actors/ Stakeholders	Market participants, shareholder capitalism limited role of non-market actors	Markets, governments, civil society, supranational entities, participation and local ownership

(Dunning & Fortanier 2008:Appendix)

The overall thesis of the NDP is how looking at development and the role of institutions in a new way might affect our understanding of the effects of MNCs on host country development (Dunning & Fortanier 2008 p.10). If that new approach towards development can be accepted MNCs will to a larger extent take on the role as a global player who has the mechanisms to affect development. This can be done through further implementing CSR policies and thereby, to a full extent, have impact and influence over the linkages they are creating. The NDP states that MNCs should act *"as key partners in the process of societal transformation (Stiglitz 1998), and in activities related to CSR activities such as implementation of environmental, health and safety management systems at their production sites, as well as engaging in philanthropic projects"* (Dunning & Fortanier 2008 p. 17)

NDP is very well aligned with the traditional framework of CSR (which will be further presented below) and states that if MNCs would take their responsibility to a full extent they could reach the following active and passive effects in the host country as shown in the table below.

Table 2.3b Mechanism through which MNCs affect host country development

	MNC role	
Type of effects	**Passive**	**Active**
Direct (at MNC site)	Size effect (for capital base, employment, environment)	EH&S practices, labor conditions
Indirect (beyond MNC si	Competition, technology transfer, linkages, alliances	Philanthropy, public-private partnerships, supplier conditions

(Dunning & Fortanier 2008:appendix)

2.3.1 Challenges for the New Development Paradigm

In order to address the questions raised by the NDP, the theory calls for a further progress in quantifying some of the required information needed to asset MNC's effect on development such as a measurement of social development and environmental sustainability. These concepts might seem quite hard to define let alone quantify, but one should bear in mind that since the UN millennium goals where developed it was suddenly possible to quantify such things as human development. In fact, everything can be quantified if needed so the problem of quantification should be possible to solve and a standardized way of collecting data should be attainable. There are already statistics on, for example, institutional development but to fully analyze the role and effects on FDI made by MNCs, data should be collected on a regular basis by some form of international organization (Dunning & Fortanier 2006 p. 1). If this can be realized then the relevance of CSR, which will now be presented, can be better determined.

2.4 Corporate Social Responsibility - introduction

As stated above, the role of MNCs has become more recognized and the acknowledgement of their effects. The size and power of certain MNC have grown to the extent that today a MNC's budget can be larger than a smaller country's. The forces of globalization have also meant that corporations have a greater possibility to grow, as more countries are open for trade. The pressure for MNCs, usually based in industrialized countries and investing in developing countries, to take responsibility for their operations and the communities surrounding them has increased. Due to this, the concept Corporate Social Responsibility (CSR) has risen and almost all MNCs are now forced to relate to it. A further explanation of the concept will now be presented.

The World Bank and the World Business Council on Sustainable Development define CSR as *"the commitment of businesses to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development"* (Sida 2005: Buhmann 2005 p. 65). Still today there is not a universally agreed upon definition of what CSR is or what is incorporated in the concept (Buhmann 2005 p. 65). But the definition above was formulated by a large international organization and fits well with the general concept of CSR presented in research within this area. The fact that there is not a universal definition have lead to some questioning the relevance of CSR since every corporation then can choose the definition they feel comfortable with. However as the concept becomes more widely spread and CSR-associations have been created, at least larger groups are on common ground on what should be included within the concept.

The largest CSR initiative existing today is the United Nation's *Global Compact* with its 5100 members from 130 countries. To be a member your operations must follow the *Global Compact's* 10 universally accepted principles (see appendix). When becoming a member of the Global Compact a corporation also commits to a transparency and accountability principle which requires the member to communicate its work, through including a sustainability report in their annual report. A failure to comply can lead to disclosure (UN 2008a; UN 2008b).

There are many possible discussions concerning CSR but the research of this thesis focuses on the economic incentives for MNCs to apply CSR to their foreign investment and what development effect their CSR policies might have on the host country of the investment.

2.4.1 The development of CSR

CSR came to prevail due to the fact that there has been a change in the relationship between business and society during the lst decades. The forces behind this development have been the globalization of trade, the increased influence of corporations, the decreased size and power of government due to increased private ownership structures, importance of stakeholder relationships and brand reputation. The stakeholder corporations and civil society organizations have changed from being a paternalistic philanthropy view towards the surrounding society to trying to figure out what the rights and responsibilities of corporations towards the society are. (Raynard & Forstater 2002).

It is not only towards the corporations that the demands have changed. Individuals are now expected to take responsibility as consumers, employees and investors (Amalric 2004 p.5). Even if the CSR concept has become increasingly recognized in the latest decades its core idea can be traced through history. Already in the 18th century employers realized the value of having an efficient workforce and that a lack of food, housing and healthcare had a negative effect on the workforce. Medical facilities, housing and subsidized food that might have been seen as philanthropic improvements was actually created out of self-interest (Brown 2005 p. 18). Thus in the 18th century people saw positive economic consequences of CSR actions. Returning to present time, what incentives do corporations have today to engage in CSR? The macroeconomic consequences of CSR as well as incentives and effects at a microeconomic level will be discussed below.

2.4.2. The economics behind CSR

Corporations affect the society in many ways and above in the theoretical framework for FDI it was described that corporations can have many positive effects for the host society through the means of capital inflow and spillover effects such as increased know-how and improved productivity. However the corporation can also have negative effects on the host society, which is not always included into the costs they pay; this is because the costs are not always included into the traditional sense of costs. It can be argued that if external effects that corporations have on society can be internalized a higher social welfare level can be reached

(Reinhardt et al. 2008 p. 25-26). This internalization can be made through CSR implementations including for example environmental protection and employee health care. For individual corporations ability to apply CSR policies that generates higher social welfare they must have few or no obstacles such as e.g. budgetary constraints and inexperience of evaluating social benefits (Reinhardt et al. 2008 p. 25-26).

One can also argue that engagement in CSR can reduce the social welfare level, since there is a loss of consumer surplus when firms produce less output, at a higher cost and sells it at a higher price. Adding to that, shareholders also receive reduced financial returns. Depending on which of these effects is the strongest one determines whether or not the net social welfare effect of CSR activities is positive or negative. In industrialized countries the external effects are often regulated, through taxes and law, by the government to a greater extent than in developing countries. Because of this lower level of regulation, it is likely that LDC's social investments are below optimal level and thus CSR activities will have a net positive effect on aggregate social welfare level (ibid.).

Regulations in developing countries are often not well-enforced. For example in China there has been great concern about the lack of enforcement for environmental protection. In situations like these when activities could be harmful for the country's continuing economic growth investor's protection is believed to be socially beneficial (Reinhardt et al. 2008 p. 29). As already once stated above: if CSR is beneficial for a country depends on the net effect of the CSR investment. Still most large multinational corporations today engage in CSR, which puts an interest on what different incentives that lie behind the MNC's decision.

2.5 How and why do MNCs engage in CSR activities?

2.5.1 Corporation's responsibility according to Carroll

As previously stated, the issue regarding corporation's responsibilities has become increasingly debated in the last decades. As a response to this Carroll developed a theory, in 1979, regarding the different levels of corporate responsibility. Today it is one of the most cited theories in CSR literature. The theory can be easily illustrated in a pyramid (see figure on new page) and is outlined according to the following idea: after taking on one layer of the pyramid the corporation is then developed enough to take on a new level of responsibility.

Figure 2.5.1 Carroll's pyramid

(Sachs et al. 2005 p. 53)

The basic level is made out of economic responsibility and is essential since a corporation cannot exist without making profits. The second level – the legal responsibilities means that we have to follow the norms of our society that have been regulated in legislation. The third level – the ethical responsibilities are the norms within the society that are not legally founded but not operating in accordance with these the corporation will still be sanctioned by societal groups. The top level of the pyramid – the philanthropic responsibilities is corporate commitment to increase the society's wealth on a voluntary basis (Sachs et al. 2005). The theory is helpful when explaining the way the corporations reason and prioritize between responsibilities.

