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Legal Regulation of Employment Models and Market Competition Effects in the Platform Economy - An Analysis Based on Supreme Court Guiding Case No. 238 and the 2025 Transformations in the Food Delivery Market

Chen Jiaqi[1], Zhang Zihao[2]

[1]Student, Business School, Beijing Wuzi University, Beijing, China
[2]Student, Law School, Beijing Wuzi University, Beijing, China

ABSTRACT

The gig economy, represented by platform-based food delivery services, has experienced rapid global growth in recent years. However, legal controversies regarding workers' employment status, labor protection, and market monopolization have become increasingly prominent. In 2021, the People's Court of Huqiu District, Suzhou City, China, issued a ruling in case (2020) Su 0505 Minchu 5582, which was later designated as Supreme Court Guiding Case No. 238. This case holds significant implications for determining whether platform-based delivery riders qualify as employees under de facto labor relationships. Meanwhile, between 2024 and 2025, new market entrants such as JD.com and Wahaha Group have disrupted the previously stable duopoly in China's food delivery industry. By integrating transaction cost theory and the multi-principal-agent model, this paper examines the impact of recent legal cases and competitive dynamics on platform-based employment models and market structures from a law and economics perspective. The study finds that stricter legal regulations, coupled with intensified competition from new entrants, may push platform enterprises to strike a balance between safeguarding workers' rights and fostering innovation. Based on these findings, the paper proposes several policy and legal recommendations aimed at achieving a more equitable and efficient market equilibrium.

KEYWORDS: Legal Regulation; Guiding Case No. 238; Multi-Principal-Agent; Market Competition

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I. INTRODUCTION

C The development of mobile internet and big data has given rise to the platform economy, exemplified by food delivery services and ride-hailing platforms. However, the nature of the relationship between platforms and workers-whether it constitutes "employment" or "collaboration"-remains a subject of controversy. This ambiguity has led to issues such as inadequate labor protections[1], unclear platform responsibilities, and increasing concerns over market monopolization. China's food delivery industry has long been dominated by a duopoly, criticized for its high commission rates and employment avoidance strategies[2].

In 2021, Supreme Court Guiding Case No. 238 established critical criteria for recognizing the "substantive management" of delivery riders. Meanwhile, in 2024–2025, the entry of new players such as JD.com and Wahaha is not only challenging the traditional market structure but also prompting new considerations regarding platform employment models. This paper explores the following key questions:

1. How does Supreme Court Guiding Case No. 238 reshape the labor relationship between platforms and delivery riders?
2. What are the strategic implications of new market entrants on competition dynamics and employment models in the food delivery sector?
3. From a law and economics perspective, how can

transaction cost theory, game theory, and the multi-principal-agent model systematically explain the interaction effects between legal regulation and market competition?

To address these questions, this study adopts a qualitative analysis approach that integrates case study examination and theoretical modeling, aiming to provide new insights and policy recommendations for both academia and industry practitioners.

II. Literature Review

A. Legal Controversies in Platform Employment Relationships

International scholars primarily discuss labor relationships based on the "control standard"[3] and "economic dependence"[4]. In contrast, domestic research focuses on the three-element criterion in labor law (organizational management, remuneration, and subordination) to determine labor relationships [5]. Some platforms attempt to circumvent responsibilities by classifying workers as "individual businesses" or using "outsourcing contracts"[6]. However, as platform management over delivery riders intensifies, judicial practices have become increasingly stringent [7]. The introduction of Supreme Court Guiding Case No. 238 signifies the establishment of the "substantive recognition" principle[8], providing a legal foundation for subsequent adjustments in platform employment models.

B. Platform Industry Competition and Emerging Market Variables

The food delivery industry has long exhibited high concentration due to network externalities and economies of scale [9]. New entrants such as JD.com and Wahaha are leveraging brand endorsement and supply chain advantages, disrupting the duopoly structure with strategies involving lower commissions and higher rider benefits. This competitive pressure compels traditional platforms to respond in terms of commission rates, rider treatment, and service quality [10]. While existing academic discussions on antitrust and platform competition are extensive, systematic research on the impact of new entrants on employment models and their institutional effects remains insufficient.

