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China's 2008 Labor Contract Law: Implementation and Implications for Chinese Workers



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Motivation

- China's new labor law implemented in 2008 was hotly debated before being passed
- Empirical literature strongly supports idea that protective regulations reduces employment and increases unemployment
- Little evidence on implementation or implications
 - Suspicion that global economic crisis slowed implementation



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China's Labor Contract Law Effective: January 1, 2008

- Labor Contracts
 - After 2 fixed-term contracts, or 10 years of employment, contract must be open-ended
 - Limits on probationary period (1-3 months depending on contract length)
 - Regulations on temporary work agencies (labor service companies)
- Severance conditions
 - 30-day written notice
 - Severance pay: one month's pay for each year of service (half month's pay if less than 6 months), double severance pay for unfair dismissal
- Internationally, law considered highly protective of workers



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Outline

- Motivation
- Data
- Evidence on Implementation
 - Subjective assessments
 - Labor contract prevalence
 - Awareness of labor law provisions
 - Disputes
- Evidence on impacts
 - Labor regulation and firm employment
 - Informality and poverty
- Conclusions



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China Urban Labor Survey (CULS₃), February 2010

- In each of 6 cities, survey 700 local resident households and 600 migrant households
- Surveyed >15,000 adults, including 6000 migrants
- 3-stage PPS sampling of urban sub-districts, neighborhoods, and households
- Detailed enumeration of all dwellings in each neighborhood
- Surveys directed by CASS, working closely with city Statistical Bureaus



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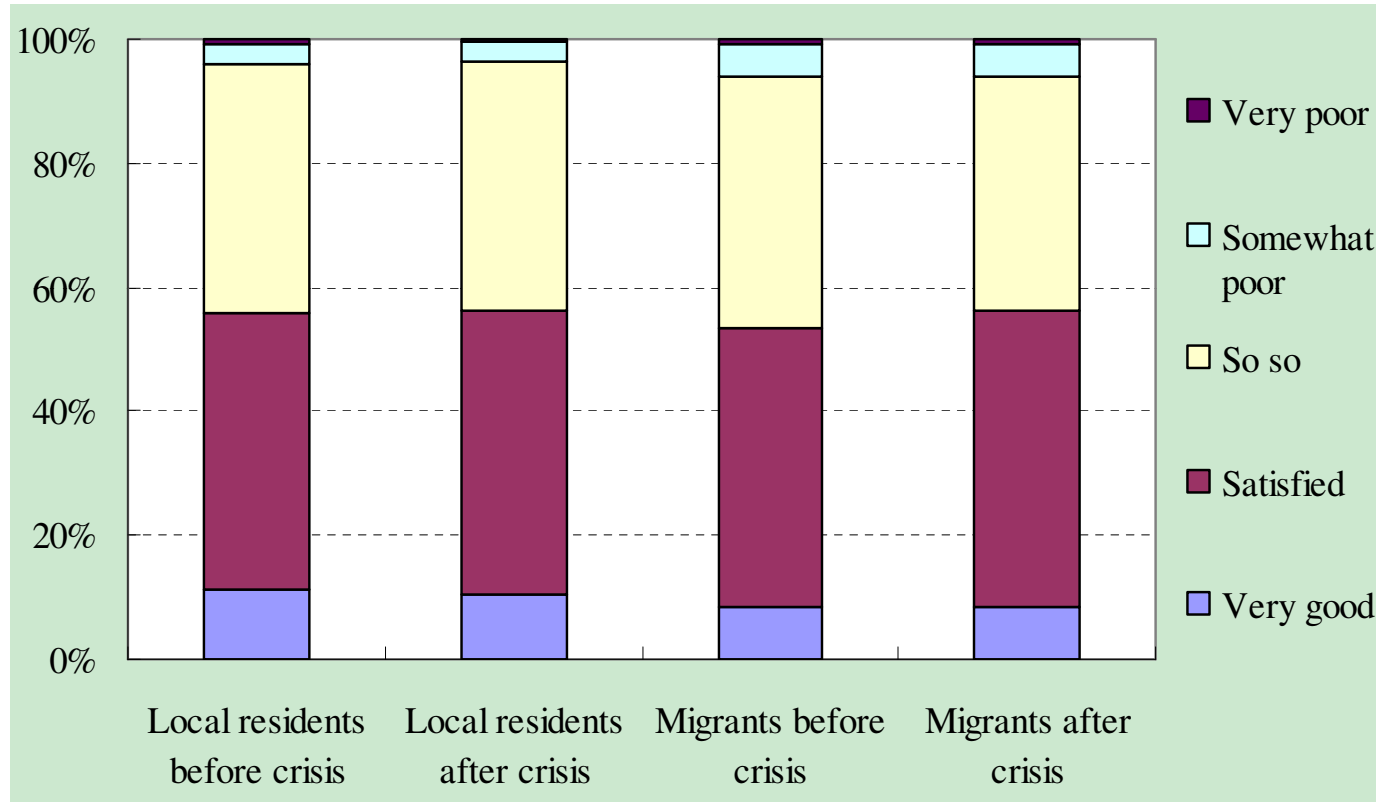
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Enforcement of Labor Contract Law (CULS₃)



