

Analysis of the Influence of FDI on Employment in China

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Abstract: Since the reform and opening up, China continuously improves the investment environment, the foreign direct investment (FDI) continues to grow, which has an impact on all aspects of our economic activity. In recent years, due to the influence of the novel coronavirus epidemic, China's employment situation has fluctuated to a certain extent. How to use foreign direct investment (FDI) to stabilize China's employment situation and increase the number of employment has profound practical significance. Based on this, this paper uses China's 2011-2020 provincial panel data to study the impact of FDI on employment in China. The empirical results show that FDI has a promoting effect on employment in China, and the robustness and endogeneity tests support this conclusion. In view of this, the government should make full and rational use of foreign direct investment, balance the distribution of foreign direct investment between regions, and guide the adjustment of the structure of investment introduction.

Keywords: FDI; Take up a job; Fixed effect.

1. Introduction

According to the statistics of China's Foreign Investment Development Report (2022), China's actual used foreign direct investment increased from more than 111.7 billion US dollars in 2012 to more than 173.4 billion US dollars in 2021, an increase of more than 55%, and the annual used foreign investment ranked second in the world. It has ranked first among developing countries for 30 consecutive years. According to the latest statistics, the total amount of actual utilized foreign direct investment in China in 2022 is 189.13 billion US dollars, which shows that the scale of actual utilized foreign direct investment in China continues to rise. In recent years, the scale of China's foreign direct investment continues to grow. According to statistics, the flow of China's foreign direct investment has maintained a leading position in the world for many years, and the stock has also maintained a position in the top ten in the world. In particular, driven by the "Belt and Road" Initiative, the growth rate of China's foreign direct investment has further accelerated. From the perspective of regional distribution, Asia is the main destination of China's foreign direct investment, especially Southeast Asian countries. In addition, Europe, Africa, North America and other regions also have a certain distribution of investment, in recent years, investment in countries along the Belt and Road has also increased, China's foreign direct investment also involves a number of industries, including infrastructure construction, energy, mineral resources development and processing and manufacturing. With the implementation of the Belt and Road Initiative, the investment in service industry and emerging industries has also increased. From the perspective of the investment effect of foreign direct investment, from the macro perspective, foreign direct investment has played a positive role in promoting China's economic growth, industrial structure transformation and upgrading, and the increase of foreign exchange reserves. From a micro perspective, foreign direct investment helps enterprises to explore domestic and foreign markets, obtain domestic and foreign resources, technology

and management experience, and help enterprises to improve international competitiveness. At the same time, FDI also faces huge challenges and opportunities. In terms of challenges, political differences, cultural differences, laws and regulations, and foreign exchange risks will all have an impact on FDI. In terms of opportunities, the implementation of the Belt and Road Initiative has provided broad space and opportunities for China's foreign direct investment. In terms of policies, the government provides a series of policy supports, such as tax incentives, financing support, etc. At the same time, the government also strengthens the supervision of foreign direct investment to ensure the compliance and risk control of foreign direct investment. In the future, China's foreign direct investment is expected to continue to grow. On the one hand, the in-depth promotion of the "Belt and Road" initiative will provide more investment opportunities for enterprises, on the other hand, with the transformation and upgrading of the domestic economy and industrial restructuring, enterprises will pay more attention to the expansion of overseas markets and resource acquisition. At the same time, with the diversification of foreign direct investment subjects and industries, the structure of foreign direct investment in China will be more reasonable and optimized. However, it should be noted that with the increase of foreign direct investment, risk prevention and control and compliance issues are more prominent, and enterprises need to strengthen risk awareness and management capabilities.

Employment is the foundation of people's livelihood and an important indicator of social and economic development. In recent years, with the transformation of China's economic structure and the diversification of social needs, the overall employment trend in our country presents some new characteristics. From a macro point of view, our economy has maintained a steady growth, which provides the foundation for the stability of the employment market. However, with the adjustment of economic structure and the transformation and upgrading of industrial structure, some traditional industries have seen a decrease in jobs, while emerging industries and service industries have provided more job opportunities.