2.5.2 The relationship of social performance and financial performance

As stated above a corporations' priority is to maximize profits and therefore it is interesting to discuss the relationship between social responsibility actions and economic performance. There different opinions on this matter and they can be structured into three different viewpoints. *The first viewpoint* believes that there is a trade off between social responsibilities and financial performance. Engaging in CSR will get in the way of profit maximization and it is therefore irresponsible of a corporation towards its shareholders to engage in CSR operations. *The second viewpoint* believes that the costs occurring when the corporations embrace their social responsibilities are marginal and outweighed by benefits such as improved employee moral and productivity. *The third viewpoint* believes that CSR is important in itself and its costs are offset by a reduction of other costs (Mcguire et al. 1988 p. 854).

"The Shareholder Primacy" articulated by Milton Friedman in 1970 supports the *first view*. It says that the corporate executive is an employee of the business' owners, i.e. the shareholders, to whom he/she has a direct responsibility. He/She should operate in a profit maximizing way while still conforming to the rules of society, both those of law and ethical customs (Friedman 1970). Caring about CSR will put the corporation in a more disadvantaged situation than other corporations since it is unable to cut costs when trying to uphold its CSR standards. Also it limits the corporation's strategic alternatives since investment opportunities in certain location will not be considered and compliance with CSR cannot be guarantied (Mcguire et al. 1988 p.855).

The *second view* believes that the cost of making CSR investments can repay itself in the long run by improvements in productivity and employee morale. To determine which investments to make a cost-benefit analysis of present net value of expected future cash flows could be used. For a corporation to succeed with their CSR strategies it is essential that the management thinks long-term and that incentive schemes that encourages the management to make maximum short-term profits are abolished (Falck & Heblich 2007 p. 251-253).

The *third view* believes that CSR has a value in itself and that CSR investments will be outweighed by reduction in other costs. A theory that is well aligned with this viewpoint is the "Stakeholder Approach" which is one of the most mentioned in CSR literature. The theory was developed by Edward R Freeman and presented in 1984. It stated that managers do not only have to consider the demands and needs of their shareholder but also the ones of various stakeholders such as customers, employees, suppliers and communities (Clement 2005 p. 255). The idea is that creating a good relationship with your stakeholders makes both good business and ethical sense and has a positive effect on sustainable long term corporate value (Cai & Wheale 2004 p.509).

Freeman defines stakeholders as "Any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman 1984 p. 25). Freeman was the first to widen the concept of legitimate stakeholders to also include local community organizations, environmentalists, consumer advocates, governments, special interest group, competitors and the media. Since Freeman's theory was introduced much research has followed to improve the stakeholder theory, turning it into a useful tool for business leaders today (Clement 2005 p. 255-256). The theory can be used when trying to translate business ethics to management practice and strategy. The situation for managers has become more difficult since the ethical sensitivity, international competition and hyperactive media has increased. Managers must keep up with the competition and provide high returns for their shareholders but at the same time they must not interact in actions that might offend other stakeholders, which calls for efficient stakeholder management (Freeman & Harrison 1999 p. 479).

Many claim that CSR is plain risk management, as it decreases the risk of the damage that a scandal might do to the brand value of a corporation as well as the risk of getting entangled in legal difficulties. For preventive risk management to be efficient, compliance with ethical codes needs to be monitored and implemented throughout the supply chain. Careful corporations also think about CSR when choosing where to place their new investments. The impact it will have on the society is carefully examined to reduce the risk of a backlash from the local community, activists or governments. Some corporations say that even if they surrendered to CSR the hard way – by harm being done to their reputation – they now see CSR as more than just risk management. (The Economist 2008-01-19).

2.6 The internal and external effect of CSR activities

When talking about CSR strategies it is helpful to divide it into two categories; the first being the internal structure and the second being external society effects. The concept of *internal structure* includes worker's health and safety, minimum wages, anti-corruption, ensuring compliance with human rights, energy-efficient production methods etc. Matters like these are usually regulated within the Code of Conduct (COC), which is a document that outlines a company's standards regarding the issues above, their implementation strategy and monitoring. The monitoring and controls are in most cases preformed by so-called "social audits" meaning that the MNC visit their supplier or local branch to see whether it complies with the COC or not.

"Levi Strauss" was a pioneer in this area when the corporation in 1991 started to implement its Global Sourcing and Operating Guidelines (Holst & Jensen 2006 p. 7). Another example of the internal work is "Anglo-American", a mining company who has developed a "socio-economic assessment toolbox". It identifies the local stakeholders and assesses how they are affected by the corporation's actions and then tries to figure out how the outcome of its operations can be improved and a trust developed between the corporation and the stakeholders. The corporation benefits this strategic management as risks are reduced and potential conflicts can be avoided (The Economist 2008-01-19).

The second category is the CSR work related to *external society*, which is usually carried out through projects of philanthropic nature that aim to help community development. (Palmqvist 2007 p. 11). Although these projects are conducted in a philanthropic spirit they may lead to increased profit for the company. An example is "Anglo-American", they say that the 10 million dollars that they spent on a HIV project in Africa is starting to pay off through reduced absenteeism and longer lives for skilled workers (The Economist 2008-01-19).

Whether the corporation is working with the internal structure or the external society, CSR should be seen as a long-term commitment. It is an investment in the corporation's long-term profitability. Falk and Heblich (2007) claim that short-term actions like donating money to a community project or public events are not the most efficient ways to work with CSR. The highest pay-off of CSR investments is found when it's planned specifically, supervised carefully and evaluated regularly (Falk & Heblich 2007 p. 248). This implies higher demands on the corporation and also calls for a more systematic approach to CSR.

2.7 How to measure CSR

Since CSR is a fairly new field of research, tools for measurements has only just begun to be developed and there is no internationally leading method yet. This makes it hard to both measure CSR and to compare the results of the studies carried out today. The lack of longitudinal data and small sample sizes further complicates the picture (Lindgreen et al. 2009 p. 306). There are controversies about whether or not it is possible to measure CSR as a whole concept or if it is better to measure components of CSR and then add them into a joint value. But as said before, no one has so far developed a dominant method for that yet. However, some of the measurements used today can be mentioned.

The Fortune reputations survey has become a popular measurement for social performance. The rankings derive from surveys sent to experts (senior executives, directors, analysts) within a certain industry. They are asked to rank the 10 best corporations based on 8 aspects of reputation with CSR being one of the aspects. A strong correlation between an overall good reputation of a corporation and strong CSR practices are found (Freeman & Harrison 1999 p. 481). Another famous and perhaps better measurement of CSR is the KLD (Kinder, Lydenberg, Domini & co) index, which includes factors such as community impact, diversity, employee relationships, environmental impact and product safety. Analysts hired by the KLD firm are also the ones collecting the data they work with (ibid.).

An important tool under development is the ISO 26000 for social responsibilities that will be launched in 2010. Unlike the other ISO standards it will be on a voluntary level and not a certification like other ISO standards but still it will mean that there is a more universal tool for guidance of concepts, definitions and methods of evaluation (Kortelainen 2008 p. 433). The fact that CSR is completely voluntary and most of the monitoring is made by the corporation itself is much criticized. At present time there is no higher authority that can control if the corporations fulfill the standards that they have set up in their COCs. Although most corporations are self-regulatory there are examples of corporations hiring external bodies for monitoring (Amalric 2004 p. 6). It is also criticized that management of supplying factories are announced in advance that there will be controls and therefore tend to do better than normal and improve conditions when the corporations come to monitor the factories (Ellinor 2008 p. 28).

2.8 MNCs CSR implementation and the host society

As mentioned before MNCs operate in various countries and its investments can generate both negative and positive effects on the host society of the investment. There is another angle of CSR left to consider, which is related to the fact that regulations and enforcement of law are stronger, in general, in industrial countries than in developing countries. Therefore CSR has sometimes been accused of being a northern driven agenda imposed on LDCs with the intention to reduce their comparative advantage. MNCs CSR policies have been criticized to be insensitive to local priorities and it is believed that CSR would have a greater impact if they were more holistic and development-oriented shaped and sensitive to the local context. There is a desire that the notion about CSR policies were to be passed down to stakeholders on local levels as well as auditing and certification capacities (Amalric 2004 p. 29-30; Fox 2004 p. 32).

It has also been expressed that CSR must consider Small and Medium size enterprises (SMEs). Since they are smaller and might have a harder time to reach profitability (Amalric 2004 p. 29-30) it is important that MNCs support and encourage the development of the SME sector instead of shutting it out. This can be made through the MNCs helping the SMEs to improve so that they can fulfill the requirements of the MNCs CSR policy (Raynard & Forstater 2002).

