

**HOW DOES CHINA'S NEW LABOR CONTRACT LAW AFFECT FLOATING  
WORKERS?**

**Xiaoying Li**

The author would like to thank Professor Richard B. Freeman for his valuable suggestions and continuous encouragement and help and to acknowledge the Labor and Worklife Program of Harvard Law School for their support, the China Scholarship Council for its generous sponsorship, and the Center for Urban studies of Sun Yat-sen University for provision of data.

How Does China's New Labor Contract Law Affect Floating Workers?

Xiaoying Li

Nov 15, 2011

JEL NO: J01, J28, J53, K31, K40,

#### ABSTRACT

After great national debate and controversy, in June 2007 China enacted a new Labor Contract Law that legally obligated firms to give workers written contracts as of January 2008. This paper uses survey data of migrant workers before and after the law to assess its effects on labor market outcomes. It finds that the new Law increased the percentage of workers with written contracts, raised social insurance coverage, reduced violations of workers rights and wage arrears, and was positively associated with the likelihood that a firm would be unionized, but had no discernible effect on wages.

China's rapid development has been based in part of its seemingly endless supply of low wage migrant labor willing to work long hours in management controlled environments, particularly in the export factories of the country's Southern provinces. But as China has developed, these workers have begun to demand a greater share of the gains from economic growth, leading to numerous wildcat strikes, road-blockings, and other forms of worker protest. The rate of protests reported by the government as 'mass incidents' increased greatly through 2006 when the government no longer released the figures. Recognizing that the migrant workers had legitimate grievances that were not being adequately addressed, on June 29, 2007 the People's Congress passed a new Labor Contract Law to take effect on January 1, 2008. The Law substantially changed the Labor Law of 1995 by requiring firms to give workers written contracts enforceable in courts and by requiring firms to give workers employed for a specified period open-ended permanent contracts rather than fixed term temporary contracts. The new Law also strengthened employers' responsibility to buy social insurances, to insure safe working conditions, to obey minimum wages policy and to pay overtime wages. It did this by adding explicit penalties for violating those legal obligations.

The law was widely debated in the country and internationally before the People's Congress enacted the final version. Opponents of the law warned that it could cause firms to lay off employees and move to other countries. Supporters of the law stressed its importance in improving the work lives of migrant labor and reducing social unrest.

Did the Law increase the likelihood that migrant workers would have an individual contract, and if so, was it also associated with greater social insurances, less violations of worker rights, and unionization?

In this paper, I utilize cross-section surveys of migrant workers in 2006, 2008, and 2009 in South China's nine cities to answer these questions. The surveys contain detailed questions on the current labor situation of the worker, ranging from pay to contractual status. Since the 2006 survey precedes the new Law and the 2008 and 2009 surveys follow the law, I analyze implementation of the law by a before-after design, comparing the proportions of workers with contracts in the 2008 and 2009 surveys with the proportions with contracts in 2006. Because the surveys asked workers about their contractual situation at previous jobs as well as at their current job, I am also able to conduct a "retrospective longitudinal analysis" of the contract status of the same worker before and after the law. I analyze the effects of compliance with the law on other outcome variables by a difference in difference design that compares changes in outcomes for workers who obtained their first labor contract after the law with workers who did not have contracts before or after the law.

The paper unfolds in the following structure. The first section places the Contract Labor Law into the context of China's effort to build a modern labor market and labor relations system and describes the spirited debate over the law. Section two introduces the three surveys and shows that the law did in fact raise the coverage of contracts. Section three presents my analysis of the effects of the change in coverage due to the law on provision of social insurances, treatment of workers, and unionization, and wages.

Section four is a brief conclusion.

### **1. The Labor Contract Law**

Since China began shifting from a planned economy to a market economy in 1978, its labor market has changed greatly. The government abandoned administrative ordering of labor allocation to workplaces, in favor of allowing workers to choose where to work in response to market opportunities. It liberalized labor mobility across firms and between rural and urban areas, though maintaining Hukou privileges for urban workers. It gave greater decision-making power to management in state-owned firms to determine wages and employment. And it opened the door for new types of firms, from town and country enterprises to foreign owned firms to private firms to enter the market.

In January 1995 the government enacted a new Labor Law as part of its reform of state owned enterprises. This Law established regulations for labor contracts, minimum standards and dispute resolutions. Contracts became a key institution for regulating employment in enterprises (Josephs, 2003; Zhu and Campbell, 2002). In state-owned enterprises the trade unions were responsible for making sure the firm followed the contracts and regulations.

But the “floating population” of migrant workers in the rapidly growing factories and construction sites around the country were not part of this formal process. As economic development proceeded, the problems faced by these workers increasingly came to the attention of the government and the public (Karindi, 2008). Working without formal labor contracts or union protections, these workers were highly vulnerable to exploitation. Some firms did not pay wages properly or on time. Most avoided legal obligations. Many had unhealthy workplaces. Many treated workers poorly. While China's labor laws apply broadly they contain little or no penalties on firms that ignored their legal obligations. Local authorities favored businesses over migrant labor in their decision-making. The most that workers could do was to petition authorities and protest, often through wildcat strikes and occasional worker suicides. Migrant protests often concentrated around the annual Spring Holiday, when firms did not come across with promised wage payments.

Hoping that stronger legal protection would redress some of the problems of migrant workers the government made public in 2006 a draft new Labor Contract Law proposal for opinions and comments.<sup>1</sup> This stirred up a great debate within the country and around the world. Pro-worker rights forces in China, including the All China Federation of Trade Unions (ACFTU), backed by labor, human rights, and political forces in the U.S.

