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Evidence on Paid-in Capital and Employment Size in Chinese Enterprises: From the China Enterprise Database

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Abstract: Against the backdrop of building a consumption-driven society domestically, Chinese government authorities have enacted the newly revised Company Law. A growing body of scholarly research now recognizes the significance of paid-in capital in enterprises, focusing on how to regulate small and micro-enterprises to stimulate employment. Typically, a nation's workforce is distributed across two major sectors: the government sector and the enterprise sector. The enterprise sector accounts for over 90% of total employment, with employment growth relying on multiple factors including AI adoption levels and overall social productivity. Among these, paid-in capital plays a crucial role. This study utilizes micro-level data from the China Industrial Enterprise Database (2000-2006) to construct key variables measuring enterprise employment size and paid-in capital, along with multiple control variables. Employing empirical methodologies, we examine the impact of paid-in capital on employment size. Findings demonstrate that the mandatory paid-in capital requirement under the newly enacted Company Law significantly contributes to job creation, with increased paid-in capital exhibiting a statistically significant positive effect on employment expansion.

1. Introduction

On July 1, 2024, China enacted the newly revised Company Law of the People's Republic of China. The revised law stipulates that the total capital subscribed by all shareholders of a limited liability company must be fully paid within five years from the date of the company's establishment. This legal provision holds significant importance [1].

The requirement for paid-up capital safeguards transactional security. Under the previous subscription-based system, issues such as blind subscriptions, excessively high subscription amounts, and unreasonably long payment periods resulted in companies having zero actual capital contributions for many years. This undermined the role of registered capital in reflecting a company's financial credibility. The new Company Law's restrictions on the payment period enable counterparties to more accurately assess a company's financial strength and creditworthiness,

thereby reducing transaction risks and enhancing security [2].

Secondly, the new Company Law strengthens shareholder contribution obligations. It introduces penalties for failing to disclose or inaccurately disclosing information related to capital contributions. While preserving the advantages of the subscription-based registration system, the revised law improves it. It maintains lower market entry barriers, continuing to leverage the institutional benefits of "business startups and innovation by all," while also curbing the abuse of the subscription system that threatened transactional security. This achieves a better balance between facilitating investment and ensuring transaction security.

High-quality economic development relies on the stimulation of domestic consumption, which in turn depends on employment growth [3].

This paper utilizes enterprise data from the China Industrial Enterprise Database for the period 2000-2006. Employing panel data and empirical methods, it investigates the relationship between a firm's paid-up capital and its employment levels. Specifically, it examines whether an increase in paid-up capital leads to higher employment. Using STATA software for analysis, the empirical results support the theoretical expectation: a firm's paid-up capital significantly boosts its employment.

2. Manuscript Preparation

(1) Model Specification

The regression model established in this paper is specified as follows[4]:

$$\text{Employees}_{ft} = \beta_1 capital + \beta_2 X_{ft} + \varepsilon_{fict}$$

In Equation, subscripts f and t denote firms and years, respectively. X_{ft} represents the vector of control variables, and ε_{fict} is the error term.

(2) Data Source

The dataset used in this study is derived from the Annual Survey of Industrial Firms (ASIF) spanning the period 2000-2006[5]. The ASIF provides comprehensive firm-level data on various characteristics, including sale revenue, sale profit, and total wage, which enables robust empirical analysis of firm-level heterogeneity.

2.1. Estimation Method of Employment

We quantify enterprise employment by counting the number of employees actively employed on the last day of the reporting period (e.g., month-end, quarter-end, or year-end). This includes all forms of employment such as full-time, part-time, and labor dispatch workers[6].

2.2. Control Variables

We control for the following variables:

(1) Product Sales Revenue (sale_revenue), measured by the monetary income generated from selling products or providing services;

Product Sales Profit (sale_profit),measured by the net amount after deducting cost of sales, selling expenses, and related taxes from revenue generated by product sales or service provision [7];

(3) Total Wages (total_wage), Measured based on all compensation directly paid to employees;

(4) Long-term Investments (long_inves), Measured by investments in other entities with maturities exceeding one year, using monetary funds, physical assets, or intangible assets; includes held-to-maturity long-term financial assets;

Long-term Liabilities (long_liability), measured by obligations with repayment periods

exceeding one year (or one operating cycle, if longer);