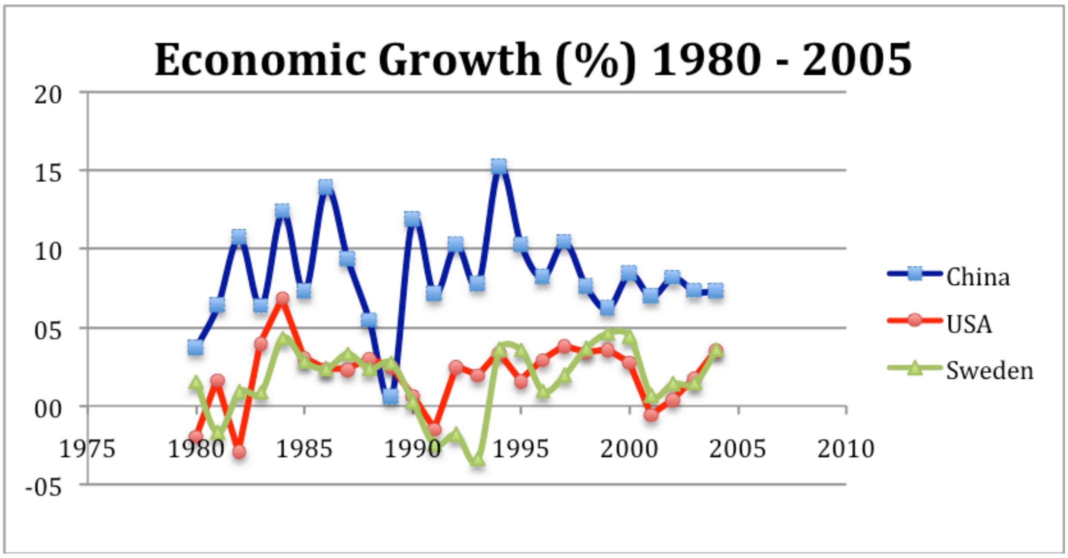
The host country usually forms very favorable regulations to attract investments and because of this, a so-called "race to legal and ethical bottom"-effect has appeared in many developing countries. This means that the government withdraws regulations or ignores to enforce the law in order to ensure incoming investments. When the government withdraws their enforcements a gap is created between government regulation and corporate regulation. Without regulation and protection there are chances for trespassing of laborer's human rights or environmental destruction. Among others, New Development paradigm emphasizes that when governments back down there is a need for MNCs to stand up and take responsibility, which could influence governments to refocus on sustainable development. More formally put the problem leads to a global market failure where the negative external costs of MNCs need to be internalized (Falck & Heblich 2007 p. 249).

3. Analysis/Empirical Findings

3.1 The Chinese economic development

30 years ago China begun undertaking reforms to gradually start opening the country towards the world market and integrate with the world economy. These reforms have led them to massive economic growth with an average growth rate of 9,5% per year, this being the highest level of GDP growth in the world (UNCTAD 2005 p. 1-2,106). A comparison to USA's and Sweden's growth rate over the past 30 years illustrates how USA and Sweden, two very different industrialized countries, still are very well aligned in their growth rates, while China substantially differs. The data for the graph below is collected from Penn World Tables version 6.2.

Figure 3.1 Economic Growth rate in China, USA and Sweden 1980 – 2005



Determining the conduit of China's economic growth has engaged researchers for the past twenty years and explanations are coming from different angles. However, a few general remarks can be made to explain China's economic growth. China reinvests a high proportion of their annual income and large amounts of those investments are spent on improving their physical infrastructure. The country has a rapid growth of modern labor force, which is also the most abundant factor of production of the goods China exports. A great deal of their resources is spent on education in an attempt to create high skilled human capital (Naughton

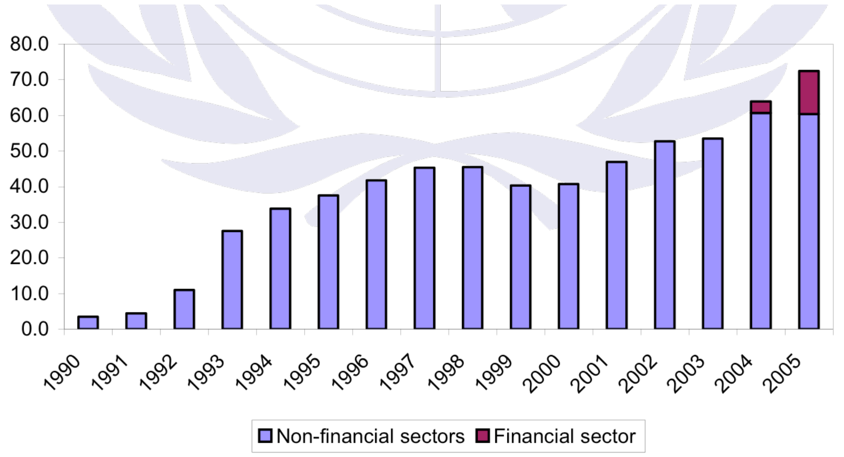
2007 p. 6). Moreover, China is enjoying the effect of a transition from planned socialism to market economy. The opinions differ about what the effects are of that transition, but it can be stated that the policy package of market-oriented but prudent microeconomic reforms combined with a forceful and aggressive macroeconomic growth-oriented strategy has worked well for China, at least as far as regarding economic growth (Naughton, 2008 p. 6-7) (UNCTAD, 2005 p. 2-3).

Consumption in China today is 400% above the level before the country started to undertake its reforms. A World Bank report in March 2009 showed that people living in extreme poverty have been reduced from 65% to 10% during the period 1981 to 2004. Since 2004 the poverty decline has increased further (World Bank 2009). The country has overtaken countries like Japan and France in terms of exports and China is now a significant player in the world economy.

3.2 FDI in China

FDI has played an important role in this development. In fact, more than half of the country's export is due to the intra-firm export in foreign owned firms. 70% of its export goes to the United States, Japan, the European Union and Hong Kong, which are also the main investor's in the country (UNCTAD 2005 p. 35) (UNCTAD 2007). Before 1995 FDI inflow went mainly into the manufacturing sector and exported goods were labor-intensive, low-tech and with a low value-added to products (Li et al. 2007 p. 90). After the mid 1990's the structure changed, starting with a greater FDI inflow into electrical and mechanical industries, which was the start for an increase in horizontal investments (Li et al. 2007 p. 90). Since the banking sector opened up for foreign corporations the investments flowing into the country rapidly increased and in 2005 FDI inflow to the financial sector counted for 12 billion dollars compared to 60 billion dollars non-financial FDI as shown in the graph below (UNCTAD 2007). However, the manufacturing sector still represents more than 50% of the FDI inflow into China (Naughton 2007 p. 419). Opening themselves towards the world markets has provided expansion in markets for Chinese products as well as creating a larger inflow of capital, technology, expertise and resources that have been beneficial for the Chinese economic development. (UNCTAD 2005 p. 1-2,106-106).

Figure 3.2 FDI inflows in China 1990-2005 (Billions of dollars)



(UNCTAD 2007 p.2)

But even though China has experienced a remarkable economic growth and development due their reforms, their difference in GDP per capita compared to industrialized countries is vast. In 2008 USA's GDP per capita level (PPP) was 45,778 US dollar per year, Sweden's was at 36,696 US dollar, while China's GDP per capita was at 5,378 US dollar, making the U.S. and Swedish average GDP per capita over 7 times higher than in China (IMF yearbook 2008). The main concern within China now is how to sustain the growth of the economy and how to maximize the benefits from it to the Chinese population. There are many challenges still ahead with the external pressure of currency revaluation, continuing the financial reform, reducing bottlenecks slowing down growth, increasing income inequalities because of a widening rural-urban gap and the lack of social safety nets (World Bank 2009) (UNCTAD 2005). These problems cannot be solved with solely economic growth and policy packages are demanded to make the growth sustainable both socially and environmentally (UNCTAD 2005 p. 109). The sources of improvement and what role FDI and MNCs' CSR policies have had and may have on China's development will now be discussed.