---

<sup>1</sup> Research on drafting a Labor Contract Law began in 2003 and it was announced that the Peoples Republic of China's Labor Contract Law would be included in future legislation plans in 2005 and later that year a draft Labor Contract Law was proposed. In October 2005, the State Council, in principle, passed a draft Labor Contract Law. In December 2005, the draft was submitted to the Standing Law Committee of the National People's Congress for review.

and other advanced countries favored the new legal initiative. Conservative analysts who feared that improved labor conditions would cost China jobs and U.S.-based and other global corporations lobbied against the law. The foreign multinationals opposed giving new rights to Chinese workers in part because they feared that would be forced to comply while domestic competitors would not (Costello et al., 2007; Liu, 2010).

Opponents of the Law argued that it would raise costs to businesses which would cause firms to lay off workers or close and locate elsewhere.<sup>2</sup> Steven Cheung of Hong Kong claimed “the new law is a threat to the booming economy and it will cause a tremendous rise in unemployment”. Law scholar Prof. Baohua Dong from Shanghai argued that strict restrictions on dismissing employees would prevent businesses from integrating and optimizing human resources. He feared that the new Law would add to operating costs and short run layoffs and lead to a long run decrease in migrant worker employment.<sup>3</sup> But he was less apoplectic than Cheung about the dangers of the law because he expected that in many cities the law would be of no practical use because local governments would protect businesses who did not implement it<sup>4</sup>. Chen et al. (2008)'s analysis of the interlinkages between labor market regulation and employment suggested that the Labor Contract Law would have only small direct impacts upon employment in the fast-growing Chinese economy, but that induced unit labor cost increases might reduce employment indirectly. Prof. Yijiang Wang proposed that medium and small enterprises should be exempted from the Labor Contract Law.

Ms Yin Zhang, CEO of Nine Dragons Paper Cooperation, member of National Committee of the Chinese People’s Political Consultative Conference, feared that the open-ended contract in the new Labor Contract Law was equal to bringing the ‘iron rice-bowl’ of planned economy.<sup>5</sup> The American Chamber of Commerce in Shanghai (representing over 1,300 corporations), the U.S.-China Business Council (representing 250 U.S. companies), and the European Union Chamber of Commerce in China (representing more than 860 members) all lobbied against the law.<sup>6</sup> The European Union Chamber of Commerce in China (EUCCC) and the American Chamber of Commerce in Shanghai (ACCS) submitted recommendations and opinion papers on the Draft Labor Contract Law to the Standing Committee of the National People's Congress<sup>7</sup>, warning “If China chooses to implement the draft law on labor contracts, companies could move out China to countries with less strict labor laws thus reduce employment opportunities for workers in China.”

Proponents of the law claimed that formalizing labor contracts would benefit workers

---

2 <http://www.clb.org.hk/en/node/38245>, china labor bulletin

3 Brain storm: Cheung and Dong arguments about Labor Contract Law. <http://6.cn/watch/12029491.html>

4 [http://www.chinacurrents.com/fall\\_2008/cc\\_tang.htm](http://www.chinacurrents.com/fall_2008/cc_tang.htm). The Evolution of Labor Contract Law and Comments on Two Papers

5 <http://sacom.hk/category/campaigns/nine-dragons>

6 [http://www.fpif.org/articles/labor\\_rights\\_in\\_china](http://www.fpif.org/articles/labor_rights_in_china)

7 According to a May 11, 2006 report in 21st Century Economic Report magazine.

by giving them a tool to protect their legal rights and that the open-ended provision would create more stable employment relations between workers and firms. Kai Chang of Renmin University argued that improving the labor contract system, formalizing labor relations, and building stable employment relations would not create iron bowls, but would protect workers and bring in stable employment relations that would also benefit business.<sup>8</sup> Mr Jichen Liu, legal work minister of the ACFTU said that long term stable labor relations would stimulate efficient work and build a win-win relationship. Outside China, European trade unions forced the EU Chamber of Commerce to drop its public opposition to the law. Members of the US Congress decried the corporate intervention. International union federations pressured employers to reverse course; and human rights organizations mobilized support for Chinese workers' rights.

But the most impressive voice during the public consultation period was that of ordinary Chinese workers and citizens, who sent over 190,000 comments to the government regarding the law, with most supporting greater protection of labor rights.

### **The New Law**

Taking account of the comments and criticisms, the government modified the initial draft of the law in several ways. It weakened some of the provisions on open-ended contracts that most upset the business community. The English translation of the final law has 97 articles described in a 19 page document that can be downloaded from the Web.<sup>9</sup> These provisions differ substantially from the 1995 legal framework that preceded it (Cooney, 2007; 2008). The new Law requires labor contracts in written form and contains substantial penalties for firms that do not comply with the regulation. These penalties take the form of severance fees of double wages or having the employment relation be legally viewed as an open-end contract<sup>10</sup> with no completion date and terminable only for cause.<sup>11</sup>

Wage arrears – firms delaying wage payments for extended periods or not paying workers in full – have long been a significant problem for migrant workers, leading to widespread protest before the spring festival when migrants want to bring income back to their homes.<sup>12</sup> The new law addresses the wage arrears problem in two ways. First, it imposes broad obligations on employers to pay employees their remunerations on time,

---

8 Two concerns: Labor Contract Law tilt over to the workers? – Two, Labor Contract Law – Printing Industry. <http://articleleader.info/two-concerns-labor-contract-law-tilt-over-to-the-workers-two-labor-contract-law-printing-industry/>

9 <http://www.lehmanlaw.com/resource-centre/laws-and-regulations/labor/labor-contract-law-of-the-peoples-republic-of-china.html>

10 Article 10, 82

11 Article 14

12 For a review of the wage arrears problem see <http://ilo-mirror.library.cornell.edu/public/english/dialogue/actrav/publ/128/7.pdf>. Dong, Ruifeng (2009) (Warnings of collective incidents, Outlook Weekly, vol. 1) shows it was still a serious issue in Beijing in November 2008.

in full and in accordance with their contracts and state regulations<sup>13</sup>. Article 30 allows workers to sue directly in court for unpaid wages without first going through labor arbitration process. Second, it prohibits forced overtime work and requires that overtime work wages be paid in accord with the Law.<sup>14</sup>

The new Law also clarifies the responsibilities of employers to pay social insurance premiums for workers. As the old Law provided no specific penalty to firms who defaulted on required social insurance premium, many businesses avoided paying social insurance for workers. The new Law authorizes employees to terminate contracts with the employer and makes employers that violate the Law pay default social insurance payments<sup>15</sup>. It also raised the level of severance pay, generally calculated in one month's pay per year of service<sup>16</sup>.