Therefore, for workers, adapting to the new economic situation and improving their skills and quality have become the key to seize employment opportunities. Due to the impact of the COVID-19 epidemic, China's enterprises have been greatly impacted, and their related procurement, production and business activities have been affected to varying degrees. In this case, China's employment is also facing challenges, especially the employment of key groups is more difficult. By 2022, the overall employment situation in China has shown the following characteristics: First, the basic situation of employment is generally stable. More than 12 million new urban jobs were created nationwide, and the unemployment rate remained at a low level, meeting the target set. Second, we have strong employment guarantees for key groups. The surveyed urban unemployment rate for people aged 20 to 24 with a college degree or above was 21.1% at the end of the year. The surveyed unemployment rate in urban areas with rural household registration is 5.4%. The total number of migrant workers in the year reached 295.62 million, an increase of 3.11 million over the previous year, exceeding the scale before the epidemic, China's employment remained generally stable, but from the perspective of the total employment, it is still facing greater pressure, in the case of the increasing demand for high-quality and high-skill talents, China's employment situation is still not optimistic. The government is also taking positive measures to promote the healthy development of the job market, such as increasing support for innovation and entrepreneurship, and promoting "mass entrepreneurship and innovation" so as to promote employment through entrepreneurship. At the same time, we will strengthen vocational skills training and public employment services to improve workers' employability and ability to change careers. In addition, with the acceleration of China's urbanization and the promotion of urban-rural integration, rural transfer labor has become an important force in the job market. The government has also introduced a series of policies and measures to protect the legitimate rights and interests of migrant workers and other groups, promote their integration into the city, and achieve stable employment. However, we should also recognize that challenges remain in the job market. For example, college graduates, retired soldiers, the disabled and other key groups of employment pressure is greater, some regions and industries are still grim forms of employment, so the government and all sectors of society need to continue to work together to improve the employment policy system, optimize the employment environment, in order to achieve more adequate, higher quality employment.

In this context, studying the impact of FDI on stabilizing employment in our country not only helps to understand the impact of FDI on the host country's economy, but also provides the theoretical basis and empirical evidence for the central authorities to formulate corresponding policy theories [1].

2. Literature References

In the part of literature review, the literature related to FDI and employment is sorted out, which is mainly divided into the following three parts.

The first is the overall, sectoral or regional impact of FDI on employment. Based on the provincial panel data of the manufacturing industry from 1994 to 2013, Xu Jianwei and Guo Qiyong (2016) constructed an empirical model of the open economy and empirically tested that foreign direct

investment can significantly ease the employment pressure. Li Yang et al. (2017) made use of the panel data of provinces and cities across the country and concluded through empirical study that FDI in China's service industry has a significant promoting effect on employment at the present stage, and this effect has regional heterogeneity, with inland regions stronger than coastal regions and northern regions stronger than southern regions. Huang Yuting (2017) used the panel threshold regression model to explore the direct, indirect and overall impacts of FDI in the circulation industry on intra-industry employment, and the results showed that the impact of FDI in the circulation industry on intra-industry employment presented a "funnel-shaped" non-linear impact. Yuxin Li and Peilei Sun (2016) focused on the relationship between FDI and employment in provinces and regions along the Silk Road Economic Belt in northwest China. Through empirical research, they concluded that FDI is the Granger cause of employment, but its driving effect on employment is not obvious. According to this literature review, FDI basically promotes employment on the whole, and there is industry and regional heterogeneity.

Second, FDI brings different employment effects. Li Yingli et al. (2014) empirically investigated the impact of FDI on the quantity, structure and quality of employment in China, and the results showed that FDI inflow had a significant positive effect on both the quantity and quantity of employment in China. In terms of employment structure, the impact on the secondary industry was greater than that on the primary industry and the tertiary industry. Liu Yu and Sun Wenyuan (2014) focused on the impact of FDI on employment quality in China by using inter-provincial panel data, and the empirical results showed that FDI significantly improved the overall employment quality in China and presented the characteristics of an "N" shaped curve. China is currently in the transition stage between the first and second stages of the "N" shaped curve. Zhang Zhiming and Cui Riming (2014) focused on the impact of FDI on China's employment structure, and selected the service industry as the research object. According to the empirical results, FDI in the service industry has a significant promoting effect on the optimization of employment structure, and the impact on the employment structure of male labor force is greater than that of female labor force in China. Zhuang Qishan and Li Hui (2009) used the panel data of seven Central and Eastern European countries from 1995 to 2006 to study the relationship between FDI, employment scale and employment structure in these countries, and concluded through empirical test that FDI could promote the upgrading of employment structure, but could not expand employment scale. According to this literature, the effects of FDI on employment mainly focus on employment quantity, employment quality, employment structure and employment scale, and the research results of different samples will be different.

