8. Collective bargaining in transition: measuring the effects of collective voice in China
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8.1 INTRODUCTION

In recent years, there have been significant developments in industrial relations in China – including a successful campaign to organize Wal-Mart and other MNCs, adoption of ‘pro-worker’ Labour Contract Law and other regulations, and the expansion of collective bargaining coverage. However, at the same time, many hold sceptical views on the effectiveness of trade unions and industrial relations in China, which lack fundamental rights such as freedom of association and the right to strike. So we have a rather complex – often contradictory – picture of trade unions and industrial relations in China. This chapter attempts to give some preliminary answers to the question – what do unions do in China? Given the importance of labour market developments in China for the global economy and labour market, it is a crucial question to ask. At the same time, given the diversity, complexity and pace of change, it is a question beset with pitfalls.

In this chapter, we try to find some answers, with a full knowledge of the risks involved, by reviewing previous quantitative surveys and case studies, and also through our own recent survey of workplace industrial relations in China. In the following section (8.2), we will describe recent changes in industrial relations, to set the institutional context of our analytical attempt to measure effects of trade unions and collective bargaining in China. In section 8.3 we clarify a number of methodological issues associated with quantitative analysis of trade unions and collective bargaining in China. Sections 8.4 to 8.6 are based on a review of the existing studies (both published and unpublished), and examine the effects of Chinese trade unions and collective bargaining on a wide range of outcomes including wages, employee benefits, wage inequality, quit rates, labour conflict levels, and economic performance. This review covers all of
the available studies in this area (seven studies in total, to the best of our knowledge), while the focus is on Liu and Lee (2011) (ongoing study). In the final section, we summarize key findings and tentative conclusions, and identify future research questions.

8.2 THE CHANGING NATURE OF TRADE UNIONS IN CHINA: ARE THEY BECOMING REAL?

While extensive research on the economic effects of trade unions has been done in the developed economies, particularly in the US, similar research has been extremely rare in China. In addition to the difficulty of access to any reliable industrial relations data, a widespread notion that Chinese trade unions are ‘different’ from their counterparts in developed countries (and even ‘useless’) may have been a discouraging factor for such empirical study.

There is only one official trade union in China, namely the All China Federation of Trade Unions (hereafter ACFTU), which has a top-down, bureaucratic structure and has dual roles of serving the interest of ‘the whole nation’ while also protecting workers’ rights and interests. Operating within the communist regime, ACFTU is widely seen as a state instrument of social control rather than a representative organization of workers (for example Chan and Senser 1997). It is reported that trade unions are often under either the influence or dominance of employers at the enterprise level, while trade unions at upper levels are seen as a part of the state apparatus. Moreover, the ACFTU’s income comes primarily from enterprises through a 2% deduction on total payroll. Although staff and workers are also required to turn in 0.5% of their wages as union dues, this policy is not widely implemented in actual practice. Since Chinese unions financially depend on employers, it is very hard for them to be independent of employers (especially at the enterprise level). According to Liu (2010), Chinese unions’ incorporation into management in the workplace and the traditional organizing method of ACFTU lead to a prevailing situation where a large number of enterprise unions exist only on paper or become a tool of management. Based upon the above observations, some even argue that ACFTU is not a trade union (Taylor and Li 2007).

Seen in the above perspective, the fact that trade union density and collective bargaining coverage have recently seen unprecedented expansion in China – at least as far as its official statistics show, as in Figure 8.1 – will only reinforce the prevailing view that trade unions in China are a part of the Party-State apparatus. Certainly the explosive expansion of trade union membership and collective bargaining coverage does not look
Source: ACFTU statistical yearbooks: Trade Union Statistical Yearbook, ACFTU (Beijing, China), various years.

Figure 8.1 Union membership and coverage by collective agreements
like a natural outcome of workers’ voluntary initiatives to improve their working conditions. Rather it indicates an intervention of the visible hand of the Party-State in a top-down manner, out of its concern over maintaining social stability and harmony. Some would point out that such a rapid expansion of industrial relations institutions in such a short time is a result of bureaucratic competition among local trade union officials to meet ‘targets’, which will only end in creating ‘paper’ unions, instead of creating workers’ organizations. And these changes are happening without altering the fundamental framework for trade unions’ democratic governance and political constraints.