## 2. The survey and contract status

The surveys of migrant workers took place in nine cities in South China's Pearl River Delta (PRD) area<sup>17</sup> in July 2006, July 2008 and July 2009 respectively. Millions of migrant workers from inland provinces come to the PRD annually to work in plants where shoes, apparels and toys are made and exported worldwide.<sup>18</sup> The survey team determined the quota of each city according to its share of migrant workers. It found participants through random interceptions in the street, screened them for having full time jobs without an urban hukou, and for having less than university education. In order to guarantee the representativeness of the samples, the survey limited respondents of any particular firm to three. Over 95% of the workers to whom the team gave the surveys filled them out. The 2008 survey provides information on outcomes prior to the world economic crisis impacting China, which occurred in winter/spring of 2009, when PRD firms laid off some 20 million workers. The 2009 survey provides data as economy was

---

13 Article 30, Employers shall pay their employees labor compensation on time and in full in accordance with the labor contract and state regulations. An employee may, in accordance with the law, apply for an order to pay at the local People's Court in the event that Employer fails to pay his labor compensation on time and in full, and the People's Court shall issue such order in accordance with the law. This would enable a worker to bypass labour arbitration, which is usually a precondition for litigation.

14 Article 31

15 Article 46(1), 38 (3), 47

16 Article 47

17 The Pearl River Delta, also known as the Golden Delta of Guangdong, has been the most economically dynamic region of the People's Republic of China since the launch of China's reform programme in 1979. It includes nine cities of Guangdong Province: Guangzhou, Shenzhen, Zhuhai, Foshan, Zhaoqin, Dongguan, Huizhou, Zhongshan, and Jiangmen.

18 According to Migrant Worker Report from NBSC in 2009 the total amount of migrant workers is 145 million and those in PRD area account for 22.6%, i.e. 33 million. Monitoring Report of Migrant Workers (2009 Nongmingong Jian'ce Diaocha Baogao), [http://www.stats.gov.cn/tjfx/fxbg/t20100319\\_402628281.htm](http://www.stats.gov.cn/tjfx/fxbg/t20100319_402628281.htm)

beginning to recover.

Table 1 summarizes some of the key statistics from the surveys based on two tabulations. The numbers under the columns “non-weighted” give each respondent the same weight and thus count equally respondents from large and small firms. The numbers under the column “weighted” weigh each response by the number of people that the respondents report working in their firm, which gives a bigger weight to workers from large firms<sup>19</sup>.

The first two lines in the table relate to the contract status of workers. The figures on contract coverage show whether the new Contract Labor Law succeeded or not in increasing the percentage of workers with contracts. Having a signed contract is critical in protecting workers’ rights as it allows a worker to take a dispute to arbitration or court proceedings. Without the contract, the worker has little chance of gaining his or her legal rights. Because larger firms are more likely to give contracts to workers, the percentage of workers with contracts is much higher in the weighted statistics than in the non weighted statistics. But both statistics show a similar pattern over time: an 18 to 20 percentage point rise in the percentage of workers covered by contracts from before the law in 2006 to after the law in 2008 or 2009 – a sizable increase potentially attributable to the new Contract Labor Law.

I probe this interpretation of the change in two ways. First, I pooled all three samples and estimated a logistic regression linking the variable “having a contract” to dummies for the year of the survey and a set of measures of factors that might influence the worker receiving a contract, including demographic factors, firm ownership, firm size and city dummies. If the characteristics of workers or of firms in the survey changed over time, this might explain some of the difference in means between 2006 and later years in the summary statistics. Column 1 of table 2 gives the estimated coefficients on the explanatory factors from the logistic regressions. The sizable significant coefficients on the year dummies indicate that in the presence of the multiple covariates, contract coverage was significantly higher in 2008 and 2009 than in 2006. The estimated coefficients on education and size of the firm indicate that more educated workers and those in larger firms are more likely to have contracts. In addition, the ownership of the firm is important, with domestic private employers being least likely to have contracts and foreign-owned firms and those with Hong Kong, Macao, or Taiwan most likely to have contracts – all compared to the reference group of state owned firms.<sup>20</sup>

---

19 If the survey took only one worker from any given firm, this would provide a better estimate of the statistics for the entire population. If we knew that the survey included 2 or 3 workers from the same firm, we could weigh the sample to estimate the population average, but we do not have information on respondents’ firms.

20 The Beijing Federation Trade Union’s survey showed that 96.2% of workers in the city with Hukou (not including migrant workers) signed formal labor contracts by September 2008, but the contract coverage rate is much lower for migrant workers even after the new Law, so it is of importance to know who had contracts, and who got contract as a result of the Law among the migrant workers.

The second way I probed the finding that workers were more likely to have a contract after the law than before it uses a question from the 2008 survey that asked workers when they received their first written employment contract. Respondents reported getting their first contract from Jan 2006 through July 2008. Figure 1 uses the responses to this question to calculate the number of first contracts given in each year from Jan 2006 through July 2008 and the hazard rate of gaining a contract year by year defined as the ratio of the number of workers who obtained a new contract in a month divided by the total number at the beginning of that month who did not have a contract. The frequencies show an abrupt rise of contract density just around the implementation of the new Labor Contract Law in Jan. 2008. The hazard rate shows a similar pattern. It begins to rise at the end of 2007 and increases in early 2008 and remains high throughout that year.<sup>21</sup>

To see which workers gained a contract after passage of the new law, I estimated a logistic function relating the probability that a worker's obtained a contract after the law to the workers' characteristics. Column 2 of table 2 shows the results of this calculation. There are two principal findings. First, the demographic characteristics of workers affect their chances of gaining a contract after the law took effect. Younger workers and those with polytechnic or technical school training, in particular, are more likely to have obtained a contract. Second, larger firms and those associated with foreign owners from more advanced countries were more likely to implement the law while domestic private employers were less likely to implement the law.