Third, FDI has other heterogeneous effects on employment. Pan Wenyong et al. (2022) used the database of the National Bureau of Statistics and CHIP database of 2007, 2008 and 2013 to empirically study the impact of FDI on informal employment from the perspective of industry, and concluded that FDI significantly reduced the level of informal employment in China. Luo Jun and Chen Jianguo (2014) used China's inter-provincial panel data from 2002 to 2012 to test the threshold effect of FDI on the employment of high-skilled and low-skilled labor in China. The results show that: When

the human capital is low, medium and high, the effects on the high-skilled labor are inhibition, no effect and promotion, and the effects on the low-skilled labor are promotion, inhibition and inhibition. According to this literature, when studying the impact of FDI on employment, it can be analyzed from the perspective of labor force heterogeneity.

3. Theoretical Mechanism Analysis

According to the existing research results, the impact of FDI on employment is mainly divided into the following four aspects:

3.1. Job creation effect

The effect of employment creation can be divided into direct effect and indirect effect. For the former, first of all, the effect of direct employment creation depends on the entry mode of foreign direct investment, mainly new enterprises, cross-border mergers and acquisitions, expansion of existing enterprises in China, both new enterprises and expansion of existing enterprises can bring about an increase in production and thus directly promote the increase of employment in the host country, because new enterprises need to build factories, which will bring employment opportunities. At the same time, production workers and related management personnel are also needed for production after the completion of the plant construction. Similarly, the expansion of the original enterprise will also increase the enterprise's demand for employment, and this new employment demand will bring job opportunities to the host country, thus achieving job creation. Secondly, the effect of direct employment creation is also related to the degree of labor intensity. If the industries that foreign direct investment enters are labor intensive industries, a higher degree of labor intensity can absorb more labor force, so as to achieve job creation. In terms of indirect employment creation effect, FDI enterprises indirectly create employment opportunities through various chain relationships and multiplier effects established by enterprises in host countries. From the perspective of industrial correlation effect, many FDI industries, such as automobiles and electronics, have extensive upstream and downstream connections, which can bring certain employment opportunities for manufacturers and sellers. From the perspective of technology spillover effect, foreign direct investment enterprises will bring their advanced technologies to the host country, and in the process of communicating with other enterprises, technology spillover will occur, which will promote the technology upgrading of local enterprises in the host country, which will bring technological innovation and industrial transformation and upgrading to the host country enterprises, promote economic growth, and then create more demand to increase employment opportunities.

3.2. Employment loss effect

The employment loss effect mainly occurs in the process of multinational corporations adopting M&A as the entry mode. In the process of M&A, enterprises with foreign direct investment need to reintegrate and restructure the enterprises. Streamlining the staff structure will reduce the existing jobs of an enterprise and may lead to the loss of employment opportunities for employees.

3.3. Employment crowding out effect

After the entry of foreign direct investment enterprises, the competition in the local market of the host country will

increase. In order to enhance their competitiveness, local enterprises may simplify the personnel structure of enterprises to improve the efficiency of enterprises, which may lead to the loss of jobs for some employees. In addition, the fierce competition of foreign-invested enterprises may cause some local enterprises with weak competitiveness to close down, and the employees of these enterprises will lose their jobs. All these are the employment crowding out effect brought by FDI.

3.4. Employment transfer effect

The employment transfer effect is for those enterprises that have closed down or are on the verge of closing down. Without considering the foreign direct investment, the employees of these enterprises will face unemployment, which will increase the unemployment rate of the host country. When foreign direct investment enters the host country, it will bring capital, technology or management support to these enterprises that are about to close down. So that these enterprises can continue to survive, in this case, the original unemployed employees can continue to work, in fact, is the transfer of employment of the original enterprises, and the job creation effect has a clear difference, not to increase new employment opportunities.

Combined with the above four effects of FDI on employment, it will have an impact on employment quantity, employment quality and employment structure.