3.3. Development effects of FDI in China

The theoretical framework for FDI and CSR presented in section 2 are influential for the selection of empirical data that will be presented in this section. A complete analysis, according to NDP, inquire for results of the impact MNCs and their FDI might have had regarding factors such as the quality of institutions, human development, freedom, amount of people lifted out of poverty, women's rights, health care, quality of education and environment etc. (for recollection please see table on page 16) (Dunning & Fortanier 2008 p. Appendix). However, since there are limitations on how to measure these factors, in particular the connection and correlation to FDI, which have been discussed in the theoretical framework, the empirical analysis will involve both quantitative and qualitative effects of FDI. This part of the empirical analysis is meant to serve as a base before examining case studies to see the effects of certain MNCs applying CSR to their FDI in China.

Economic Growth and productivity: There are many theories about what impact FDI has had on growth and productivity, but the general opinion is that FDI has played a very important role for the Chinese development. Further it is believed that China increased their efforts to join the WTO in the late 1990's as a mean of attracting further FDI inflow, due to their believe of the impact FDI might have on their development (Naughton 2007 p. 419).

Separating horizontal and vertical FDI and further on divide vertical into forward-linked or backward-linked (see page 8) we can draw the conclusion that the combination of forward-vertical and backward-vertical investments has created technology spillovers in China in the form of know-how, management skills etc., but backward linkages are believed to have a stronger effect on technology spillovers than forward linkages (Liu 2006 p. 192). Liu (2006) shows that intra-firm FDI into domestic Chinese firms have had a negative impact on the level of production, but a positive effect on its productivity. This implies that the MNCs operating in China are believed to have a boosting effect on development, but that it is a costly process since their "ways" means that the domestic producers must take time to re-learn their production processes etc. which results in lower production level in the short run. But when they do adapt, their production levels and their productivity increases in the long run (Liu 2006 p. 193). The fact that productivity increases and that it takes time is due to the acquiring of human capital in the process, something that is beneficial for the industry in the long run. Or as stated by another research "Spillover efficiencies from FDI are stronger at promoting labor productivity than boosting total factor productivity, suggesting that the benefits of FDI in China have come from improvements in human resource allocation efficiency versus overall technological progress" (Braunstein & Epstein 2002 p. 11).

The empirical evidence shows that vertical FDI, creating backward and forward linkages, can lead to economic growth due to increased capital (physical and later on human), creating so-called FDI-led growth. The increased FDI in a country creates spillover effects, which can attract additional FDI and thus further increase economic growth, a so-called growth drawing FDI effect. This situation is now experienced in China as spillovers from vertical FDI lead to an increased know-how and high skilled laborers, which now attracts horizontal FDI inflow. These investments result in a higher level of productivity and thus increased economic growth (Braunstein & Epstein 2002 p. 10). This idea of a causal effect is not very hard to grasp and it is interesting to see how China follow the model well since horizontal investments in the financial, i.e. the real estate business have increased after thirty years of almost only vertical investments, even if it is due to a shift in Chinese policies making horizontal investments possible, one can imagine that it is also because the prerequisites such as high-skilled workers and infrastructure now exists compared to thirty years ago. (Fana, Mork, Xu & Yeung, 2007, p. 21).

Not everyone believes that the increase in horizontal investments is positive. UNCTAD claims that the increase of horizontal investments in China is negative since it can be a threat to the Chinese economic development as foreign investments might crowd out China's own corporations (UNCTAD 2005 p. 125). However, panel data regressions over Chinese intra-industry and inter-industry spillovers using an endogenous economic growth model showed the exact same results for horizontal investments as for vertical, that it decreases productivity level in the short run, but increases the productivity in the long run (Liu 2006 p. 188).

Wages and employment: Wages are a relevant development effect of FDI since it is one of the means of lifting people out of extreme poverty (Braunstein & Epstein 2002 p. 15). Regressions made by Braunstein and Epstein using Panel Data from China's 29 provinces (actually provinces and municipalities) showed a statistically significant correlation between FDI and wages in China. The correlation states that a one percent increase of FDI increases wages by 0,025-0,036 percent, which was proved using different tests and regressions (Braunstein & Epstein 2002 p. 18). However, it is important to remember that this is only a measure of wages in terms of money, taking no extra benefits into account. Still it is fairly good evidence of the fact that FDI has helped to increase wages, which most possibly have improved the living standard of the Chinese workers. Another research performed by Hale and Long (2008) at Federal Reserve Bank of San Francisco showed that the presence of FDI in China significantly increases wage of high-skilled workers but not for low-skilled workers, which implies that the presence of FDI itself increase the income inequalities in China (Hale & Long 2008 p. 24). When looking at employment, the question about the effects of FDI is dualistic. Because even though the presence of MNCs in China does provide a lot of job creations that did not exist before, it also causes a classical development enigma of urbanization and the unemployment associated with that. The situation in China today is a scenario with a large portion of the population moving from rural areas to urban areas due to the income gap between the two regions, creating urban unemployment (Zhang & Song 2003 p.1).

Health Care: The question of FDI effects on health care in China is a hard one to answer since the answer depends on the beliefs of what responsibility relies on the government and what relies on the MNCs. The Chinese government does spend a lot of resources on health care themselves, but as stated in the theoretical framework the NDP suggests that MNCs should take responsibility for the health of their employees (or employees at co-operating factories). Since a reform in 1978 the Chinese government is following a program where health care expenditures have been shifted from mostly preventive medicine to an active health care that can meet the needs of both rural and urban population (Medcof & Chatoorgoon 2006 p. 2).

The presence of MNCs is believed to have boosted the transformation of the health care system in China. Researchers believe that especially horizontal investments in China is what has started to reform the health care industry. Due to MNCs outsourcing of R&D departments of medical companies in China, pharmaceutical MNCs operating at site have taken initiatives *"to improve the general medical infrastructure of the country through such activities as training and investment in facilities and equipment"* (Medcof & Chatoorgoon 2006 p. 1). This has increased the know-how of Chinese researchers and encouraged them to approach the health care system in a new way. A shift in government policy and business culture regarding health care and R&D is ongoing but implementation will probably take time (Medcof & Chatoorgoon 2006 p. 4). In 2006, there were 5000 R&D facilities in China and the Chinese pharmaceutical industries is actively trying to form business relationships with the MNCs since they possess more financial resources to invest in R&D (ibid.). However, out of the total

FDI inflow into China, "health sports and social welfare" only stands for 1% or less on average, which is the third smallest group of FDI inflow (Li et al. 2007 p. 89). The second smallest group is "scientific research and technical service". Therefore these investments must have a smaller effect than the ones that could be generated through the manufacturing sector that stands for over 50% of the FDI inflow (ibid.). A report from the World Bank also emphasizes the fact that the marketization of China has had a negative effect on health care in some poor regions, since people now have to pay for health care. A good solution could therefore be that the MNCs start including a health package or a security system for their employees (World Bank, 2009, 26).

Vertical investments are believed to not have been a great influence, as MNCs believe it is the Chinese government's responsibility to take care of the Chinese workers' health. As discussed before in the theoretical framework the responsibility of MNCs operating in China is very often debated and to explore this further we turn to look at CSR in the Chinese context.

3.4 CSR in China

The awareness about CSR in China has increased very much in the last few years, both among businesses and the population. The awareness has emerged mostly thanks to influences from the west, increased access to the Internet, media attention and attention given by NGOs (Ellinor 2008). The government have been receiving increased pressure both externally from MNCs wanting better, more favorable conditions for their CSR policies and as well as from the workers themselves, taking part in massive protests expressing their discontent about indecent labor standards (Holst Jensen 2006 p.2-3, Buhmann 2005 p. 63).

As CSR has become a more frequent topic, the Chinese have been both welcoming and hesitant to the implementation of the concept. The proponents of CSR say that China should implement the concept, as it would mean that the FDI level flowing into the country would be less vulnerable to international CSR scandals. An increased implementation would also mean that the external pressure, coming from both large MNCs and international organizations, would subside as well as the internal pressure coming from the Chinese workers. China also receives much external pressure on environmental issues as the do not effectively enforce their legislation and trespassing against environmental issues do not only have effects locally but globally (Buhmann 2005 p. 71). The subsided pressure would be beneficial to China's stability and development (Holst Jensen 2006 p. 30). Arguments can also be made that the CSR concept should be considered attractive to the Chinese leaders as it implements social values into the market economy. It complies more with the traditional Chinese way of looking at the economy meaning a more holistic and harmonic way of combining efficiency with equality (Cramer & Westgaard 2005 p. 3).