In addition to asking whether a worker obtains a contract, the three surveys ask whether the contract is open-ended or fixed term. The Labor Contract Law requires that an open-ended contract be given by the employers if "*the employee has been working for the Employer for ten consecutive years, or where a labor contract was concluded as a fixed-term labor contract on two consecutive occasions or if a written contract is not concluded where it should be...*"<sup>22</sup>. With an open-ended contract, the employer can't layoff the employee except in special circumstances. Opponents of the law were particularly upset by this provision, since it gave experienced workers seemingly permanent job security and penalized firms who did not have written contracts by making permanent contracts the default.

The line "open-ended contract" in the "non weighted" column of Table 1 shows a modest uptick in the proportion of migrant workers with open-ended contracts from 15.19% in 2006 to a bit over 17% after the law and a greater uptick in the "weighted" columns. As the Law implies the workers can only get open-end contract either after two fixed contracts or after working for the same employers for ten years, the open-end contract provision is unlikely to have a substantial impact on the labor market until the next decade or so.

Overall, the data from the three PRD surveys shows that the law had a substantial

---

21 I also examined the hazard rates for getting a contract in the 2009 survey, which shows a similar pattern.

22 Article 14

impact on contract coverage and a modest impact on the receipt of a permanent contract. On the basis of data from China's National Bureau of Statistics (NBS) that show about 32.8 million floating migrant workers in PRD area, the estimates suggest that the law produced contracts for 6 million or so in the PRD. If the PRD results are representative of the country, where NBS estimates there were 229.78 million floating migrant workers, more than 42 million Chinese workers got their first contracts as a result of the law.

### 3. The impacts of contract status on other labor outcomes

To what extent, if at all, did the law affect the provision of legally required social insurance, employer violation of worker rights or wage arrears, or the presence of a union?

The summary statistics in the second and third group of items in table 1 provide some insight into this question. Taking insurance first, migrant workers are among the least insured workers in China. Social insurance<sup>23</sup> was mandatory by law before the implementation of new Labor Contract Law<sup>24</sup> but with no clear penalties for not buying social insurance many enterprises especially small and domestic private firms ignored the law. In 2006, 57% of migrant workers did not have any social insurance. As noted, the Labor Contract Law explicitly penalized firms that do not buy social insurance for their workers, creating an economic incentive for them to carry out their legal responsibilities<sup>25</sup>.

Table 1 shows a substantial increase in the proportion of workers with four different forms of legally required insurance: medical insurance, age/social security retirement

---

23 Compared to commercial insurance, social insurance is mandatory, mutually beneficial and non-profitable. The types of social insurance include old-age, medical, unemployment, workers' compensation, and maternity insurance schemes. Its basic function is to decentralize labor risks, which reflects the responsibility of the State and society of providing basic livelihood security for workers.

24 Provisional Regulations on Social Insurance was passed and implemented in 1999. Injury Insurance Regulations became effective in 2004. Employers are required to pay the premium for injury insurance; workers do not pay injury insurance.

25 Article 46(1), 38 (3), 47

Article 38: An employee may terminate his labor contract if his Employer:

(3) Fails to pay the social insurance premium for the employee in accordance with the law;

Article 46 the Employer shall pay the employee financial compensation in any of the following circumstance:

(1) The labor contract is terminated by the employer in accordance with Article 38 hereof;

Article 47: an employee shall be paid financial compensation based on the number of years he has worked for the Employer at the rate of one month's wages for each full year worked. Any period of not less than 6 months but less than one year shall be counted as one year.

insurance, injury insurance, and unemployment insurances between 2006 and 2008 and 2009 that suggests that the Contract labor law had some of its desired effects on actual market outcomes. The figures on violation of rights show a huge drop in the percentage of workers reporting violations. The percentage who reported a wage arrears problem fell between 2006 and 2008 and then rose in 2009, presumably in aftermath of the recession. Finally, Table 1 shows an increase in the presence of a trade union at the workplace between 2006 and 2008 and 2009. The increase is sizable in the “weighted” estimates but not in the un-weighted estimates.

To determine whether in fact the greater provision of contracts contributes to the increased provision of insurance and reduction in violations and arrears, I first examined whether or not having a contract affects the provision of the insurances and for rights violations, arrears, and the presence of a trade union. I estimated a logistic equation on a data set that pools the observations for all three PRD surveys:

$$(1) Y = aX + D08 + D09 + \text{CONT08} * D08 + \text{CONT09} * D09 + \text{CONT06} * D06 + e,$$

where Y is a dichotomous variable for the presence of a given benefit or factor; X is a vector that measures the characteristics of workers and their firm, including dummy variables for the city; and where D0i is a dummy variable for the year 200i; and CONT0i is a dummy variable for whether the worker has a written contract or not in year 200i. The residual group includes workers without a contract in 2006.

In this specification the coefficients on the interactions of the dummy variables for contract and year are the estimated effects of the contract on an outcome variable in the specified year. For example the coefficient on the interaction of 2008 and the contract variable shows the difference between the values of Y in 2008 for workers with a contract compared to the residual workers without a contract in 2006 group. Table 3 presents the statistical results. The estimated coefficients on the contract-year interactions are all significant positive for the insurance variables, which implies that having contracts positively affected having all forms of insurance.