- Migrants slightly less satisfied than local residents
- No significant change before and after crisis

Determinants of satisfaction with enforcement (CULS₃)

- Among local residents, satisfaction with enforcement increases with education, for migrants satisfaction is greater for college graduates but otherwise similar
- Those without labor contracts are much less satisfied with enforcement
- Enforcement is worse in private enterprises, and better in foreign enterprises (but significant only for local residents in private firms)
- Migrants feel enforcement is poorer in other secondary and social service sectors
- Enforcement is viewed as best in Shenyang, then Shanghai (especially by migrants).



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China National Firm Survey, November 2009

- 8 provinces: 4 coastal provinces (Shandong, Jiangsu, Zhejiang, and Guangdong), one northeast province (Jilin), one central province (Hubei), one northwest province (Shaanxi), and one southwest province (Sichuan).
- Representative sample of >2000 manufacturing firms in 25 municipalities
- Focus on employment at 4 points in time: end-2007, mid-2008, end-2008, mid-2009
- Sampling frame: all firms who ever had credit relationship with any financial institution
- Key collaborators: People's Bank of China Research Department, Peking University, CASS



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How strictly have labor regulations been enforced? (China firm survey 2009)

	Very strict	Strict	Not strict
By period:			
2007	21.57	71.12	7.31
Jan-Jun 2008	22.46	72.61	4.93
Jul-Dec 2008	23.47	72.33	4.19
Jan-Jun 2009	24.61	71.34	4.04

Firms report strict enforcement, with no weakening during the crisis.



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Determinants of firm-level enforcement (regression results)

- Enforcement stricter for firms that are:
 - capital producers
 - in state sector (not foreign)
 - exporters
 - large
 - in most recent period
- Enforcement increased more for cities with more firms that are:
 - foreign
 - in interior provinces
 - larger
 - exporters
 - **less subject to negative export shocks**



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Labor contract prevalence (CULS, 2001, 2005, and 2010)

	2001		2005		2010	
	Migrant workers	Urban local workers	Migrant workers	Urban local workers	Migrant workers	Urban local workers
All workers	14.76	66.68	11.69	64.97	33.92	70.80
Wage workers	31.30	74.06	36.83	73.14	59.85	80.20

- Decline in labor contract prevalence from 2001 to 2005 reversed sharply by 2010
- Notable reduction in informality of migrant employment, but still large share of migrants without contracts



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Determinants of having a labor contract (regression results)

