

# Mediation over Arbitration

## Institutionalization of Labor Dispute Settlement in China

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### > Overview

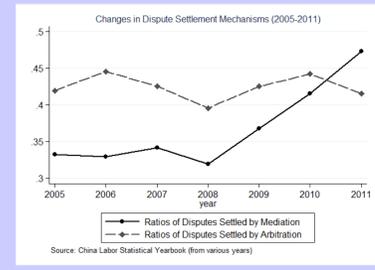
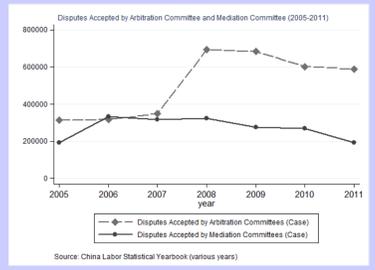
- Local government can forego the institutionalization of dispute resolution only when they can convince workers.
- Local workers' experience with the existing institutions matters.
  - Workers' experience with the informal negotiation mechanisms inside firms
  - Workers' expectation of arbitrated outcomes

### > Research Questions

- What explains the regional variation in the level of **institutionalization of labor dispute resolution**?
- Why do some local authorities settle more disputes through formal mechanisms (**arbitration**) while others rely extensively on informal settlement mechanisms (**mediation**)?

### > Institutionalization of Labor Dispute Settlement

- Labor disputes settlement mechanisms
  - **Mediated Settlement:** *informal* negotiation between two parties, low enforceability
  - **Arbitrated Settlement:** *formal* adjudication ruled by arbitrators, *adversarial*, high enforceability
- Increasing cases, declining settlements



- Workers' growing reliance on formal dispute resolution systems (**Arbitration**)
- Local government's growing reliance on informal dispute settlement mechanisms (**Mediation**)

### > Theoretical Motivation

- What explains institutionalization across authoritarian regimes?
  - Incentives for elite cooptation
  - Variation in local economic capacity
  - Different preferences of economic actors
    - \* Firm size: large firms vs. small firms
    - \* Firm ownership: state-owned enterprises vs. foreign enterprises
    - \* Types of workers: low-skilled vs. high-skilled workforce

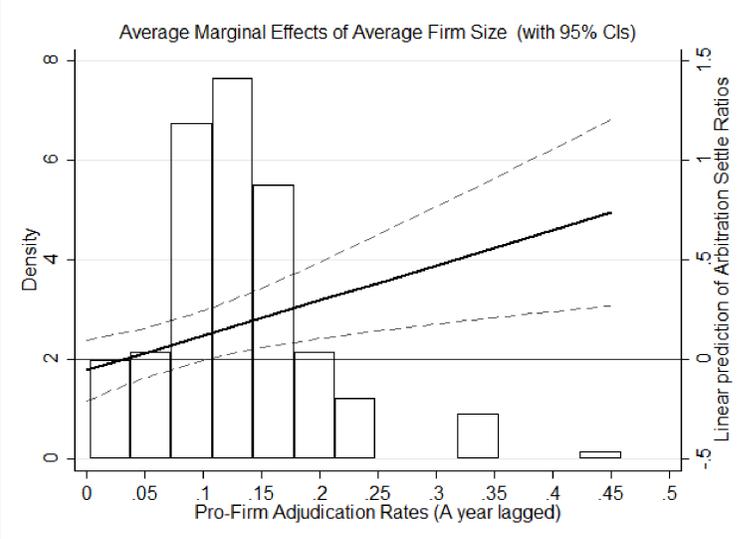
### > Argument

- Local governments can persuade more local workers to settle through informal mechanisms (**mediation**)
  - when workers have *no experience* with the informal negotiation mechanisms inside firms.
    - \* **Average firm size** has a **positive** effect on arbitrated settlement.
    - \* No association between **average firm size** and arbitrated settlement when workers expect favorable outcomes from arbitration
  - when workers expect *unfavorable outcomes* from the formal **arbitrated settlement**
    - \* **Pro-firm adjudication rates** have a **negative** effect on arbitrated settlement.
    - \* No association between **pro-firm adjudication rates** and arbitrated settlement in provinces with large firms

### > Empirical Analysis

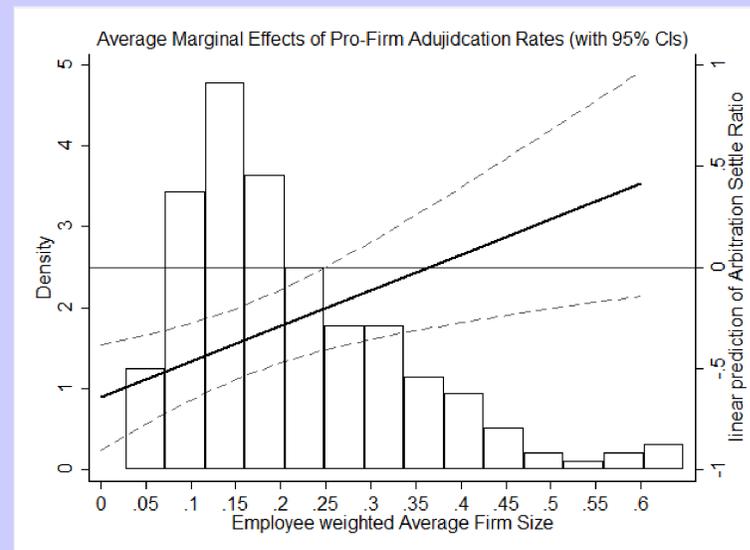
- Estimator: OLS with panel-corrected standard errors
- Data sources: China Labor Statistical Yearbook (2005–2011)
- Dependent variable: cases settled by arbitration/cases settled
- Independent variables
  - Average firm size
  - Pro-firm adjudication rates
  - Average firm size × Pro-firm adjudication rates

### > Evidence 1



- When workers expect unfavorable outcomes from arbitrated settlement, they are more likely to settle by arbitration as firm size increases.

### > Evidence 2



- When workers have to risk unfavorable outcomes from arbitrated settlement, those from regions with small average firm size are less likely to use arbitrated settlement.