Another way to assess the impact of the contract labor law on the provision of social insurance is to organize the data into an experimental design difference-in difference model. In this case, the treatment group includes workers who did not have a contract before the law but received one afterward while the control group are workers who did not have a contract before or after the law. The difference in insurance coverage for the treated group before or after the law minus the difference in insurance coverage for the control group is the diff-in-diff estimator of the effect of the law on insurance coverage. If the information on receipt of insurances were from a longitudinal survey or from a retrospective question about insurances, the differences of each group would provide unbiased estimates of the changes for those groups. But the survey did not ask about insurance on previous jobs, so it is necessary to infer what percent of workers with or without contracts in the current period had insurance earlier.

Since there is substantial selectivity in who gains a contract (see column 2 of table 2) – with workers in larger firms, in particular, more likely to obtain a first contract after the law took effect, it would not be potentially misleading to assume that persons randomly .

The regressions in table 3 indicate that persons in large firms were also more likely to have had social insurance than others. This implies that an analysis that did not correct for selectivity on the observables on the provision of social insurances before the law will overstate any effect of the new law on the provision of insurances. To get a better indication of the likely coverage of insurance of persons who did/did change contract status in the before period, I estimate the likelihood that workers who obtained contracts between 2006 and 2008 (the treated group) had insurances in the before period from a regression analysis of the likelihood that persons *with their characteristics* had insurances in 2006. Similarly, I estimate the likelihood that workers who did not obtain contracts (the control group) had insurances in the before period from the likelihood that persons with their characteristics had insurances in 2006. Thus, I create two measures of the proportion of workers without contracts who had insurances: one for the group that got contracts in the future and one for the group that did not get contracts.

Table 4 presents the resultant difference in difference estimates for each of the four insurances separately and then for a summary measure of whether workers had any social insurance. The numbers in the boxes give the mean percentage of workers with a given insurance coverage and in parentheses the standard error of the estimated mean. The 0.1447 for % of workers covered by medical insurance in the “before 2006” and “control” space means that 14.47% of workers had medical insurance. The (0.0037) below that number is the standard error on the estimate percentage. The difference in difference estimate shows that the law had a large impact on the provision of medical insurance and injury insurance, followed by age insurance (social security pensions) but had a small but statistically significant estimated impact on unemployment insurance. The last line in the table gives the DID estimate of the impact of the contract on workers with at least one social insurance. According to my earlier estimates of the number of workers affected by the law, this indicates that about 2.1 million workers in PRD area and 14 million workers all over China gained some social insurance as a result of the new Law!<sup>26</sup>

Table 5 estimates of the relation between having a labor contract on three measures of the labor relations situation at the migrant workers' firm: the extent to which workers suffered unfair treatment, defined in terms of four specific activities: forced work, risky work with no protection, punishment and humiliation, and illegal body search; whether or not their work place was unionized; whether they suffered from wage arrears, defined as the firm either delaying wage payments or not paying the full wage. The regression model follows the same form as the model in equation (1), where the key estimated coefficients are those on the interaction of having a contract and the year of the survey.

The estimated coefficients on the interaction terms in the rights violation column of table 5 are negative but small and not significant, indicating that having a contract had no effect on rights violations. The implication is that the drop in violations shown in table

---

26 According to data from NBS, there were 32.8 million migrant workers in PRD area and 229.78 million all over China, so around 6 million of them in PRD area and more than 40 million around China get contracts as a result of the law. We use  $0.35 \times 6$  million and  $0.35 \times 40$  million to get this number.

1 between 2006 and 2008 and 2009 is due to time-related factors independent of contract status. The debate and enactment of the law and the resolve of the government to improve labor conditions or the various protests by workers may underlie the reduction in violations but if that is the case, the impact was on workers who did not get individual contracts as on those who did.

The estimated negative and significant coefficient for 2008 on the interaction terms in the wage arrears column of table 5 tells a different story. Because the new law targeted wage arrears by obligating employers to pay employees on time, in full and in accordance with their contracts and regulations, or face a high severance pay, generally calculated at one month's pay per year of service,<sup>27</sup> it is likely this relation reflects the causal impact of the law. The data in table 1 on arrears shows that 8.9% of respondents and 5.4% of the likely work force population (weighted by number of employees) suffered from a wage arrears problem in 2006. Given the small percentage reporting arrears, even the modest drops in the absolute percentage of workers with arrears shown in the means of table 1 turn out to be significant. But the coefficient on the interaction variable for 2009 is smaller and insignificant, with the drop in the percentage with arrears captured by the 2009 year dummy.

Finally, the strongest estimated interaction effects for contracts in table 5 are for the presence of a union at the workplace. There are two possible interpretations for this result. Firms who implemented the contract labor law may also have decided to implement the laws on collective bargaining and union recognition. But it is also possible that firms in which an ACFTU union was active may have faced union pressure to implement the law. While the regression in table 5 makes the union variable the dependent variable, it does not rule out the latter line of causality.

To get a better indication of the potential causal effects of the contract labor law on the changes in rights violations, arrears, and presence of unionism, I also applied my difference in difference methodology to these outcome variables. I performed the same type of analysis for these outcome variables as I did for the social insurances per table 4. The results are given in table 6. The difference in difference analysis for wage arrears shows a significant reduction in wage arrears by 5.24 percentage points associated with workers in firms that changed contract status, an even larger change in union status of 13.75 percentage points associated with workers in firms that changed contract status, and effectively no change in the percentage of workers experiencing rights violations by whether or not they obtained a contract. This analysis strengthens my conclusion that the contract labor law was associated with drops in arrears and increases in unionization and supports a causal interpretation of that pattern, though it also does not rule out the possibility of a more complicated causal relation between unionization and compliance with the contract labor law.

#### **4. Conclusions**

China's Labor Contract Law was an important reform in labor relations for migrant workers. It was enacted after great controversy in China and abroad and an open

---

<sup>27</sup> Article 47 . In addition, article 30 allows workers to sue directly in court for unpaid wages, without going through the time-consuming labor arbitration process.

national debate. The version of the Law that the People's Congress enacted required contracts be in written form; gave open-ended contracts to workers under specified conditions; required employers to pay workers on time in full amount and to buy the mandatory social insurances for workers or have to pay higher severance pay than before. It created a path for workers to sue directly in court for unpaid wages without first going through the time-consuming labor arbitration process.