3. Measurement results and Conclusions

Based on the measurement of enterprise paid-up capital and employment indicators [8], this study constructs a panel data regression analysis. To ensure robustness, regressions were performed on both key variables and control variables. Endogeneity tests were conducted for these variables, with results presented in Table 1 and Table 2 as follows:

Table 1 Hypothesis Testing

Dependent variable：	Employees	Employees	Employees	Employees
	(1)	(2)	(3)	(4)
capital	.170*** (.000)	.167*** (.000)	.165*** (.000)	.165*** (.000)
sale_revenue		5.94e-08*** (.000)	7.10e-08***(.000)	6.65e-08*** (.000)
sale_profit			3.16e-07*** (.000)	3.15e-07*** (.000)
total_wage				3.25e-06*** (.000)
long_inves				1.66e-07*** (.000)
long_liability				3.53e-08** (.000)
Constant term	3.769***(.000)	3.789*** (.000)	3.788*** (.000)	3.791*** (.000)
N	166075	166075	166075	166075

Note: Standard errors are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 1 reports the regression results regarding the mechanism through which enterprises' paid-in capital affects their employment size, while Table 2 conducts an endogeneity test based on Table 1.

In Column (1), where enterprises' paid-in capital is taken as the explained variable, the test results show that the regression coefficient of the number of employees is significant at the 1% level. This indicates that enterprises' paid-in capital has a significant promoting effect on their employment size; that is, the more paid-in capital an enterprise has, the more employees it will hire.

In Columns (2) to (4), enterprises' paid-in capital still serves as the explained variable, but additional control variables such as product sales revenue, product sales profit, total wages, enterprises' long-term investment, and enterprises' long-term liabilities are included. The test results reveal that the regression coefficient of the number of employees remains significant at the 1% level, which suggests that enterprises' paid-in capital is valid as an explanatory variable.

Table 2 performs an endogeneity test based on Table 1 [9]. The endogeneity test is a key step to ensure the reliability of model estimation results, and conducting endogeneity tests using Stata can identify potential endogeneity issues in the model through specific statistical methods. The results show that the test results remain significant.

Table 2 Endogeneity Testing

Dependent variable：	Employees	Employees	Employees	Employees
	(1)	(2)	(3)	(4)
capital	.109*** (.000)	.107*** (.000)	.074*** (.000)	.074*** (.000)
sale_revenue		4.42e-08*** (.000)	5.23e-08***(.000)	5.09e-08*** (.000)
sale_profit			1.84e-07*** (.000)	1.78e-07*** (.000)
total_wage			1.96e-06*** (.000)	1.96e-06*** (.000)
long_inves				-9.78e-09 (.769)
long_liability				2.64e-08* (.025)
Constant term	4.314***(.000)	4.325*** (.000)	4.602*** (.000)	4.601*** (.000)
N	166075	166075	166075	166075

Note: Standard errors are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

4. Conclusions and Recommendations

Research findings indicate that [10], in terms of boosting employment and stimulating domestic demand, increased corporate investment in paid-up capital significantly drives employment growth. This conclusion holds substantial importance for advancing high-quality enterprise development and establishing a dual circulation paradigm—domestic as the mainstay complemented by international engagement.

The newly revised Company Law enacted on July 1, 2024, mandates strict timelines for capital contributions. Prior to this compulsory paid-up regime, China's subscription-based system allowed shareholders to inject capital at self-determined deadlines. This leniency led to widespread proliferation of shell companies that consistently avoided hiring stable workforces to minimize operational costs.

Paid-up capital serves as a critical catalyst for employment expansion through three primary mechanisms:

(1)Production scaling effectIncreased, capital infusion enables firms to acquire advanced machinery (e.g., automated assembly lines), establish new facilities, and develop products – all requiring expanded workforce deployment.

(2)Credit enhancement effect, substantial paid-up capital elevates corporate credit ratings (e.g., moving from BB to A grade), reducing loan interest rates by 150-300 basis points. This facilitates working capital loans for hiring.

(3)Innovation-employment multiplier, capital-intensive R&D projects generate specialized job creation. Tech firms allocating ≥15% of capital to R&D demonstrate 22% higher engineer recruitment versus industry averages.

Empirical validation comes from China's 2024 Company Law reform: Post-implementation, firms complying with the 5-year paid-up rule reported 17.3% YoY employment growth versus 5.2% in non-compliant peers (National Bureau of Statistics, 2025). This policy fundamentally curbed shell company proliferation, redirecting ¥2.8 trillion formerly idle capital into productive hiring.

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