

# Third-Party Labor Dispatch under the Policy and Legal Framework: The Impact on the Chinese Labor Market

Hao Jiang \*

Department of Law, Yancheng Teachers University, Jiangsu, 224007, China

\* Corresponding Author Email: zsd@yctu.edu.cn

**Abstract.** Under the background of unprecedented transformation in the labor market in China, third-party labor dispatch has gained a pivotal role in the market. This study aims to explore the role of third-party labor dispatch in China's labor market and the challenges it brings. The study focuses on the number of employment opportunities provided by third-party labor dispatch and the distribution of these opportunities across different industries and regions. Through the comparison of key indicators such as wage level, welfare benefits and career stability, it is found that there are problems such as poor employment quality and insufficient protection of workers' rights and interests in labor dispatch, and government should pay attention to the profound impact of labor dispatch on the structure of the labor market, encourage them to create jobs, and prevent social and economic inequality. Future prospective studies should further explore how to balance these interests within the legal framework to achieve fairness and efficiency in the labor market.

**Keywords:** Labor dispatch, social security, labor law.

## 1. Introduction

With the deepening of globalization and the continuous advancement of technological revolution, China's labor market is undergoing unprecedented transformation. Third-party labor dispatch, as a kind of flexible employment mode, is increasingly playing a pivotal role in the labor market. With the rapid development of artificial intelligence technology such as clustering algorithm, the traditional enterprise legal risk assessment and labor management model are facing great challenges and innovations. On the one hand, the rise of labor dispatch provides flexible human resource solutions for enterprises and promotes the improvement of operational efficiency. On the other hand, it also brings new problems and challenges to the protection of workers' rights and interests, the legal responsibility of enterprises, and even the stability and harmony of the whole society. For example, Hu's research points out that the advancement of digital technology and the development of Internet platforms have profoundly changed the employment choices of migrant workers, and this change has had a profound impact on income distribution and social structure [1]. The purpose of this study is to deeply analyze the empirical situation of the impact of third-party labor dispatch on China's labor market under the framework of policies and laws, and to prospectively discuss the future trend. By combing the existing literature and combining with empirical data, this paper will reveal the influence mechanism of third-party labor dispatch on enterprise labor relations, labor psychological contracts, and legal risk management, to provide scientific basis for formulating relevant policies.

In the current social and economic environment, third-party labor dispatch, as a flexible form of employment, has become an indispensable part of China's labor market. However, while this mode brings efficiency improvement and employment flexibility, it also raises many policy and legal challenges [2]. This study aims to deeply analyze the impact of third-party labor dispatch on China's labor market under the framework of policies and laws, especially its empirical effects on enterprises' research and development (R&D) investment, migrant workers' employment status and legal risks [1, 3, 4]. The core issue of this study is how to quantify and understand the role and influence of labor dispatch in labor allocation. On the one hand, flexible employment model may inhibit firms' R&D investment, which may be caused by the decline in human capital level [3]. On the other hand, the rise of the gig economy has had a profound impact on the flexible employment of migrant workers, but whether it has increased income inequality and how technological progress shapes this process

still needs to be further explored [1]. Moreover, legal risk assessment is essential to regulate labor dispatch, especially in the identification of high-risk enterprises and the formulation of risk prevention strategies [4].

## 2. Theoretical Framework and Historical Evolution

### 2.1. Concepts

When discussing the theoretical framework of third-party labor dispatch, it must first clearly define the core connotation of this concept. Labor dispatch, in essence, is a kind of intermediary form of labor relations. Workers do not directly establish a contract relationship with the employer using their labor, but sign a contract with a special labor dispatch agency, and then the agency will dispatch them to the actual job. This mode plays a role in regulating supply and demand in the labor market, providing flexible employment options for enterprises and diversified employment opportunities for job seekers. Labor dispatch involves several intersecting fields of economics and law. Labor economics emphasizes its role in the allocation of labor resources, while labor law focuses on its challenge to the protection of workers' rights and interests.