William Valentino, general manager of Corporate Communications, Greater China, Bayer (China) Ltd expressed his views on CSR in China with the following statement: "*The concept of a harmonious society is really China's rephrasing of the concept of CSR, sustainable development and human rights in China.*" (China Daily 2006-10-27). Valentino continues with "*Look at China. Its social and environmental burdens outweigh its rapid economic growth in the last 25 years,*" (and) "*The burden is so great that economic development will stop somewhere if we do not try to do something about it*" (China Daily 2006-10-27). Thus, Valentino remarks on that economic growth is not going to be sustainable unless China's social and environmental problems can be resolved.

Not everyone in China embraces the concept of CSR as it is promoted by the western world. Some claim that the purpose of CSR is to weaken China's competiveness as applying CSR will mean higher production costs (Cramer & Westgaard 2005 p. 2; Holst Jensen 2006 p. 6). Higher production costs will lead to decreased FDI inflows and economic growth rates which will also slow down China's economic development (Holst Jensen 2006 p.30). Opponents also see the problem in neo-imperialist terms and claim that CSR is a way of trying to impose western values and create a western-style democracy in the Chinese society (Cramer & Westgaard 2005 p. 2). Depending on which arguments one chooses to believe CSR can either harm or benefit China's future stability and economic development (Holst Jensen 2006 p. 30). The global trend however is that the prevalence of CSR will increase in China, whether it is welcomed or not by the Chinese government, businesses and population. Since the pressure on MNCs to implement CSR policies to their operation increasing and China is dependent on its business relationship to the MNCs, they will most likely have to adjust to this change. Before looking at three case studies, on how the Chinese society is affected by MNCs CSR policies, a brief of the situation for the Chinese laborers will be given. The situation is not a full explanation of every worker's situation and its purpose is rather to give the reader a better understanding of the problems that exist in China today concerning labor rights, which will be exemplified in the case studies below.

3.5 The Chinese workers

China's labor force is the world's largest, the country's most valuable resource and main attraction for FDI. The situation for the Chinese workers and labor right issues are often brought up in the media. The awareness of labor rights and CSR is unevenly spread throughout China, which results in more abuses in rural areas than in urban. For instance child labor is expected to still exist to a greater extent in the rural areas and among the smaller companies due to the lower awareness but also because law enforcement differs greatly across regions (Ellinor 2008).

In China there are 120 million migrants and their working and living conditions are often found to be less than satisfying according to international labor standards. Many workers are so called "dormitory workers" which mean that they live in dormitories close to the factory; provided by the state to enable a large labor force for the factories. They usually come from rural areas in China and are not permanent residents of the area they work in and therefore do not have the same rights that an urban citizenship would entail. The dormitories are not seen as a permanent residence and are meant to encourage frequent flows of laborers shifting in and out from the rural areas. To be able to be a resident of the dormitories employment is required and you can be forced to leave and be sent back to the rural areas if you loose employment. This puts the laborers in a vulnerable situation as they depend on their employer both for wage compensation and the right for residency (Pun & Yu 2008 p. 110-112). Among these workers abuses are more common e.g. below minimum-wages salaries, extensive over time, oppressive management and unsafe working environments. In 2008 the government passed new labor laws with higher labor wages along with other improved benefits for workers. As stated before, the benefits will not reach all of the workers due to the fact that local authorities have shown to be passive in enforcement of legislation and more inclined to protect the businesses. (Chan 2009 p. 62 , Ellinor 2008, Pun & Yu 2008 p. 18).

Although the existing problems mentioned above, protests in China have not been as loud as in other Newly Industrialized Countries (NICs) such as South Korea, Brazil and South Africa.

Chan argues that this is due to that the Chinese are still impeded by the socialist legacy and Confucius tradition. Meaning that an individual has its place in the social hierarchy and the social society's well function is more important than its individuals (Chan 2009 p. 60). Another explanation can be that the Chinese workers' associational power is not very strong and channels in which the workers can have their grievances heard are lacking. The failure of trade unions to rise can be attributed to the tradition of socialist trade unions and the strong authoritarian Chinese state (Chan 2009 p. 74). In China there is only one union, The All-China Federation of Trade Unions (ACFTU), which is sanctioned by the government. Workers are free to form their own trade unions but it must be a part of ACFTU, which strongly diminishes the power of creating a trade union (Buhmann 2005 p. 73). Consequently development of labor politics in China has lagged far behind the western countries as well as the other NICs (Chan 2009 p. 74). This background was given to better understand the situation for the workers in the case studies that will now be described.

4. Case Studies

Three corporation's CSR policies and their effects on the Chinese society will be analyzed in this section: Wal-Mart, Reebok and ABB. To find material to perform these case studies extensive researches exploring the corporations' websites in order to fully understand their CSR policies have been made as well as searching for external academic research, on how the implementation in China has been carried out. Research regarding stakeholder's opinions about the companies has also been made.

In the case of Wal-Mart and Reebok, reliable external research regarding their CSR policies have been used for the empirical analysis. Wal-Mart and Reebok have a vertical relationship to their suppliers in China, taking advantage of their advantageously priced low-skilled labor. ABB differs from Wal-Mart and Reebok in the sense that they use a more diverse field of China's resources; both low-skilled and high skilled-labor as well as its natural resources, creating both vertical and horizontal investments. However, the reports on their CSR policies are not provided by external empirical research preformed at their operational sites in China, but due to the lack of case studies made on horizontal FDI, ABB will serve as an illustration of the different incentives related to investments. The reader should be aware of the limitations to compare and draw conclusions from this case study as it is not fully objective.

4.1 Case Study: Wal-Mart: the world's largest retail store

Wal-Mart is an American low-price retail store chain with the slogan "Save money. Live Better". They have fully-owned or majority-owned stores in the U.S, Argentina, Brazil, Canada, Japan, Puerto Rico, United Kingdom, 5 countries in Central America, India, China, Chile and Mexico. Half of their units are outside of US but their US sales are $255.7 billion compared to $98.6 billion in sales outside of the US. The retail stores sell a wide range of products with everything from electronics to pharmaceuticals (Wal-Mart 2009 p. introduction). Wal-Mart is the largest toy retailer in the world and is said to "play the role of kingmaker in the toy business". Due to this the corporation has enormous market power and many other corporations follow the way to "Wal-Martization" in the quest for success. Their business formula is simple: high-volume sales, lower prices, cut production cost and shorten production cycles. Wal-Mart's most important weapon is its low prices and they continuously outdo competition by performing price wars (Wal-Mart 2009 p.113-114).

Wal-Mart opened up its first stores in China in 1996 and today there are 146 stores around the country with an estimated workforce of 70,000 people (Wal-Mart 2009-05-07). Most of Wal-Mart goods are manufactured in China and 80% of their suppliers are found within the country. The suppliers in China have a conflicted relationship towards Wal-Mart as they need the large orders but are extremely pressured to cut costs. An officer from Guangdong Toy Association says: "*US buyers demand prices that are not reasonable, considering the growing labor costs. Wal-Mart in particular puts a lot of pressure on prices, and as it orders so much from China, it has a large influence*" (Pun & Yu 2008 p.115). Wal-Mart plays a large role in the Chinese society directly through its 70,000 employees but also through its leading role in the industry and power to influence market prices.

4.1.1 A study of Wal-Marts suppliers

Pun & Yu examines the effects that Wal-Mart's CSR policies have had on the Chinese workers. They collected empirical data in 2005-2006 from three factories in the Shenzhen-area supplying toys to Wal-Mart. The conclusions are drawn from reviewing company documents and interviews preformed on workers (Pun & Yu 2008 p. 110). Many of the workers at the toy factories are so called "dormitory workers", a term which have been previously explained in the paper. This form of living arrangement and the conditions for the laborers came under public scrutiny in the middle of the 1990s, which lead to foreign corporations being pressured by anti-sweatshop movements to improve working conditions. This case study found that labor rights abuses such as dangerous and unhealthy working conditions, excessive compulsive overtime and wages below legal minimum still exists. None of the workers interviewed were enrolled in any kind of social insurance program, members of a union or felt they had any institutional channel to air their grievances (Pun & Yu 2008 p.119).