Analysis of Pearl River Delta surveys of migrant workers in 2006, 2008, and 2009 show that enough firms implemented the Labor Contract Law to raise contract coverage substantially after the law; that the law improved social insurance coverage of migrant workers, lowered the likelihood of workers facing unfair treatment and had a modest effect reducing the wage arrears problem and increased unionization.

In short, the Labor Contract Law appears to have been successful in improving the contract status and working lives of migrants.

## Reference:

Becker J., Elfstrom M. (2010), "The Impact of China's Labor Contract Law on Workers", International Labor Rights Forum, Connell University, May 2010.

Costello, T., Smith. B, and Brecher. J (2007), "Under Influence: Corporations Gain Ground in Battle over China's New Labor Law", Global Labor Strategies, March 2007.

Cooney. S, Dibbulph. S, Li. KG and Zhu. Y (2008), "China's New Labor Contract Law: Responding to the Growing Complexity of Labor Relations in the PRC", UNW Law Journal, Volume 30(3).

Cooney S (2007), "China's Labour Law, Compliance and Flaws in Implementing Institutions", Journal of Industrial Relations, 2007

Chen, YF. and Funke. M (2008), "China's New Labour Contract Law: No harm to employment?", BOFIT Discussion Papers 29/2008. <http://www.bof.fi/bofit>.

Dianmant, N., Lubman, S. and O'Brien, K. (2005) "Engaging the Law in China: State, Society, and Possibilities for Justice". Stanford, CA: Stanford University Press.

Freeman, Richard B. "Labour Market Institutions." The New Palgrave Dictionary of Economics. Second Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan. 10 January, 2011

Freeman, R (2005) "China, India and the Doubling of the Global Labor Force, Who pays the price of Globalization", The Globalist, 3 June.

Karindi L. (2008), the Making of China's New Labour Contract Law, Heidelberg University.

Liu, L.P., (2010), Legitimacy Pressure and the Labor Contract Coverage (Zhidu Hefa Xing Yali he Laodong Hetong Qianding), Journal of Sun Yat-sen University, Vol.50, 2010: 151-159

Josephs, H. (2003) Labor Law in China, Huntington, NY:Juris Publishing.

Zhu, Y. and Campbell, I. (2002) "Individual Labor Contracts in People's Republic of China Enterprises", International Journal of Comparative Labor Law and Industrial Relations 18 (I): 5-34.

[http://www.chinacurrents.com/fall\\_2008/cc\\_tang.htm](http://www.chinacurrents.com/fall_2008/cc_tang.htm). The Evolution of Labor Contract Law and Comments on Two Papers

[http://en.wikipedia.org/wiki/Labor\\_Contract\\_Law\\_of\\_the\\_People's\\_Republic\\_of\\_China](http://en.wikipedia.org/wiki/Labor_Contract_Law_of_the_People's_Republic_of_China)

<http://www.clb.org.hk/en/node/38245>, china labor bulletin.

[http://www.fpif.org/articles/labor\\_rights\\_in\\_china](http://www.fpif.org/articles/labor_rights_in_china) [http://laborstrategies.blogs.com/global\\_labor\\_strategies/files/undue\\_influence\\_global\\_labor\\_strategies.pdf](http://laborstrategies.blogs.com/global_labor_strategies/files/undue_influence_global_labor_strategies.pdf)

<http://www.nlcnet.org/pages?id=0008>. Foreign Corporations' Opposition to the New Chinese Labor Contract Law and Their Impact

[http://www.chinacurrents.com/fall\\_2008/cc\\_tang.htm](http://www.chinacurrents.com/fall_2008/cc_tang.htm). The Evolution of Labor Contract Law and Comments on Two Papers

<http://sacom.hk/category/campaigns/nine-dragons>

Two concerns: Labor Contract Law tilt over to the workers? – Two, Labor Contract Law – Printing Industry.

<http://articleleader.info/two-concerns-labor-contract-law-tilt-over-to-the-workers-two-labor-contract-law-printing-industry/>

<http://news.sina.com.cn/c/2008-03-02/033515055748.shtml>.

[http://www.chinacurrents.com/fall\\_2008/cc\\_tang.htm](http://www.chinacurrents.com/fall_2008/cc_tang.htm). The Evolution of Labor

## Contract Law and Comments on Two Papers

<http://www.ft.com/cms/s/0/73ff9edc-27f7-11dc-80da-000b5df10621.html#ixzz16bTqVjmV>

[http://www.stats.gov.cn/tjfx/fxbg/t20100319\\_402628281.htm](http://www.stats.gov.cn/tjfx/fxbg/t20100319_402628281.htm), “2009 Monitoring Report of Migrant Workers ,2009” Nongmingong Jian’ce Diaocha Baogao,

**Table 1: Summary Statistics of Three Pearl River Delta Surveys, by year**

	non weighted			Weighted		
	2006	2008	2009	2006	2008	2009
	(%)			(%)		
Contract coverage	42.76	60.54	62.36	66.68	87.29	85.87
Open-end contract	15.19	17.35	17.28	9.67	15.44	15.97
Medical insurance	33.02	47.11	52.03	54.53	70.70	72.48
Age insurance	21.94	34.56	37.91	42.13	56.37	55.03
Injury insurance	42.91	55.96	56.79	60.04	74.84	72.44
Unemployment insurance	8.3	13.51	20.46	13.76	22.23	30.17
wage arrears	8.88	5.85	7.22	5.40	2.18	2.99
rights violation experience	23.71	7.69	5.71	20.79	5.46	7.11
Union existence	16.00	18.68	18.57	27.04	33.83	36.72
	(mean)			(mean)		
Last month wage	1098.01	1543.13	1684.75	1177.72	1701.64	1791.28
Expected wage	1518.7	2183.73	2387.16	1588.56	2293.38	2561.05
age	27.29	27.1	28.63	25.94	26.07	27.10
Number of respondents	2613	2093	1721	758455	579040	440377

Notes: non-weighted statistics are calculated by giving the same weights to all participants; weighted statistics weight each by the number of workers in the firm.