Under the legal framework, the legality and rationality of labor dispatch need to balance the rights and interests of enterprises and workers. For example, Wang points out through clustering algorithm analysis that although labor dispatch has high legal risks, these risks can be effectively reduced through accurate identification and preventive measures [4]. Therefore, policymakers should focus on improving relevant regulations to both safeguard the legitimate rights and interests of workers and promote the healthy development of the labor dispatch industry to adapt to changing labor market demands.

**Table 1.** Three Scheme comparing

Areas of influence	Key characteristics	Empirical findings
Labor market Legal perspective	Flexibility and Variety Resource allocation efficiency Legal risk and rights protection Ambiguity of labor relations	Damage to workers' rights Inhibit investment in R&D Rising income inequality Better rules are needed

Table 1 summarizes the main impact of labor dispatch in theory and practice, highlighting the importance of policy formulation and legal supervision.

### 2.2. Development History and Current Situation

As a flexible form of employment, labor dispatch has been rising along with the rapid development of China's economy since the reform and opening. At first, it was regarded as an effective means to relieve the employment pressure of enterprises and optimize the allocation of human resources. However, with the expansion of the market scale, the model has also exposed many problems, such as insufficient protection of workers' rights and interests and lagging legal supervision. This echoes the dampening effect of flexible employment on firms' R&D investment. As Liu and others have pointed out, firms may rely on flexible employment to reduce human capital investment, thus affecting innovation (although expanding scale and strengthening the role of unions can mitigate this trend) [3].

After the Labor Contract Law was enacted in 2008, China initially regulated labor dispatch, aiming to balance enterprise efficiency with workers' rights and interests. However, there is a gap between the strength of law enforcement and the actual effect. Currently, China's labor dispatch market is diversified and complicated, which not only has a positive role in promoting employment, but also comes with legal risks and social problems. In the future, policy making should balance flexibility and fairness, encouraging innovation while ensuring the basic rights and interests of workers. By strengthening legal supervision, improving the trade union system and promoting skills training, the

labor dispatch industry can be guided to develop healthily to achieve a stable and prosperous labor market.

### **3. Policy and Legal Framework on Third-Party Labor Dispatch**

#### **3.1. Overview of Current Policies and Legal Norms**

The current policies and legal norms aim to balance the efficiency of enterprises with the rights and interests of workers, and ensure the fairness and stability of the market. They form the cornerstone of the labor dispatch industry, influence the decision of firms to adopt this employment model, and shape the working environment in which workers are dispatched. Labor dispatch reduces R&D investment to some extent, because flexible labor reduces firms' long-term investment in human capital and thus their incentive to innovate [3]. However, this negative effect can be partially offset when firms grow or union labor protection is strengthened. On the other hand, Hu points out that the gig economy promotes flexible employment for migrant workers, but the labor substitution effect and employment structure transformation brought about by technological progress may lead to an increase in income inequality [1].

The influence of policy and legal framework on third-party labor dispatch is multi-dimensional, involving not only the regulation of enterprise behavior, but also the protection of workers' rights and interests. Future research and policy making should focus on how to find a balance between promoting employment flexibility and maintaining worker stability, while strengthening legal supervision to ensure the healthy development of the labor dispatch industry.

#### **3.2. The Role of Policies and Laws on Labor Dispatch Norms**

The intervention of policies and laws is not simply to restrict or encourage, but to balance the delicate relationship between enterprise efficiency and workers' rights and interests. This balance is an indispensable part of social and economic development, which ensures fair competition in the market and social harmony and stability. The role of policy and law is to set rules to prevent companies from relying too much on the labor dispatch model and pursuing short-term benefits at the expense of long-term innovation. For example, laws can mitigate the negative impact of flexible employment on firms' R&D investment by strengthening the labor protection function of trade unions. On the other hand, the legal framework is crucial for migrant workers' flexible employment in the gig economy [1].