4.1.2 Wal-Mart's effect on the Chinese society

New Development Paradigm states that MNCs can have a passive and active role when it comes to affecting the labor force through their CSR policies. Wal-Mart opted its COC in 1992 stating that they would work for sustainability through performing regular monitoring in the factories they cooperate with. They have also allowed for a third party to perform monitoring in some cases. The term sustainability has replaced the term CSR and CSR is not mentioned throughout their COC. Wal-Mart released their first sustainability report in 2008 but no results from audits were specified within the report (Wal-Mart 2009 p. 9). The focus in their report, as well as the information provided on their webpage, is on community philanthropic projects and environmental sustainability goals. Wal-Mart's code of conduct says that labor standards are to be according to the legal requirements of the host country with the motivation that that Wal-Mart does not consider themselves to be in a position to change the minimum wage standards nor that they have the right to impose US cultural standards overseas. Therefore they do not communicate that labor right issues is one of their great concerns (Wal-Mart 2009 p.8; Wal-Mart 2009-05-07).

As mentioned before Wal-Mart puts more concern on environmental issues where they have active effects on host society as they for example formed a public-private partner project together with the Chinese State Environmental Protection Administration to reduce water and energy resources at a Chinese-owned cotton mill. The corporation found the mill to be too hazardous for the environment and in order to keep working with the factory they had to improve it (Wal-Mart 2009 p. 8). Wal-Mart communicates through their webpage that they consider themselves to be an "*excellent corporate citizen*" and underlines this by mentioning the many philanthropic charity project they participate in and publishes a list of awards won (Wal-Mart 2009-05-07).

Wal-Mart's current monitoring program is punishment-based, meaning that if a supplier factory does not comply with Wal-Mart's COC they will loose their order. This has happened to 108 out of Wal-Mart's 5300 overseas suppliers. The audits that Wal-Mart performs are announced in advance. The interviewed workers claim that management practices suitable answers with the workers and workers are financially rewarded for giving correct answers. Management also argues that if the worker gives "incorrect" answers the factory loose its order and the worker looses his/her job, which is rational reasoning when a program is punishment-based (Pun & Yu 2008 p.120-121). In their latest sustainability report Wal-Mart expresses a wish to develop a program allowing for a dialogue between the corporation and suppliers to find the root of the problems and give guidance to the implementation of improvements (Wal-Mart 2009 p. 9).

Wal-Mart's business strategy is well aligned with Carroll's pyramid of responsibilities since the corporation first of all has an economic responsibility, secondly a legal responsibility, thirdly an ethical responsibility and lastly a philanthropic responsibility. The only part that is somewhat ignored is the third level of ethical responsibility since they do not work for improving labor rights, but puts much larger efforts into philanthropic engagements.

The main conclusion of the case study on Wal-Mart is that since they mainly have vertical investments, their effects on the Chinese society are very much affected by their own goals and what effects they wish to have. As the empirical research showed, poor labor standards and pressure to cut costs counts as a negative effect that Wal-Mart has on the Chinese society.

This effect is extended beyond their own factory sites, since it forces their competitors to follow. The increased pressure on the suppliers worsen the situation for the laborers in China. Wal-Mart's unwillingness to improve labor standards has had a negative effect on the corporation, as it has resulted in negative media attention and their reputation has been affected. Wal-Mart have a positive effect on the Chinese society as they perform philanthropic community projects both beneficial for the environment and society.

4.2 Case study: Reebok

Reebok is originally a British corporation but was in 2006 acquired by the German based corporation Adidas. Reebok sells sport and lifestyle products designed for fitness and other sport activities. Reebok do not have fully-owned factories in China but most of their supplier factories are found within the country (Reebok 2009-05-24). Their investments in China are of the vertical kind. The brand was an "early mover" as they already approached CSR issues in the late 1980's. In 1992 the corporation suffered from negative media attention as NGOs criticized Reebok for using contractors violating laborers' basic rights. The corporation then decided to draft its first COC based on ILO's core conventions on labor rights. Reebok has since then also through different projects worked actively in promoting human rights and labor rights especially laborers' freedom of association. Reebok is a long-term believer of the business idiom "doing better by doing good", meaning that a corporation's financial and social performance is complementary and not conflicting. (Yu 2008 p. 515-516).

Today Reebok no longer have a CSR policy of their own since these issues are now managed through Adidas. The corporation has applied the GRI-reporting system and is a member of Fair Labor Association (FLA), an organization that Reebok already was a member of before the acquisition. Membership of the FLA requires compliance with its standards and random third party audits. The results from these audits are posted, in detail, online at the FLA website (FLA 2008). One of these audits preformed in 2006 by FLA in a Chinese factory supplying goods to Reebok will be used for further analysis of Reebok's CSR implementation.

4.2.1 A visit to Reebok's supplier factories in China

As stated above the empirical information in this section is collected from the FLA rapport as well as a study preformed by Xiaomin Yu on a specific factory in China, supplying footwear to Reebok. The data in this research was collected during 2002-2005 through participant observation, documentary reviews and interviews with Reebok's own human right managers, the factory's manager, production line supervisors, officials of the ACFTU, the factory's trade union committee members and the factory's workers (Yu 2008 p. 515-516).

The factory that is subject to the case study went through some changes as Reebok enforced its COC on them. Before Reebok required the factory to comply with its COC many human rights violations were found at the factory, e.g. too long working hours, workplace hazards and health problem, arbitrary punishment and difficulties in taking leave or resigning. These problems were a result of management practices, insufficient state protection of labor rights and weak union representation. After Reebok started to implement its COC, management improved conditions that did not require a significant increase in costs e.g. providing fire exits, protective equipment for workers and use of less toxic substances. However improvements that increased labor cost such as fair pay for overtime and offering bonuses (both required within the frames of Chinese labor laws) were not implemented. The management of the factory states that for these improvements to be made it would only be fair for Reebok to share the cost with the suppliers.

In cases of non-compliance with COC the supplier was financially penalized and management wanted to see a more a positive incentive system to achieve compliance with the COC (Yu 2008 p. 520). The management did not feel it received any guidance in applying the COC and felt it was caught in a dilemma in how to implement the code of conduct and still keep its profitability. The changes required increased productivity and lower production costs resulting in a worsened situation for the workers as they now had to produce the same quantity of goods in less time. Their jobs became more laborious and stressful (Yu 2008 p. 523).

When excessive overtime, child labor and unsafe working conditions were abolished the wage of the labors decreased. The laborers therefore felt that their situation worsened and the wage was not sufficient to meet their basic needs (ibid.). Yu (2008) describes Reebok's CSR policies as something that turned into a race to “ethical and legal minimum” labor standards. Reebok’s COC demanded an employee elected union, which was introduced, but it failed in actually enhancing laborer’s bargaining power. Yu (2008) claims that the effect of Reebok’s policies were restricted by inhibited structural forces and agency-related factors embedded in industrial, national and local contexts. (Yu 2008 p. 524). Yu, also claims that since Reebok and other famous corporations engages in CSR because of commercial reasons, the effectiveness of the policies are reduced. He also emphasize that China’s labor regime, both at national and local level, does not provide enforceable legislation or effective institutions to protect the rights of Chinese workers (Yu 2008 p. 524-525).

Conclusions drawn by Yu is that the effectiveness of the codes of conducts are constrained by the unsolved tension between profit maximization and social responsibilities, the ever-increasing competition at world markets and the insufficient state protection of labor rights. Yu proposes two solutions; *firstly* the cost of implementation of COCs should be fairly shared between the MNC and the supplier. *Secondly* COCs should be seen as a supplement, and not an alternative to state legislation and international law (Yu 2008 p. 526-527).

In the FLA report non-compliance with local awareness of COC standards, insufficient security measures and excessive overtime were found. Improvements were suggested and a follow-up was performed. At the follow up, many of the non-compliance issues had been corrected and the least likely to be corrected were the one of free association regarding trade unions (FLA 2006).

4.2.2 What effects does Reebok’s CSR commitment have on the Chinese society?

It is clear Reebok have adopted the stakeholder approach since they present stakeholder’s questions, and the corporations answers to them, on sustainability section of their website..They also mention that they think of CSR practices as risk management. Reebok have both active and passive effects on the Chinese society. Reebok’s COC have improved many issues regarding overtime, security and human rights (FLA 2006) but as stated above the worker’s situation have also worsened since no financial contribution have been given required for the improvements. Reebok's effects beyond site are limited since the corporation does not communicate a large scale of philanthropic activities. As Reebok does not own any of the factories the technological and knowledge spill-over effects are not very extensive. There are still issues of non-compliance with its COC but Reebok's CSR approach with third-party monitoring practice with follow-up procedures means there is a constructive plan for improvement.