3.5. The impact of FDI on the number of jobs

Firstly, FDI can increase the number of jobs through job creation effect and job transfer effect. On the one hand, FDI directly creates employment opportunities by expanding the scale of existing enterprises through new enterprises and mergers and acquisitions in host countries. FDI mainly enters host countries through greenfield investment and cross-border mergers and acquisitions. The so-called greenfield investment is also the new enterprises mentioned above, which can directly increase the number of jobs. In contrast, transnational mergers and acquisitions are realized through the merger or acquisition of enterprises in the host country. In the short term, the original production activities are still carried out, which cannot bring about an increase in the number of jobs, but in the long run, it will have an impact on employment. At the same time, no matter which of the two methods, FDI will have an impact on the upstream and downstream of the industrial chain and supply chain in which it is located, drive the development of upstream and downstream industries or enterprises, and indirectly increase employment opportunities. On the other hand, foreign direct investment will maintain the stability of the original employment status through the employment transfer effect mentioned above, and the original employees can continue to work, which is equivalent to increasing employment opportunities to some extent.

Secondly, when FDI exerts the effect of employment crowding out and employment loss, it will have a negative impact on employment. On the one hand, the entry of FDI enterprises will inevitably lead to the intensification of competition, and enterprises will streamline the original personnel structure to improve efficiency in order to enhance competitiveness. On the other hand, after FDI enterprises acquire and acquire local enterprises in the host country, foreign direct investment enterprises will improve their efficiency. It has taken measures such as consolidation and

streamlining to adjust the organizational structure, which will lead to a decline in the number of jobs.

3.6. The impact of FDI on employment structure

FDI affects the employment structure by influencing the flow and allocation of labor force between industries and regions. Due to the unbalanced distribution of FDI between industries and regions in China, it will cause the gap between industries and regions, thus affecting the flow speed of various production factors. As an important production factor, labor force will be redistributed between industries and regions, and the quality level of labor force will be improved, thus optimizing and improving the employment structure. According to the Petty-Clark theorem, in the process of industrial structure optimization, the industrial structure will experience the process of transformation from labor intensive to capital intensive and then to technology intensive. At the same time, Kuznets' theory shows that the employment structure will change with the adjustment of industrial structure, specifically, the proportion of the secondary and tertiary industries increases while the relative proportion of the primary industry decreases. In addition, foreign direct investment will directly bring capital inflows, as an important factor of production input, with the benefit, will cause regional, industrial and other levels of uneven distribution, income will be different, which will lead to the flow of employment, and then affect the employment structure.

3.7. The impact of FDI on employment quality

The quality of employment is mainly from the perspective of employees. As a factor of labor force, the closer the combination of employees with other factors, such as land and capital, in the production process, the higher the output, the better the quality of employment is reflected. First of all, foreign direct investment will bring about the increase of capital and other means of production, and will increase the ratio of other factors to labor force and the remuneration of labor force when the labor force elements remain unchanged.

Secondly, the training, remuneration and other systems of foreign direct investment enterprises are relatively sound. On the one hand, these systems will bring the so-called "demonstration effect", which will attract high-quality workers to enter these foreign-funded enterprises, improve the enthusiasm of workers and improve labor efficiency. On the other hand, these systems will bring about competitive effects. The entry of foreign-invested enterprises will increase the demand for high-quality workers, which will make domestic enterprises strive to build a business environment similar to that of foreign-invested enterprises and provide better employment environment for workers, thus improving the employment quality on the whole.

4. Research Design

4.1. Measurement model

According to the theoretical analysis above, this paper builds the panel model as follows:

$$em_{it} = \alpha_0 + \alpha_1 FDI_{it} + \alpha_2 \text{controls} + \varepsilon_{it} \quad (1)$$

Where, the subscript *i* represents the province, *t* represents the time, is a random disturbance term, subject to independent co-distribution. The explained variable represents the employment number in year *t* of Province *i*, and the explanatory variable represents the foreign direct investment in year *t* of Province *i*, which is the control variable.

4.2. Description of variables

4.2.1. Explained variables

Employment number (em) : Referring to Qiu Xue's practice (2022), this paper uses the number of employed people in urban units in each province (10,000) to measure the employment number.

4.2.2. Explanatory variables

Foreign direct investment (FDI) : Referring to the practice of Lei Gaowen et al. (2022), this paper uses the total investment of foreign-invested enterprises in each province (trillion) to measure FDI.