On a practical level, the application of legal risk assessment tools, such as clustering algorithms, can help companies identify and prevent potential risks in labor dispatch [4]. This quantitative approach not only improves the accuracy of risk identification, but also provides data support for policy makers to formulate more precise regulatory strategies.

#### **3.3. The Impact of Regulation on Employment Opportunities and Equality**

The rise of the gig economy has provided migrant workers with more opportunities for flexible employment, but at the same time has increased income inequality [1]. Technological progress and the development of Internet platforms, while promoting employment, may also lead to the replacement of low-skilled labor, further affecting the employment structure. Therefore, policymakers need to strike a delicate balance between encouraging innovation and protecting workers' rights and interests.

From the perspective of legal risk assessment, the legal risk assessment model of enterprise labor dispatch shows that high-risk enterprises are ubiquitous in dispatched workers [4]. This suggests that a more sophisticated supervision mechanism is needed to identify and prevent potential legal disputes, and at the same time promote enterprises to improve working conditions and employment quality.

## 4. Long-Term Impact

### 4.1. Challenges and Opportunities of Labor Market Restructuring

The adjustment of labor market is accompanied by a series of challenges and opportunities. On the one hand, as pointed out in the literature, labor dispatch may inhibit the intensity of firms' R&D investment [3]. This may be due to the decline in the human capital level of firms, which leads to less investment in technological innovation. However, expanding firm size and strengthening union labor protection can mitigate this negative impact, revealing the possibility and importance of policy intervention.

Although technological progress may lead to the displacement of some low-skilled jobs, it also promotes productivity gains and the transformation of employment structures. In addition, search-matching mechanisms optimize the allocation of labor, enabling migrant workers to find jobs more efficiently. However, this change is not without cost. Legal risk assessment shows that labor dispatch enterprises have high legal risks, which suggests that it need to regulate labor dispatch behavior under the legal framework to protect the rights and interests of workers and maintain the stability of the labor market [4].

To sum up, the establishment and improvement of the legal system to adapt to the new employment forms, strengthening the legal supervision of labor dispatch enterprises, and improving the skills training and rights and interests of migrant workers will be an important direction for the healthy development of the labor market in the future.

### 4.2. Status-quo and Improvement Path of Rights and Interest Protection

At present, although labor dispatch, as a flexible employment method, plays a positive role in promoting employment and meeting the short-term needs of enterprises, its potential negative impact cannot be ignored. The literature reveals that flexible employment mode may inhibit firms' R&D investment, which to some extent reflects that firms may sacrifice long-term innovation ability and employee development in pursuit of short-term benefits [2, 3].

The status quo of worker rights protection presents a mixed picture. On the one hand, Wang points out through clustering algorithm analysis that some labor dispatch enterprises have high legal risks, which is directly related to the protection of workers' rights and interests [4].

On the other hand, the growth of the gig economy has provided more flexible employment opportunities for migrant workers, but at the same time has increased income inequality [1]. This phenomenon suggests that there may be a lag in the current legal framework in adapting to new forms of employment.

The way to improve the protection of workers' rights and interests should be multi-dimensional. First, it needs to strengthen the enforcement of laws and regulations so that labor dispatch companies provide fair treatment and safe working conditions for their workers. Second, it needs to update labor laws and regulations to clarify the boundaries of workers' rights and interests and reduce legal gray areas. Third, enterprises are required to establish effective trade unions, which, as outlined in research, play an important role in safeguarding workers' rights. Finally, the government should promote vocational education and skills training to help workers upgrade their skills to adapt to the changing job market [5].

Through these strategies as summarized in Table 2 below, it can be ensured that the basic rights and interests of workers are fully protected while maintaining the flexibility of the labor dispatch system, to achieve a healthy and sustainable labor market.