\* The questions in 2006, 2008 and surveys are “would you like to participate in collective events to fight for your own rights?”, “Would you like to participate in collective events in case of rights violation?”, and “would you like to participate in collective events in future?”

**Table 2: Logistic Regression for Contract Coverage**

	(1)	(2)
	Have Contract at time of survey	Changed contract Status after law
Survey	pooled	Year 2008

Number observations	6626	1401
Age	0.00	-0.03*
junior high	0.32***	0.16
senior high	0.56***	0.28
polytechnic school, technical school	0.79***	0.61**
College	0.90***	0.1
women=1	-0.15**	-0.27*
10-29 workers	0.53***	0.79*
30-99 workers	1.10***	1.08**
100-299 workers	1.72***	1.76***
300-999 workers	2.31***	2.24***
1000-2999 workers	2.80***	3.17***
more than 3000 workers	2.83***	2.63***
Domestic private	-0.58***	-0.68**
US, Europe, Japan, Korea	0.60***	1.14**
HK, Macao or Taiwan	0.29**	0.43
year dummy 2008	0.95***	-
year dummy 2009	0.99***	-
City dummies	Yes	yes
Survey	Pooled	2008
constant	-2.48***	-1.45**
Number of Observations	5316	1399

Notes: entries give the coefficients of the logistic regressions, and \*, \*\*, \*\*\* stands for 0.1, 0.05, 0.01 significance level. Reference group are single male workers with primary or less education, who worker in state owner firms, with less than 9 workers in Guangzhou city.

**Table 3: Estimates of the Effect of Having Contracts on Social Insurance**

Dependent variables	medical insurance	unemployment insurance	injury insurance	age insurance
	(2)	(3)	(4)	(5)
year 2008	0.33**	-0.16	0.23**	0.17
year 2009	0.56***	0.70***	0.39***	0.54***
Contract *year 2006	1.38***	1.39***	1.12***	1.58***
Contract *year 2008	1.43***	1.86***	1.28***	1.81***
Contract *year 2009	1.62***	1.64***	1.20***	1.80***
Age	-0.01*	0.01**	-0.01	0.02***
junior high	0.09	-0.39***	0	-0.03
senior high	0.54***	0.45***	0.25**	0.70***
polytechnic school, technical school	0.60***	0.50***	0.30**	0.92***
College	1.46***	1.44***	0.65***	1.65***
Women	-0.21***	0.02	-0.61***	0.01
10-29 workers	0.03	0.29	0.11	0.22
30-99 workers	-0.02	0.59*	0.36**	0.46*
100-299 workers	0.22	0.48	0.41***	0.71***
300-999 workers	0.41**	0.4	0.51***	0.89***
1000-2999 workers	0.60***	0.39	0.83***	0.98***
more than 3000 workers	0.82***	0.45	0.81***	1.03***
domestic private	-0.71***	-0.97***	-0.35***	-1.00***
US, Europe, Japan, Korea	0.58***	0.21	0.43**	0.37**
HK, Macao or Taiwan	-0.01	-0.13	0.15	0.06
City FE	Yes	yes	yes	yes
Constant	-1.47***	-3.68***	-0.96***	-3.19***
Observations	5110	4840	5024	5035

Notes: entries give the coefficients of the Ordinary Least Square regression for log monthly wages and logistic regressions for other dependent variables; and \*, \*\*, \*\*\* stands for 0.1, 0.05, 0.01 significance level. Reference group are single male workers with primary or less education, who worker in state owner firms, with less than 9 workers in Guangzhou city.

**Table 4: Difference in Difference Estimates of the Effect of Implementing the Contract Coverage Law on Migrant Workers Social Insurance Coverage**

		<b>control</b>	<b>Treated group</b>
<b>1) % of workers covered by medical insurance</b>	Before (2006)	0.1447 (0.0037)	0.2350 (0.0061)
	After (2008)	0.1744 (0.0130)	0.5054 (0.0214)
	Difference	0.0297** (0.0156)	0.2704*** (0.0241)
	Difference in Difference	-	<b>0.2406***</b> <b>(.0287)</b>
<b>2) % of workers covered by Injury insurance</b>	Before (2006)	0.2490 (0.0040)	0.3278 (0.0053)
	After (2008)	0.2845 (0.0154)	0.5853 (0.0211)
	Difference	0.0354 (0.0184)	0.2574*** (0.0236)
	Difference in Difference	-	<b>0.2219***</b> <b>(0.0300)</b>
<b>3) % of workers covered by Unemployment insurance</b>	Before (2006)	0.0297 (0.0015)	0.0468 (0.0021)
	After (2008)	0.0269 (0.0055)	0.1119 (0.0135)
	Difference	-0.0028 (0.0066)	0.0650*** (0.0149)
	Difference in Difference	-	<b>0.0679***</b> <b>(0.0163)</b>
<b>4) % of workers covered by age insurance</b>	Before (2006)	0.0697 (0.0033)	0.1282 (0.0051)
	After (2008)	0.0773 (0.0091)	0.3517 (0.0205)
	Difference	0.0076 (0.0111)	0.2234 (0.0229)***
	Difference in Difference	-	<b>0.2158***</b> <b>(0.0254)</b>
<b>5) % of workers with at least one social insurance</b>	Before (2006)	0.2964 (0.0052)	0.4263 (0.0074)
	After (2008)	0.3342 (0.0175)	0.7288 (0.0221)
	Difference	0.0378 (0.0196)	0.3025 (0.0223)
	Difference in Difference	-	<b>0.2647***</b> <b>(0.0297)</b>

Note: adjusted both the controlled and treated group before the Law respectively by the characteristics of the controlled and treated group after the Law, i.e. age, experience, gender, scale of the working enterprises, and the its ownerships. The data in parentheses is standard error. \*, \*\*, \*\*\* means to be significant at 10%, 5%, and 1% level.

