

Comments on Park-Giles-Du's paper
“Labor regulation and enterprise
employment in China”

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Summary of their findings

- Using PBC survey data to investigate the enforcement and impacts of China's 2008 Labor Contract Law
- Question #1: implementation
 - **More strict enforcement in 2007 is associated with lower expected enforcement in subsequent years.**
- Question #2: impact on employment decisions
 - **Stricter 2007 city-level enforcement has a positive effect on employment growth**
- Consistent with the majority of the previous studies

Puzzle?

- *In the aggregate, however, it appears that thus far China has been able to successfully put in place highly protective labor regulations **without suffering from aggregate unemployment ...***

Price Reforms and Factor Markets

Liberalisation in the Chinese Economy

- The co-existence of SOEs (social stability) and POEs (growth), see Bai, Li, Tao and Wang (2000)
- SOEs have surplus labor (low productivity) for maintaining social stability, but they enjoy high markup even in competitive sectors through obtaining cheap credit and enjoying administrative monopoly in product market. See Du, Lu, Tao and Yu (2013) on “the nature of Chinese-style market economy...”.
- POEs are discriminated against in the financial market, but are left to optimize on labor usage (flexibility of contracts and lack of employee welfare).

- When HU-WEN introduced Labor Contract Law as a way of achieving social harmony,
 - POEs have to follow what the government/CCP orders them to do, but they still have to use a lot of labor due to the relative cheap price of labor compared with the cost of capital they are facing.
 - SOEs readily implement the Labor Contract Law and even hire more people (in response to the 2008 financial crisis), but they subsequently request to have even cheaper credit and even higher prices in government procurement.
 - ***A transfer from consumers + POEs to a small group of workers who could not get protection without LCL?***



Figure 1: Markup differences between privatized SOEs (treatment) and continuous SOEs (control)

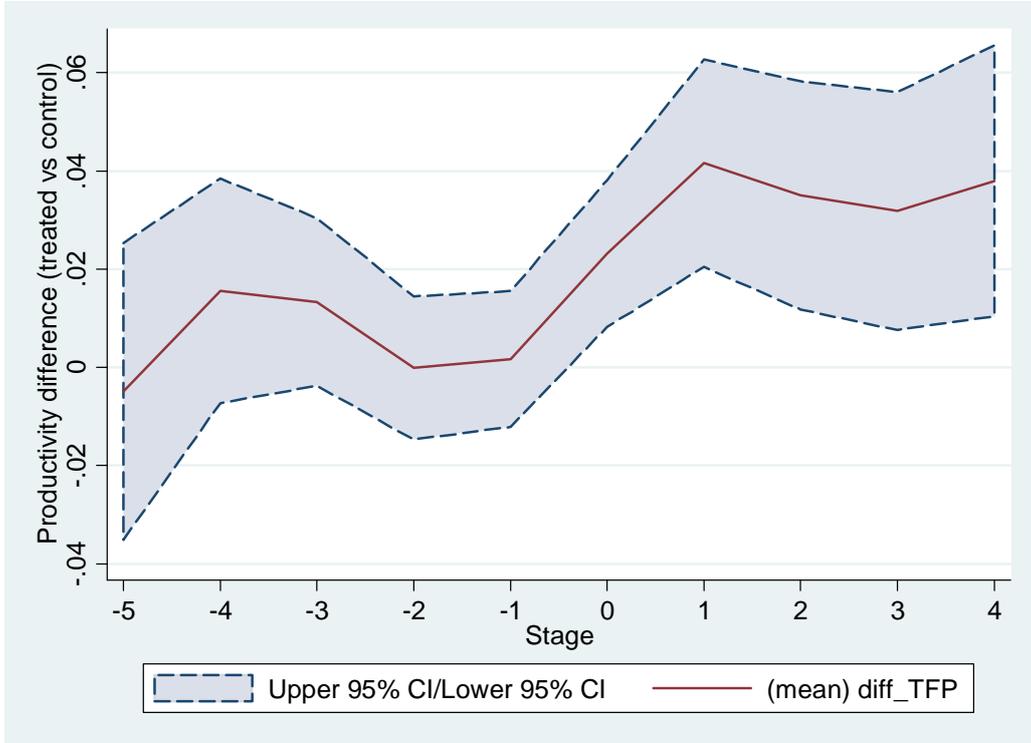


Figure 2: Productivity differences between privatized SOEs (treatment) and continuous SOEs (control)

What firms could do in face of LCL?

- Seek concessions to lower down other costs of production (say, pollution control)
- Technological upgrading (more robotics, differentiation strategy rather than low cost)
- Reallocation to other industries (say, real estate)
- Relocate to other regions where the enforcement is less strict

- Enforcement is less strict in those regions with higher initial enforcement level
 - China as a centralized state
 - Lack of regional specialization
 - Compliance story for China's regions?
- Labor Contract Law should then benefit regions with higher initial enforcement level
- What is the impact of this relocation (from regions with higher initial enforcement level to those with lower initial enforcement level) on growth and stability?
- What are those regions with higher (lower) initial enforcement level? regions with lower (higher) POEs? Then this relocation leads to more stability but less growth.