C. Research Gaps and Focus of This Study

Existing literature predominantly explores labor relationship recognition or market competition from a single perspective, lacking the following systematic analyses: (1) The profound impact of Supreme Court Guiding Case No. 238: its demonstrative effect nationwide and its influence on platform strategy adjustments have yet to be fully examined. (2) The impact of new entrants on employment models: there is a lack of empirical and theoretical analysis on how new players like JD.com and Wahaha are driving platform employment changes. (3) The construction of an interdisciplinary theoretical framework: further exploration is needed to reveal the intrinsic connections among "legal rulings-market competition-labor protection" by leveraging transaction cost theory, game theory, and the multi-principal-agent model.

This paper addresses these gaps by proposing a comprehensive research framework aimed at deeply analyzing the interaction mechanisms between labor relations and market competition in the platform economy.

III. Supreme Court Guiding Case No. 238: Labor Relationship Reconstruction from a Transaction Cost Theory Perspective

A. Theoretical Framework and Core Elements

Transaction cost theory posits that market transactions incur costs related to search, negotiation, monitoring, and enforcement[11]. Platforms adopt an "outsourcing" model for riders to reduce fixed costs such as management and social security contributions. However, this approach carries potential legal risks:

1. Search and Information Costs: Platforms must establish stringent vetting systems. While classifying riders as "individual businesses" may reduce short-term management costs, it increases the long-term risk of information asymmetry.
2. Negotiation and Contracting Costs: Standardized agreements simplify negotiations, but disputes over labor relationships can escalate significantly when conflicts arise between platforms and riders.
3. Monitoring and Enforcement Costs: Strict scheduling and performance assessments effectively strengthen platform control over riders. If judicial rulings recognize a de facto labor relationship, platforms may face additional compensation obligations and legal risks.

B. Argumentation and Analysis

Let TC(Externalization) represent the total transaction cost incurred when a platform adopts an outsourcing or individual business registration model for riders. Let TC(Internalization) represent the total transaction cost when the platform assumes direct employment responsibility. Typically, in the absence of clear judicial or regulatory intervention, the cost of externalization, TC(Externalization), is lower than or comparable to TC(Internalization). However, following the introduction of Supreme Court Guiding Case No. 238, the legal risks associated with externalization-particularly compensation, penalties, and frequent disputes upon recognition of de facto labor relationships-have significantly increased, shifting the externalization cost curve upward. Conversely, the internalization model, with clearer judicial recognition, becomes more manageable and compliant. When these two cost curves intersect, i.e., when TC(Externalization) > TC(Internalization), platforms will be inclined to transition toward internalization (a more legally compliant employment model).

Guiding Case No. 238 has raised the implicit costs of outsourcing, pushing platforms toward internalized management. Specifically:

1. Cost Curve Intersection Effect: Without judicial intervention, outsourcing costs remain low. However, post-case ruling, rising legal risks accelerate the threshold where platforms opt for internalization or enhanced worker protections.
2. Pressure Effect: To mitigate future litigation risks and compensation liabilities, platforms are compelled to reassess and adjust their employment models, driving a shift toward formalized and transparent labor relationships.

C. Theoretical Analysis Results

1. Short-term Impact: Platforms that continue to rely on nominal outsourcing arrangements face a high risk of being judicially recognized as de facto employers. If such a determination occurs, the resulting compensation, legal disputes, and reputational damage will significantly increase the cost of externalization.
2. Long-term Effects: Platforms that shift towards internalization or semi-internalized management structures will achieve greater operational stability and regulatory compliance.
3. Industry-wide Impact: Stricter judicial recognition will help reduce labor disputes arising from ambiguous employment arrangements, thereby promoting the standardized and sustainable development of the industry.