4.3 Case Study: ABB

The Swedish-Swiss owned corporation, ABB, is a world leader in power and automation-technologies. The corporation operates in 100 countries around the globe and employs about 120 000 people (ABB 2008a p. UG1). ABB started its work with CSR in 1992 by signing the International Chamber of Commerce Business Charter for Sustainable Development and started up an environmental advisory board. Four years later they introduced ISO14001, an internationally recognized standard for effective environmental management. 50 sites were certificated including the first in China. At the end of the century ABB participated in the launch of UN's Global Compact and in the same year it produced its first sustainability report inspired by Global Reporting Initiative (GRI). Since then, ABB has become a member of many organizations and expanded its ways to work with CSR. Among the most important Amnesty Business Group, Business Leaders Initiative for Human Rights, CSR Europe, Red Cross and Transparency International, and can be mentioned (ABB 2009).

ABB has hired 400 sustainability controllers and monitoring is made at all ABB manufacturing and non-manufacturing sites. To ensure more object results ABB has hired an independent monitoring body. In their latest sustainability report it was put forward that ABB performs well on environmental standards and the greatest challenge at the present time is occupational health and safety performance. (ABB 2008 p. 15).

As stated above, the case study on ABB is mostly based on material provided by ABB since no independent case study has been made on the company. This case study is meant to serve as an illustration of how horizontal investments might give corporations' different incentives for CSR compared to vertical investments. In order to create an idea of ABB's CSR work an extensive search on the Internet was performed, which led to many sites (e.g. CSR Europe and China CSR) giving positive critique to ABB on their CSR work. The only negative critique that was found regarding ABB's CSR performance was related to a bribery scandal in Africa (Transparency 1999). Otherwise ABB is mentioned in several forums to be a frontrunner when it comes to CSR (Nema 2008).

4.3.1 What effects does ABB have on the Chinese society?

ABB have established many forms of business operations in China, ranging from R&D and manufacturing to sales and services. It has 26 joint ventures or fully owned corporations that employ around 12800 people. Investment grew from $10 million in 1992 to $820 million in 2007. This makes China ABB's largest market in terms of revenue, order and employment. The corporation sees China's economic development as a "win-win" situation and has a long-term commitment to be a part of its development by improving the Chinese energy efficiency and environmental sustainability (ABB Report 2008b p. 6-10).

ABB can be said to have a direct effect (on MNC site) through monitoring and certification of their sites. ABB has indirect effects (beyond MNC site) through contributing to community projects, sponsor university students and engage in private-public partnerships. These contributions are not only made out of philanthropic reasons but also because ABB sees its Chinese employees as valuable assets and the Chinese market as a prosperous future market. Therefore they try to consider Chinese stakeholders throughout their operations (ibid). ABB has vertical investments in China enjoying their low labor-costs, natural resources and increasingly stronger human capital. ABB also have horizontal investments in China, as a part of its R&D department is located in China. ABB apply stakeholder management as they, in their sustainability report, identify main stakeholders that they believe will be affected by ABB's operations and invite these stakeholders into roundtable discussions were they are given the opportunity to express their concern. ABB's goal to create a good stakeholder relationship is not only to reduce risks but also a part of their strategy to increase long-term profitability.

China with its massive economic growth is heading towards becoming the largest energy consumer on the planet. The Chinese state is in great need of energy solutions and will in the near future continue to advance their infrastructure. A philanthropy project that has been carried out by ABB providing electricity to rural Chinese areas can be seen as a way to provide Chinese citizens with electricity but also as a strategic display of how an ABB product can be installed in additional regions in China (ABB 2008b p. 7). Thus, by helping the Chinese society ABB might be signing up for a future order. As ABB express their wish to actively take a responsible role for the future development of the Chinese society, the underlying reasons can of course be for economic purposes as well. This “win-win attitude” aligns well with theories like the stakeholder approach and the NDP.

4.4 Reflections of the case studies

The case studies are thought to serve as a description of how differently corporations can work with CSR issues it results in different effects on the Chinese society. Wal-Mart chooses to concentrate on philanthropic community projects and overlooks many issues concerning labor rights. Their motivation for this is that it is not in their right to impose American labor standards on the Chinese society. Thus, they do not agree with the New Development Paradigm meaning that as governments withdraws its protection to attract investment the MNCs should step up and take responsibility for their part of the problem. Reebok on the other hand focuses very much on supply management and have an extensive control apparatus with very clear ways how to correct non-compliances with their COC. They do not emphasis as much on their philanthropic work although they do perform it.

These two case studies show how CSR work can either focus to the internal structure of the corporation or on the external society, as previously explained in the theoretical framework. ABB’s work focuses on both of the internal structure and the external society but the corporation is not as advanced as, for instance, Reebok in their reporting system. Improvements are encouraged when it comes to accountability and transparency. The effect on external society is large as they perform infrastructure project and are able to combine their own expertise with their philanthropic projects. Wal-Mart and Reebok’s investments are of the vertical kind while ABB engages in both vertical and horizontal investments. ABB differ from the others in its attitudes towards the employees. Low-skilled labor is an abundant (and easily replaceable) factor of production in China and therefore vertical relationships might not call for large care of employees. ABB emphasizes on contributing to increased human capital in China and is setting up a development plan for all employees. High-skilled workers are harder to attract and replace therefore corporations might consider them worth a greater effort. This way, horizontal investments can lead to larger technological and knowledge spillover effects that are beneficial for the host society.

All three corporations have sustainability reports and perform monitoring within their own organization as well as their suppliers and invites a third party to also perform monitoring. They all follow the Global Reporting Initiative standards in their reports, which could be seen as a sign that global standardization concerning CSR is on its way. But fact remains that although they all follow GRI in their reports, all three corporations' COC and areas of CSR activities differ from one another.

5. Discussion

This section is meant to tie the empirical findings together and analyze the answers to the research questions with reliance on the theoretical framework. For recollection, the questions are repeated below:

1. What are the incentives for MNCs to apply CSR to their investments in China?
2. How has the prevalence of CSR affected the MNCs in their operations in China?
3. How can MNC's policies affect the development of the Chinese economy and society?

1. What are the incentives for MNCs to apply CSR to their investments?

As described in the theoretical framework there are different theoretical views regarding this question. The conclusion is however that corporations' first and foremost responsibility is to be profitable. CSR is a strategic move a corporation makes after they have seen to their basic needs. The case studies showed that all three corporations adapts CSR according to the stakeholder theory which could be seen as a sign that it is the influence of stakeholders that have lead to MNCs adopting CSR strategies. This leads to the conclusion that if stakeholders strongly emphasize the importance of CSR, the company will apply CSR.

Different incentives lead to different approaches to CSR and difference in what the corporation chooses engage in. In the case of Wal-Mart, the implementation of CSR is focused on *external society* and philanthropic gestures rather than dealing with its *internal structure* like labor rights and conditions. This could be seen as a strategic move since philanthropic projects brings more media attention, which makes Wal-Mart receive good publicity. The negative attention brought on Wal-Mart focuses mostly on their poor labor standards. One explanation for the lack of engagement in labor standards might be that since Wal-Mart is a low-price retail store they have a large focus on profitability. Therefore they might be putting as much resources as possible on CSR while still regarding the basic level of Carroll's pyramid, economic responsibility. Reebok on the other hand is putting great effort into the implementation of their COC but not as much on philanthropic project and are moving up the pyramid in the order that is explained by Carroll. An explanation of this could perhaps be that Reebok is more cautious of the reputation of their corporate brand and as a result of this they are able to charge higher prices for their products. Another explanation to why corporations CSR commitments differ so much can be related to the nature of their investments. ABB has vertical as well as horizontal investments in China. As ABB sees China as not just a supplier but also as an increasingly larger consumer, they have larger incentives to care for their Chinese stakeholders and this calls for a more responsible approach.