	Migrant workers		Urban local workers	
	All workers Marginal effects	Wage workers Marginal effects	All workers Marginal effects	Wage workers Marginal effects
Male				
Female	0.0121	-0.0204	-0.0125	-0.0316**
16-30				
31-40	-0.0780***	0.0339	0.0601***	0.0746***
41-50	-0.1286***	-0.0304	0.012	0.0342*
51-60	-0.0802*	0.0524	0.0831***	0.0499***
Primary and below				
Junior high	0.1434***	0.1619***	0.0442	0.0233
Senior high	0.2789***	0.2375***	0.1934***	0.1273***
College and above	0.5419***	0.4470***	0.3613***	0.2554***
Shanghai				
Wuhan	-0.2791***	-0.2676***	-0.2934***	-0.2508***
Shenyang	-0.2604***	-0.4303***	-0.5232***	-0.5256***
Fuzhou	-0.1579***	-0.2746***	-0.3587***	-0.3153***
Xi'an	-0.2156***	-0.3434***	-0.3595***	-0.3320***
N	4278	2258	4107	3520
pseudo R-sq	0.184	0.145	0.188	0.199

- Younger migrants more likely to be in wage employment, esp. in 2010
- Local resident women less likely to have labor contracts
- Education strongly correlated with labor contracts, esp for migrants and more so over time
- Shanghai has more labor contracts and Shenyang has fewer labor contracts



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Awareness of labor law provisions (CULS, 2010)

	Local residents	Migrants
1. Do you think that when you are hired your employer should set a labor contract with you? (yes)	96.28	89.66
2. Do you think employers must pay you double wages for each month you worked beyond the allotted time for completing a labor contract? (yes)	82.20	79.47
3. If a worker violates the rules set by an employer can the employer terminate the worker's labor contract? (yes)	68.83	72.90
4. If you meet the required conditions and suggest an open-ended contract, must your employer comply? (yes)	68.65	62.77
5. Within how long do you think the labor contract should be signed after being hired? (one month)	40.14	41.32
6. For a one-year labor contract, what is the maximum probationary period? (2 months)	24.54	23.72

- Workers are aware of right to a labor contract, but vary in their familiarity with specific provisions.
- Regression analysis finds that migrants are slightly less aware (-0.05 s.d) and women and college educated much more aware



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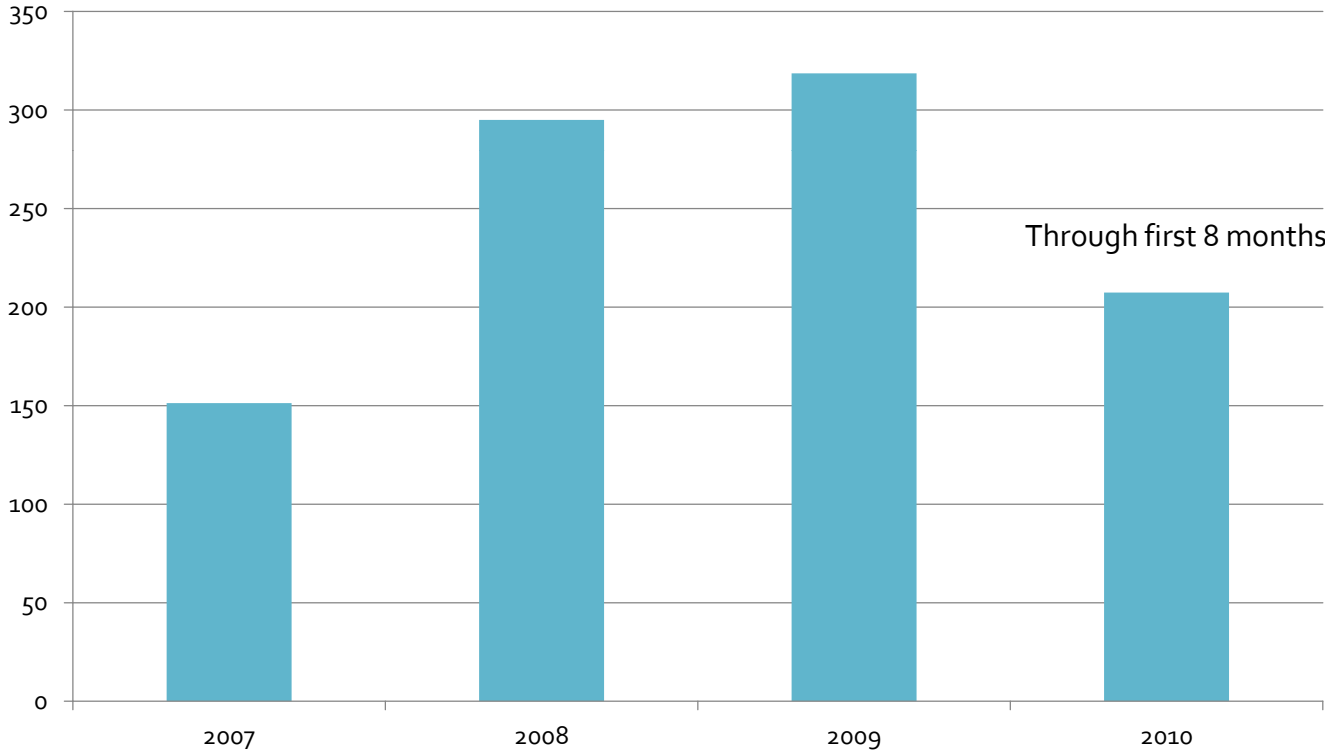
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Labor Disputes in Chinese Courts, 2007-2010 (in thousands, official data)