IV. Market Entry of New Players: Competition and Employment Strategies from a Game Theory Perspective

A. Multi-Party Game Structure and Strategic Goals

Game theory analysis identifies key stakeholders, including existing duopoly platforms, new entrants, merchants, riders, and government regulators, each formulating strategies based on their interests[12]:

1. Existing Platforms: Relying on economies of scale and mature delivery networks, but facing high commission rates and labor dispute pressures.
2. New Entrants: Leveraging brand recognition, financial resources, and state-owned enterprise benefits to capture market share through low commissions and high rider benefits.
3. Riders and Merchants: Increasing bargaining power amid platform competition, preferring platforms with better incentives.
4. Government Regulators: Ensuring fair competition and labor protection through antitrust measures and enforcement of employment laws.

B. Argumentation and Analysis

To further elucidate platform strategies in this multi-stage game, this study applies a multi-player game model based on the following key points:

1. Strategy Matrix: Define the platform set {P1, P2, ..., Pn}, where P1 and P2 represent the existing duopoly, and P3,...,Pn denote new entrants.
2. Core Strategic Options:

- (L) Low commission/high subsidy strategy: Reducing merchant commissions and increasing rider subsidies to capture market share rapidly.
- (M) Standard strategy: Maintaining existing commission and subsidy levels while relying on brand, traffic, and operational efficiency.
- (H) High welfare/internalized employment strategy: Providing improved benefits, formal labor contracts, or social security measures to enhance rider loyalty and service quality, albeit at a higher short-term cost.

3. Utility Functions:

- Platform utility: Balancing user scale, commission revenue, subsidy expenses, labor costs, and compliance-related benefits or losses.
- Merchant utility: Primarily determined by platform commission costs and order volume.
- Rider utility: Based on order volume, per-order earnings, benefits, and working conditions.
- Government utility: Reflecting market competition, labor rights protection, and social stability.

Through multi-stage game theoretical deductions, possible equilibrium states emerge:

1. Welfare escalation/subsidy competition equilibrium: New entrants attract riders and merchants through high welfare and low commission, forcing existing platforms to follow suit. This benefits riders and merchants in the short term but increases platform competition costs. If financial disparities exist, weaker new

entrants may struggle to sustain this approach.

2. Exclusivity and collusion equilibrium: Duopoly platforms leverage network effects and financial strength to establish exclusive agreements with key merchants, stabilizing commission rates and aggressively pricing out new entrants. If regulatory authorities intervene with antitrust measures, competition may be restored to an open market dynamic.

C. Theoretical Analysis Results

1. Short-term Impact:

A. Existing duopoly response: Depending on the intensity of new entrants' high welfare/high subsidy strategy and their financial strength, they may either match the welfare increase or implement low-price strategies to squeeze new platforms out of the market.

B. Breakthrough opportunities for new entrants: If new entrants possess strong brand reputation, logistics capabilities, or financial resources, they may leverage an optimal "L + H" combination (low commission and high welfare) to attract merchants and riders. Once a competitive advantage is established in specific regions, they can accelerate market expansion.

2. Medium- to Long-Term Evolution:

A. Welfare escalation and legal compliance: If the market game ultimately forms a sustainable incentive structure, competition among platforms will shift beyond pricing and traffic dominance to include labor compliance and service quality, strengthening platforms that provide stable benefits.

B. Game equilibrium and regulatory intervention: If government regulators detect exclusive dealings or collusion, administrative or judicial intervention may reshape the market environment. Ultimately, for riders, legal compliance and welfare enhancement may become industry-wide trends.