However, there are bodies of studies which show that trade unions in China are neither entirely irrelevant nor useless. Some case studies suggest that unions in some state-owned enterprises (SOEs) and international joint ventures (IJVs) do have certain relevance to workers (Chan 1995; Liu 2009; Tong 2005; Zhang 2009). There are studies showing that, where unions perform their key functions well, such as engaging in collective consultation and organizing workers’ congresses, they may have positive effects on working conditions. Compared to the studies conducted in the 1990s, research in the 2000s tends to show a brighter picture of Chinese trade unions. This may be a reflection of the recent changes.

Since the early 2000s, there have been signs that trade unions have become more effective in protecting workers’ rights and interests – not exactly in the way we understand trade unions function in developed market economies, but in a distinctively Chinese way. The recent success of organizing at Wal Mart stores (and at Fortune 500 enterprises) across China displayed not only ACFTU’s determination to expand its influence, but also an interesting change towards a more bottom-up rather than top-down approach. ACFTU also played a crucial role in shaping the Labour Contract Law of 2007, which is seen as a major improvement of the legal framework for better protection of workers’ rights. At the same time, new experiments in union elections at the workplace have been underway in many localities in China since the early 2000s, leading to diverse arrangements for union governance at the workplace.

More importantly, ACFTU, with the strong support of the Party-State, has built and expanded various industrial relations institutions at the workplace. In 2006, 68% of enterprises with trade unions established workers’ congresses, while 69% of trade union members (140 million) were reported to be covered by collective agreements in 2008. In spite of the formalistic nature of industrial relations institutions and practices at Chinese workplaces, these numbers suggest that many Chinese workplaces have now, as far as national statistics show, installed various workplace industrial relations institutions which are supposed to channel workers’
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voices into the management decision-making. For the majority of enterprise union leaders, furthermore, the protection of workers’ rights and interests, particularly through collective bargaining, is the highest priority, according to a large scale survey of enterprise union leaders (Qiao 2010). This is clearly a different picture from Chinese workplaces before the mid 1990s, when there was virtually no collective bargaining in either the state or private sector, when workers’ congresses hardly existed beyond state-owned enterprises, and when a union’s primary role at the workplace was at best to administer some marginal welfare benefits and promote production through labour emulations. Combined together, the above changes – such as ‘elections’, workers’ congresses and collective bargaining – should be able to improve the collective voice face of trade unions in China, if they are conducted in a meaningful manner.

Yet China’s unions have another face – the face of the Party. According to a survey of 1,811 enterprise union leaders, 90.3% are members of the Communist Party. So-called election of union leaders at the enterprise is heavily influenced by the Party committee; 72.1% of SOEs, 71.9% of foreign invested enterprises (FIEs) and 41% of domestic private enterprises have party committees in their enterprise (Qiao 2010). Beyond enterprise level, the union leaders’ political status has been elevated in the Communist Party and bodies such as local legislatures, as evidenced by a growing number of local union leaders concurrently holding senior posts in those political institutions (Chen 2008). The Party face of trade unions may help to enhance trade unions’ political influence over legislative and decision-making processes, and to push their workplace agenda as long as the union agenda is within the parameter of the Party policy. In a sense, the Party face may help unions to bring a balance to their relations with employers in the absence of the right to strike. At the same time, a deeper incorporation of trade unions into the formal state structure allows the Party-State to exercise more direct control over the trade unions (Lee 2009).

Therefore, we have a rather complex picture of trade unions in China, which appears to combine the collective voice face with the Party face. Trade unions with Chinese characteristics have expanded their numerical coverage, and their internal governance structure has seen some gradual changes as evidenced by the uneven, slow but steady spread of union elections. Furthermore, they operate in an increasingly complex web of workplace industrial relations institutions such as collective bargaining and workers’ congresses. As Qiao puts it, trade unions find themselves in a new situation at the workplace, where they have to play multiple roles, with multiple identities, between workers, managers and the Party apparatus (Qiao 2010).

In the following sections, we will try to measure the effects of enterprise
unions with such multiple roles and faces on various aspects of working conditions and labour relations at the workplace through reviewing existing studies and presenting an analysis of our own workplace industrial relations survey.