**Table 5: Estimated coefficients for the relation between having a Labor Contract on Wage Arrears, Rights Violation and presence of a union at the workplace**

Dependent variables	Rights violation	Wage arrears	Union at workplace
	(1)	(2)	(3)
year 2008	-1.17***	-0.09	-0.02
year 2009	-1.65***	-0.35*	0.14
Contract* year 2006	-0.07	-0.35**	1.07***
Contract * year 2008	-0.27	-0.86***	1.16***
Contract *year 2009	-0.10	-0.12	1.03***
age	0	0	0.02***
junior high	-0.20*	-0.03	0.06
senior high	-0.09	-0.3	0.44***
polytechnic school, technical school	-0.13	-0.35*	0.68***
college	-0.29	-0.64*	0.63***
women	-0.58***	-0.32***	-0.18**
10-29 workers	0.37*	0.21	0.61*
30-99 workers	0.48**	0.40*	0.65*
100-299 workers	0.55***	0.35	1.08***
300-999 workers	0.54***	0.33	1.48***
1000-2999 workers	0.60***	-0.02	1.73***
more than 3000 workers	0.13	-0.75**	1.85***
domestic private	-0.04	0.3	-1.24***
US, Europe, Japan, Korea	0.01	-0.41	-0.54***
HK, Macao or Taiwan	0.14	-0.12	-1.08***
City FE	yes	yes	yes
Constant	-1.24***	-2.07***	-3.37***
Observations	5477	5456	5473

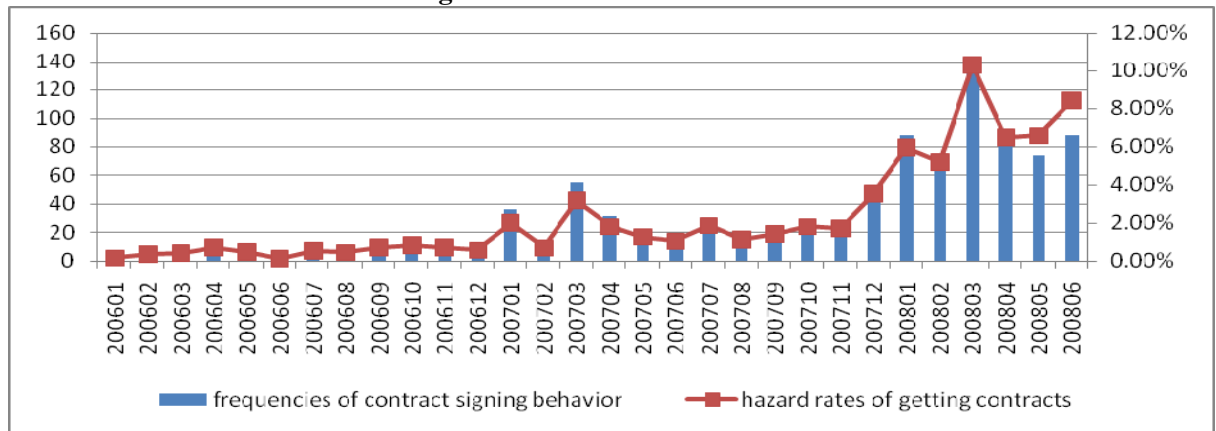
Notes: entries give the coefficients of the logistic regressions for dependent variables; and \*, \*\*, \*\*\* stands for 0.1, 0.05, 0.01 significance level. Reference group are single male workers with primary or less education, who worker in state owner firms, with less than 9 workers in Guangzhou city. Data in the parentheses are p-values for the coefficients.

**Table 6: Difference in Difference Estimates of the Contract Labor Law on Having Social Insurance Coverage Wage Arrears, Mistreatment, and Unionism**

		<b>control</b>	<b>Treated group</b>
<b>1) % of workers experienced wage arrears</b>	Before (2006)	0.1057 (0.0078)	0.1057 (0.0078)
	After (2008)	0.0946 (0.0101)	0.0421 (0.0086)
	Difference	-0.0111 (0.0129)	-0.0636*** (0.0141)
	Difference in Difference	-	<b>-0.0524***</b> <b>(0.0191)</b>
<b>2) % of workers experienced rights violation</b>	Before (2006)	0.2401 (0.0107)	0.2401 (0.0107)
	After (2008)	0.0843 (0.0095)	0.0895 (0.0122)
	Difference	-0.1558*** (0.0162)	-0.1505*** (0.0196)
	Difference in Difference	-	<b>0.0053</b> <b>(0.0254)</b>
<b>3) % of workers with union in their enterprises</b>	Before (2006)	0.0796 (0.0068)	0.0796 (0.0068)
	After (2008)	0.0621 (0.0082)	0.1996 (0.0171)
	Difference	-0.0174 (0.0110)	0.1200*** (0.0153)
	Difference in Difference	-	<b>0.1375***</b> <b>(0.0189)</b>

Note: adjusted both the controlled and treated group before the Law respectively by the characteristics of the controlled and treated group after the Law, i.e. age, experience, gender, scale of the working enterprises, and the its ownerships. The data in parentheses is standard error. \*, \*\*, \*\*\* means to be significant at 10%, 5%, and 1% level.

**Figure 1: frequencies and hazard rates in a particular month of workers who changed status from being without contracts to with contracts.**



Notes: the histogram, with its vertical axis on the left show the frequencies of workers who changed the status from being without contracts to with contracts; the line with square, with its vertical axis on the right shows the hazard rates of getting contracts in a particular month, with all workers without contracts as the base;