4.2.3. Control variables

In order to make the model estimate more accurate, the following variables are further controlled: (1) human capital level (edu). The average years of schooling were adopted, and logarithmic treatment was taken. (2) Government intervention (gov). It is measured by the ratio of the expenditure in the general budget of the local finance to the gross regional product, and treated with logarithms. (3) Regional development level (pgdp). Per capita gross regional product (GDP) is selected to measure, and logarithmic treatment is taken (4) level of opening up to the outside world (as). It is represented by the ratio of the total volume of regional imports and exports to the gross regional product, and takes logarithmic treatment. (5) Population density (pd). It is measured in logarithms of the number of people per square kilometre.

4.3. Data sources

The data in this paper are panel data of 31 provinces in China from 2011 to 2020 for empirical research. The data come from China Statistical Yearbook and National Bureau of Statistics. Some missing values were supplemented by interpolation method, and the descriptive statistics of variables were shown in Table 1.

Table 1. Descriptive statistical results

Variable Name	Meaning	Mean	Standard Deviation	Minimum	Maximum
em	Number of jobs	551.2252	398.7953	31.5	1973.3
FDI	Foreign direct investment	1.355733	2.368229	0.005082	19.21469
edu	Human capital level	9.08201	1.121066	4.221938	12.782
pd	Population density	5.324435	1.498555	0.9227843	8.28127
gov	Government intervention	-1.355813	0.4797342	-2.123504	0.3028982
pgdp	Regional development level	10.77908	0.4403592	9.681843	12.00858
as	Level of opening up	-1.717219	0.9636296	-4.878639	0.444198

5. Empirical Results and Analysis

5.1. Analysis of benchmark regression results

In this paper, model (1) is used for estimation by mixed OLS regression method, and the results of model estimation are shown in Table 2. Column (1) is the result of not adding control variables and fixed effect of year. It can be seen that the explanatory variable FDI is significantly positive at the level of 1%. From an economic perspective, when FDI increases by 1 percentage point, the number of employed people will increase by 105.68 units. It can be seen that the explanatory variable FDI is still significantly positive at the level of 1%, but its coefficient drops from the original 105.68 to 69.276. After adding the control variable, the model's estimation is more reasonable. The results of the control variables show that the coefficient of education level is significantly negative, which may be because with the

increase of education level, the employees with higher education level are more competitive, and the original employees with lower education level may lose their jobs. The coefficient of population density is significantly negative, which may be because the higher the population density in a certain area, the fiercer the competition and the more unemployment will occur. The coefficient of government intervention is significantly negative, which may be because the market mechanism may fail and the number of employment may decline under the government intervention. The coefficient between the level of regional development and the level of opening up is positive, which is in line with the expected situation. Column (3) further adds the year fixed effect on the basis of column (2), which makes the empirical results more persuasive. It can be seen that the coefficient of FDI is still significantly positive at the 1% level and rises from 69.276 to 74.04.

Table 2. Results of model regression

	(1) em	(2) em	(3) em
FDI	105.680*** (24.997)	69.276*** (25.680)	74.040*** (25.759)
edu		-82.922*** (19.335)	-75.932*** (19.078)
pd		-51.319*** (13.074)	-59.013*** (13.268)
gov		-640.007*** (51.772)	-663.142*** (53.206)
pgdp		32.203 (73.803)	-2.642 (75.401)
as		53.273** (24.562)	53.930* (28.715)
Constant term	408.626*** (29.623)	360.960 (654.359)	563.153 (679.286)
N	310	310	310
r2	0.389	0.724	0.749
year	No	No	Yes

Note: *, **, *** represent the significance levels of 10%, 5% and 1% respectively, as shown in the following table

Table 3. Results of robustness and endogeneity tests

	(1) em	(2) em	(3) em
FDI	71.757*** (24.923)	26.827*** (5.973)	3.843** (1.717)
edu	-76.661*** (18.858)	6.494 (26.097)	14.436 (13.012)
pd	-58.161*** (13.236)	-33.467 (238.969)	227.263** (114.462)
gov	-661.601*** (52.808)	6.218 (77.701)	25.439 (39.803)
pgdp	2.696 (73.906)	339.823*** (113.366)	259.922*** (61.179)
as	54.289* (28.429)	-8.501 (17.054)	-2.907 (9.150)
Constant term	513.981 (667.641)	-2983.821** (1259.827)	-3566.694*** (663.359)
N	310	279	310
r2	0.748	0.724	0.354
Year*province	No	Yes	No

5.2. Robustness and endogeneity test

5.2.1. Tail reduction

Considering that extreme values may cause errors in the regression results, this paper draws on the practice of Cheng Yu et al. (2021) and carries out tail reduction treatment of the explained variables by 1% up or down. The regression results are shown in column (1) of Table 3.