So, to answer the question above it can be concluded that differences in corporate goals and characteristics lead to different incentives to apply CSR policies. Stakeholders have shown to have a strong influence on MNCs incentives. But as underlined by the economic approach, the company must find a balance between the importance of the stakeholders' needs and an optimal level of production. If too much is spent on CSR, profitability might be harmed. Incentives also depend on what type of investments the MNCs engage in. Without drawing the conclusion that vertical investments leads to one type of incentives while horizontal generates other incentives a general observation can be summarized as follows: The MNC's incentives for applying CSR policies is most possibly colored by the way they value their FDI relationship with the host country. If the company regards their relationship as long-term and equal, the incentives will tend to be more sustainable since their CSR work might improve not only the situation in the host country but also the corporation's long term profitability. The different incentives will, in turn, lead to different effects, which will be discussed in the next question.

2. How has the prevalence of CSR affected the MNCs in their operations in China?

Before CSR was introduced, MNCs focused on the investment part of their relationship with China while social and environmental questions were left for the Chinese government to work with. Today the pressure on MNCs has increased, making the situation for them more complicated as they experience an expansion in tasks. They now have to take responsibility for issues that most often are treated by institutions, legislations or trade unions in industrialized countries. It is now up to the MNCs to ensure fair labor standards and environmental protection. To handle this task our case corporations have formed a COC, which if fully implemented should protect them from sanctions from various stakeholders, e.g. negative media attention. Therefore CSR have shown to be a kind of risk management for the corporation.

However, as discussed in the previous sections, formation and implementations of COCs are two different things. The fact that the corporations to a large extent perform the monitoring of the COCs themselves makes the reports of their CSR work somewhat biased. The two external researches preformed on Wal-Mart and Reebok give descriptive details of how the situations have changed on micro level, i.e. in the factories. This could be seen as a more objective or at least as a counterpoint to the corporation's own reports. The researches show that the CSR work at Wal-Mart's factories have not affected the development as the corporation do not believe that it is in their right to impose their standards on the host country. The situation at Reebok's supplier factories has generated both positive and negative effects as e.g. less excessive over time but also more laborious condition during regular hours.

On the aggregate level the empirical data analysis showed that MNCs operating in China has had positive effects on wages, productivity, growth (i.e. poverty reduction) and health, but the role of CSR in that process is unknown since there is no state organ or international organization that summarizes the effects that CSR has. The fact that the corporations perform the monitoring themselves makes the validity of these controls uncertain. If there were a larger standardization of design, monitoring and reporting of CSR work and its effects more reliance would be given to these reports and CSR policies in general.

3. How can MNC's policies affect the development of the Chinese economy and society?

The NDP argues that MNCs have grown to the size and power where they need to be included into to the discussion of development. The Chinese government has adjusted their policies and legislation in the quest to attract foreign investments. Like mentioned before, this has lead to a gap that is not supposed to be filled by the MNCs, according to the theory, but which can be reduced through CSR work. Also the MNCs are seen as big enough actors to be able to influence the government's policies. But even though the MNCs have the opportunity to change, CSR is still surrounded by the problem of voluntarism and because of this it's developmental effects broadly differs.

It has been concluded above that different relationships can lead to different CSR effects. Horizontal investments seem to build a more sustainable relationship, between the MNC and the Chinese society, than vertical investments. Empirical findings showing that horizontal investments are increasing should therefore be considered favorable. But the fact still remains that more than half of China's FDI inflow is to the manufacturing sector, i.e. vertical investments. Low-skilled labor is and will continue to be China's most abundant factor of production and therefore CSR work should be standardized so that it will also benefit the majority of the Chinese population.

The mere presence of MNCs in China lead to spill-over effects and increased know-how but these effects can be further enlarged by the MNCs realizing their influential power and investigate ways in which they can contribute to the development of the Chinese economy and society. The spill over effects in the medical industry demonstrated how MNCs have lead to the start of a restructuring of the Chinese medical system. All of the case corporations include the right of free association with trade union in their COCs and have through this created a stir among the Chinese laborers, which in the future could possibly lead to the government allowing other trade unions than the ACFTU.

The MNCs have an ability to influence the Chinese development and it is hard to imagine that MNCs are not aware of this. Also their size and power are not likely to decrease. For the full potential of positive effects generated by MNC's policies and spillovers to be realized it is essential that the corporations find the right incentives to maximize its positive effects on the host community. As further verified in this paper corporations do not deal with CSR for the greater good but because the influence of their stakeholders.

To reach the maximization of the development effects of MNC's policies, the matter of consistency must be considered, meaning two things. *The first one* is that MNCs must have consistency in their work in order for their policies to have a long-term impact on the Chinese economy and society. CSR policies and COCs that are implemented with diligence are more likely to lead to positive long term effects such as better health and living standards, increased know-how and in its extension maybe even to structural changes. It is only natural that corporations will want the resources they spend on CSR activities to have maximum payback for themselves. Their payback can be argued to have a connection with the society's benefit as the corporation will receive positive attention for their positive effects.

Secondly, regarding consistency, there is a need for consistency in the collection and presentation of statistical data regarding development effects in China and other host countries of FDI. Without data or established analyses of the effects FDI and CSR might have on China, it is hard to draw any conclusions about the effects. As said before, CSR is a vast concept and the development effects it brings with it are vague, which calls for a concretization. This will not be an easy task but as stated in the theoretical framework, it was not very long ago that a measurement for human development did not exist and today the Human Development Index (HDI) is a widely used measurement. If effects can be better measured, resources spent on CSR activities can be better distributed and if effects are presented more regularly, the pressure on MNCs to take action and responsibility for their effects are likely to increase.

5.1 Critical evaluation of the study

As we have mentioned previously in this thesis, the quantitative data that would enable us to draw wider conclusions is lacking since this a fairly new area of research. This made the task we set out to complete much more difficult than expected. When performing qualitative case studies data it would have been desirable to be able to travel to China and at first hand collect empirical data ourselves in order to give the best qualitative results. The corporate case studies should therefore be considered as examples of effects and not as a general representation of the situation since the sample size is too small. Still we find that our research is useful since it emphasizes the connection between MNCs, FDI, CSR and host country development. It helps to fill the gap that exists today in the CSR literature concerning host country effects. Our conclusions and suggestions of further research now follow.

5.2 Suggestions for further research

As previously stated, there is a large gap to fill within the research are of development effects of FDI and CSR on host country society. We call for a standardized way of measuring the effects of CSR so that beneficial characteristics of CSR policies and implementation can be determined, measured and compared. If measures are developed and conclusions drawn from them then the importance of MNCs for host country development can be determined. This would strengthen stakeholder arguments and give further motivation for MNCs to engage in CSR. We would also like to express a desire for more economic research in this area since most research and literature preformed today is within the field of business.

6. Conclusion

To conclude it can be stated that much of the work and implementation of CSR relies on the incentives of the multinational corporations. Even though it would be desirable for all corporations to care for the environment, their operational sites and the surrounding community the fact still remains that corporations will always be driven by their economic incentives firstly. Our study has confirmed this statement further. The corporation must therefore have incentives to engage in CSR with the motivation that it benefits their long-term profitability. The case studies in this paper verified that corporations reduce risks and improve long-term profitability through stakeholder management. Another way to increase incentives for corporations to engage in CSR operations is for a more standardized and reliable monitoring procedure to be developed.

Encouraging developments are, for instance, the launch of ISO26000 and also the fact that all three case study corporations use the GRI reporting standards in their sustainability report. If effects from MNCs on the host society can be measured then a more legitimate pressure can be put on the MNCs. As governments in many countries back down to attract investments it is important that the multinational corporations step up so that the created gap can be reduced, avoiding that the society and environment gets stuck in between. This is something that the New Development Paradigm emphasizes and which has been validated in our research as government fails to enforce the laws within some areas when attracting investments is prioritized over the protection of labor rights and the environment.

The developmental effects from the presence of FDI and CSR differ among corporations and investments. We conclude, from the data reviewed, that horizontal investments are more likely to lead to a favorable relationship between MNCs and the host society than vertical investments. Still vertical investments dominate the FDI inflow. As shown, violations against labor standards exist but their occurrence can be reduced if standards are improved and MNCs' CSR policies fully implemented. MNCs' power is not very likely to subside neither is their effect on host society. Our paper has confirmed that MNCs undertake extended responsibilities as a response to stakeholder demands, and for beneficial development effects on host society to increase the pressure from various stakeholders and possibilities for measurements need to be enhanced.

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Appendix

Ten Principles of the United Nation's Global Compact

Human rights

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	make sure that they are not complicit in human rights abuses.

Labour

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7	Businesses are asked to support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: (UN 2008c p. 6)