### 4.3. Discussion on Policy Suggestions and Countermeasures

First, in view of the literature suggesting that flexible employment patterns may inhibit firms' R&D investment, policies should encourage firms to adopt more stable employment strategies to promote technological innovation and human capital accumulation [3]. This can be achieved through tax breaks or other incentives to reward firms that invest more in R&D and employee training [5].

**Table 2.** Strategies to improve worker rights protection

Strategies	Description	Intended effect
Regulation enforcement	Strengthen supervision and severely punish violations	Improve the effectiveness of laws
Updating regulations	Adapt to new technologies and clarify the boundaries of entitlements	Reduce legal lag
Union building	Strengthen the bargaining position of workers	Improve welfare protection
Skills training	Improve workers' adaptability	Reduce employment inequality

Second, in response to the current situation of flexible employment for migrant workers in the gig economy, policies should focus on the impact of digital technologies on the labor market, both to promote productivity gains from technological advances and to prevent employment inequality caused by skills mismatch [6]. To this end, the education and training system needs to keep up with The Times and provide vocational education adapted to the needs of the new economy to enhance the skill complementarity of migrant workers [7].

Moreover, the importance of legal risk assessment cannot be ignored [4]. Enterprises should establish a sound labor dispatch management system, while the government should strengthen supervision and use advanced data analysis tools to identify and prevent potential legal risks [8]. For example, regular risk assessment should be carried out and an early warning mechanism should be established to ensure the effective implementation of the "special handling" system [9].

Finally, from the perspective of psychological contracts, the emotional state and job satisfaction of dispatched workers are crucial for labor market stability. Policies should promote the fairness and transparency of labor relations, and strengthen the rights awareness of dispatched workers to maintain the integrity of their psychological contract [10].

## 5. Conclusion

In exploring the impact of third-party labor dispatch on China's labor market within a policy and legal framework, our research reveals a series of key insights. First, while labor dispatch may provide companies with cost advantages and operational flexibility in the short term, in the long run, its inhibitory effect on R&D investment cannot be ignored. This is mainly reflected in the decline in the level of human capital, which takes the innovation potential of firms. Further analysis shows that the expansion of firm size and the strengthening of labor protection of trade unions can partially offset the negative impact of flexible employment model. This suggests that policymakers should strike a balance between encouraging firm growth and protecting workers' rights to promote the dual goals of innovation and stable employment. Moreover, the rise of the gig economy, especially the development of digital technologies and Internet platforms, has had a profound impact on the flexible employment of migrant workers. Technological advances may either lead to labor displacement or facilitate employment transformation through productivity enhancement. Meanwhile, skill complementarity plays a key role in labor allocation, optimizing the matching efficiency of the labor market. In summary, our study highlights the important role of legal regulations in guiding the healthy development of labor dispatch, while also alerting policy makers to the challenges and opportunities presented by the gig economy. Future research should explore how to leverage the potential of labor dispatch and gig economy to promote dynamic adaptation and innovation upgrading of China's labor market while protecting workers' rights and interests.

The flexible employment model inhibits the R&D investment of enterprises to some extent, which may be due to the decline in the level of human capital. However, this negative effect can be mitigated by expanding the size of firms and strengthening labor protection of unions. Moreover, the flexible employment of migrant workers in the gig economy reveals the profound reshaping of labor market structure by digital technologies and Internet platforms, but at the same time exacerbates the problem of income inequality.

In response to these findings, policy formulation and implementation should pay attention to the following points. First, regulations should encourage companies to invest more in human capital to promote innovation and long-term development, while maintaining employment flexibility. This could involve adjusting preferential tax policies to incentivize companies to invest more in research and development. Second, it needs to improve the union system to ensure that dispatched workers enjoy work flexibility without sacrificing basic labor rights. Third, given the impact of technological advances on the structure of employment, education and training policies should focus on upgrading the digital skills and adaptability of the workforce to cope with the changing employment environment.

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