5.2.2. Include interactive fixed effects

By referring to the practice of Dai Quizao et al. (2023), the province - year interaction fixed effect is added on the basis of the previous model to control the unobserved effect at the provincial level over time. The regression results are shown in column (2) of Table 3, and the coefficient of FDI is significantly positive at the level of 1%, which is basically consistent with the conclusion above and passes the robustness test.

5.2.3. Endogeneity test

Considering that the empirical results of FDI on employment may have endogenous problems, the method of introducing instrumental variables is adopted to alleviate the endogenous problems, and the two-stage least square method is adopted for testing. In this paper, the lagging first order of FDI is selected as the instrumental variable, and its regression results are shown in column (3) of Table 3. The coefficient of FDI is significantly positive, which is basically consistent with the conclusion above and passes the robustness test.

6. Conclusions and Policy Recommendations

Based on the panel data of 31 provinces from 2011 to 2020, this paper theoretically analyzes the influence of FDI on employment in China through job creation effect, job loss effect, job crowding out effect and job transfer effect, and empirically studies the influence of FDI on employment. The following conclusions are drawn: The influence of FDI on employment is reflected in the effect of employment creation, which is supported by the robustness and endogeneity tests.

Based on the above research, this paper puts forward the following policy recommendations:

First, make full and rational use of foreign direct investment to promote the improvement of employment level in our country. FDI is used to stabilize and even increase the overall number of employment in our country through employment creation effect and employment transfer effect. At the same time, the government takes measures such as relaxing market access restrictions and expanding investment areas to improve the quantity, quality and scale of foreign direct investment, so as to stabilize the employment situation in China with greater quantity, higher quality and larger scale foreign direct investment, and promote the improvement of the employment level in our country. Second, equalize foreign direct investment among provinces. Due to the unbalanced distribution of foreign direct investment in China, the influence of foreign direct investment on the economic development of various provinces and regions is different, and the impact on employment is also regional heterogeneity. At present, the amount of foreign direct investment in China's eastern coastal areas is significantly higher than that of China's central and western regions, and the employment situation is also significantly higher than that of China's eastern coastal areas. Foreign direct investment can bring

more employment opportunities for the local area, so that China's labor force flows more to the eastern coastal areas. Therefore, the Chinese government should make reasonable use of foreign direct investment and guide it to flow to less developed areas, so as to promote local employment and promote economic development. Third, adjust the structure of attracting capital and guide the transformation and upgrading of the industrial structure. Government departments promulgate policies to guide FDI to invest in the national pillar industries and tertiary industries, promote the optimization and upgrading of industrial structure, in order to conform to the global industrial structure, in addition, FDI can also bring advanced technology, help to improve the skills and quality of China's labor force, and train high-quality talents. Fourth, we will improve the use of foreign capital. We will intensify efforts to attract foreign investment in key areas, give full play to the leading role of the service sector in expanding opening up through comprehensive trials and demonstrations, expand channels for attracting foreign investment, support the gradual transfer of foreign-invested enterprises, and improve mechanisms for promoting the construction of foreign-invested projects. To ensure the national treatment of foreign-invested enterprises, ensure the participation in government procurement activities in accordance with the law, support equal participation in the formulation of standards in accordance with the law, and ensure equal access to support policies. We will continue to strengthen the protection of foreign investment. We will improve the mechanism for protecting the rights and interests of foreign investors, strengthen administrative protection of intellectual property rights, step up administrative enforcement of intellectual property rights, standardize the formulation of foreign-related economic and trade policies and regulations, and improve the level of investment and operation facilitation. We will improve the residence and stay policies for foreign employees of foreign-invested enterprises, explore a convenient cross-border data flow security management mechanism, coordinate and optimize law enforcement inspections for foreign-invested enterprises, and improve service guarantees for foreign-invested enterprises.

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