V. Multi-Principal-Agent Model: Comprehensive Effects of Legal Regulation and Market Competition

A. Model Construction and Key Elements

In the multi-principal-agent model, platforms, outsourcing companies, riders, merchants, and government entities form a multi-layered agency chain[13]:

1. Platform–Outsourcing Company–Rider Relationship: Platforms delegate management responsibilities to outsourcing firms, but retain actual control, affecting labor rights and management efficiency.
2. Platform–Merchant Relationship: Platforms influence merchant decisions through commission rates and traffic policies, impacting market structure and merchant dependency.
3. Government–Platform/Rider Relationship: As a public principal, the government intervenes through judicial precedents and regulatory policies, altering market expectations and behaviors.

By examining these relationships, this model provides a structured approach to understanding how legal rulings and regulatory policies influence employment strategies and market competition.

B. Argumentation and Analysis

1. Incentive Incompatibility and Final Outcome Deviation

Under the platform-outsourcing company agency mechanism, platforms attempt to reduce employment risks through outsourcing. However, if outsourcing firms lack sufficient incentives or supervision, rider management may become disorganized, and welfare guarantees inadequate. Consequently, platforms ultimately bear the responsibility of being the "actual employer."

In the platform-rider relationship, if platforms impose strict assessments and mandatory shifts while labeling riders as independent contractors, a contradiction emerges between "high control and low protection." In legal disputes, based on the principles of Case 238, such platforms are likely to be deemed de facto employers.

With increased regulatory intervention, judicial rulings and strengthened policies reshape market expectations, pushing platforms toward compliance, such as establishing formal labor contracts or enhancing labor protections to reduce future legal risks.

Ultimately, due to incentive conflicts and information asymmetry, platforms attempting to reduce risk via outsourcing may still be held accountable as actual employers due to insufficient oversight.

2. Spillover Effects of New Market Entrants

New players (e.g., JD.com, Wahaha) adopt differentiated incentive strategies to gain market share:

1. Improved Rider Benefits: Transparent welfare schemes, including social security, accident insurance, and optimized attendance and payroll systems, reduce rider turnover, improve service quality, and challenge existing platforms.
2. Reduced Merchant Commissions: Lower commission rates or more flexible promotional

mechanisms attract merchants, leading to shifts in platform preferences.

3. Industry-wide Competitive Ripple Effects: If one platform successfully implements high-welfare, high-service-quality strategies and receives positive feedback from users and riders, competing platforms are "forced" to make similar adjustments, fostering industry-wide improvements in employment conditions.

C. Theoretical Analysis Results

1. Employment Model Transition Towards Compliance: Amid intense competition and strict judicial recognition of labor relations, platforms increasingly focus on compliance risks and social reputation. Ultimately, employment models offering better labor protections will gain a competitive advantage.

2. Balance Shift in Dynamic Game Theory: As all stakeholders continuously adjust strategies in response to incentive structures and information asymmetry, a multi-win scenario emerges where labor protection, platform competition, and regulatory objectives align.

CONCLUSION

By integrating transaction cost theory, game theory, and the multi-principal-agent model, this study examines the transformation of employment models in food delivery platforms from both legal and economic perspectives. The main conclusions include:

1. Repositioning of Labor Relations: Supreme Court Guiding Case No. 238 clarifies the "substantive management" standard, compelling platforms to transition from formal outsourcing to internalized or semi-internalized models, thereby enhancing labor protection.

2. Transformation of Competitive Landscape: New entrants adopting high-welfare, low-commission strategies trigger a "welfare escalation" effect, forcing incumbent duopolies to adjust commission policies and employment models, fostering market diversification.

3. Reconfiguration of Agency Relationships: The multi-principal-agent model reveals conflicts of incentives and information asymmetry between platforms, outsourcing firms, and riders, demonstrating that only through compliance-oriented management can labor protection and platform economic innovation achieve a win-win outcome.

In summary, employment models in the platform economy are shifting from low-cost, low-protection structures toward greater compliance and enhanced labor protection. Moving forward, legislative, judicial, and administrative coordination should be strengthened to guide platform employment practices towards increased transparency, stability, and fairness.

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