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Evidence on labor disputes from household surveys (CULS 2010)

- Just less than one percent of workers have initiated dispute (similar to aggregate data)
- Disputes by local residents are concentrated in the period after the Labor Law, but not migrants
- Most disputes are over wages, especially by migrants (including wage arrears)
- Most local residents are dissatisfied with the resolution of their dispute, while most migrants are satisfied.
- Regressions find that for migrants, initiating a dispute is strongly associated with higher levels of education



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Labor Law impacts

- Firm employment decisions
- Informality and poverty
- Wages and hours worked (informality paper)
- Social insurance coverage



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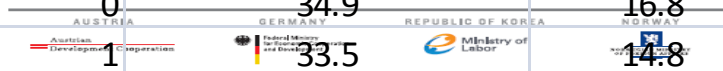
Labor regulations and firm employment decisions

	Have labor regulations made it more difficult for your firm to hire and fire workers? (% yes)	Has new Law reduce hiring? (% yes)	Has new Law reduce firing? (% yes)
Total	34.5	15.8	30.8
By ownership type:			
State/collective	28.1	18.4	27.3
Private	31.6	19.0	33.8
Joint/Ltd/Other	35.4	15.2	32.8
Foreign	38.3	13.5	25.8
By province:			
Zhejiang	46.5	17.8	29.7
Jiangsu	31.9	20.3	35.0
Guangdong	45.5	15.8	38.9
Shandong	21.5	13.2	28.7
Jilin	25.4	51.5	34.1
Hubei	21.4	5.3	37.2
Shaanxi	26.0	7.1	27.7
Sichuan	20.4	5.1	13.8
By export status:			
0	34.9	16.8	27.2
1	33.5	14.8	35.7



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Labor Regulation and Enterprise Employment in China (Park, Du, Giles)

- Results suggest that enforcement of the new Labor Law reduced employment growth more in areas with previous lax enforcement
- These effects were more apparent for firms exposed to adverse export shocks



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Evidence on informality and poverty (CULS 2010)

- Consumption poverty is lower for migrant households than local resident households
 - Robust to different poverty lines, consistent with results for 2005
 - Due to low dependence ratios, long working hours, and self-selectivity of migration, higher housing costs for migrants
 - Formal employment reduces poverty probability for local residents but not for migrants
 - Self-employment is poverty reducing



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Conclusions

- Labor Law is being implemented
 - Government-led implementation of the Labor Law, reversal of earlier trend toward greater informalization
 - Robust labor demand as facilitator for regulatory reform, but
- Labor Law impacts
 - Enforcement differences have influenced manufacturing employment growth across cities, implying reduced labor market flexibility
 - BUT implementation has not limited growth in aggregate employment and wages
 - Informality is not strongly associated with poverty among migrants (markets well-integrated) but is among local residents
- Challenges
 - Labor Law could be more constraining in the future
 - Permanent migration may increase the demand for labor contracts and social insurance provision
 - Efforts to expand social insurance coverage could penalize formal sector



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