8.3 METHODOLOGICAL PROBLEMS MEASURING EFFECTS OF TRADE UNIONS AND COLLECTIVE BARGAINING IN CHINA

In assessing economic effects of trade unions in China, we will take the seminal work by Freeman and Medoff (1984) as a reference point, because there are seeming similarities in the decentralized enterprise bargaining structures in China and the USA. The effects of trade unions on wages cannot be uniform across different countries, as they depend on trade unions’ organizational structure, bargaining structure (particularly enterprise bargaining vs. multi-employer bargaining), and collective bargaining coverage.

According to Freeman and Medoff (1984), trade unions in the US were found to have the following effects on wages in the 1970s and early 1980s: unions have a substantial monopoly wage impact, but the social cost of the union monopoly wage gain is modest; unions increase the share of compensation going to employee benefits and shift the composition of the benefits package toward deferred benefits, such as pensions and health insurance; unions reduce the overall level of wage inequality among workers; unionized workers are less likely to quit their jobs and have longer job tenure than similar non-union workers; and in most cases unionized establishments have higher productivity than non-union ones.

As we have already stated, trade unions at Chinese workplaces have a significantly different structure, internal political process, external constraints and mandates from their counterparts in developed economies, including the USA. Before attempting to measure the economic effects of trade unions and collective bargaining with Chinese characteristics, we may have to use different methodological strategies in our quantitative assessment of union effectiveness at Chinese workplaces.

Studies of trade union effects in developed countries mostly use individual level data to establish statistical relations between individual attributes of union (and non-union) members (such as education, length of service, occupation, and so on) and various labour market outcomes (wages, benefits, and so on). But all the studies in China under our review use enterprise level data rather than individual level data to estimate the effects of trade unions on employment conditions. This is because of uniquely Chinese
characteristics whereby trade unions are organized according to the principle of enterprise unionism (Baek 2000); where there can be only one union in an enterprise; where all types of workers and staff, even including senior managers, are eligible for union membership; where establishment of enterprise unions usually needs the employer’s permission; and where workers usually do not have a choice over whether they join the union or not – it is rather the result of a deal between the employer and upper-level trade union organization.

This situation indicates that individual union status is highly related to characteristics of employer/enterprise while having little relevance to individual attributes of workers, as the union membership status of an individual worker is usually not determined by him or herself. As Liu’s study indicates, organizational level factors such as enterprise size, ownership status, and managerial strategies play important roles in determining unionization (Liu 2010). Furthermore, collective agreements and wage agreements in Chinese enterprises usually cover all the staff and workers of an enterprise, including not only union but also non-union members. As a result, union workers may not enjoy a so-called union premium in terms of their working conditions (such as higher wages and benefits) vis-à-vis non-union workers in the same enterprise. This situation justifies use of enterprise level data in the Chinese context, though cross-examination of individual level data will certainly enhance the analytical power of future studies.

A different approach is also required in dealing with trade unions as an independent variable. Studies in other developed countries can safely assume that trade unions are a voluntary organization of workers, which have an institutionalized practice of democracy such as elections and democratic decision-making processes, and whose primary purpose is improving conditions of work through collective bargaining. So there is no problem with using the union dummy as an independent variable, as it is designed to compare impacts of unions vis-à-vis non-unionized enterprises and/or workers. This approach may not be sufficient to understand unions’ behavioural patterns and their effects in China. Until recently, the majority of union leaders were selected (rather than elected), mostly from managerial ranks (rather than rank-and-file workers), had insufficient organizational resources (such as full-time union officials or union branches at shop-floor level) and did not carry out collective bargaining. Such ‘paper unions’ can not be expected to have the impact that trade unions in developed economies typically do. But as described earlier, trade unions in China have recently undergone incremental but significant changes. In recent years, the new practice of enterprise union election has spread in many workplaces, unions have acquired better organizational
resources (such as full-time union officials, better funding, and union organizational branches at the shop-floor level), and pushed for collective bargaining and ‘democratic management’ at the workplace. In order to capture this changing nature of complex union governance at the workplace, we need to develop unique measures of Chinese-style union governance to examine the effects of different patterns of union governance on labour market outcomes. Liu and Lee’s study (2011) developed three scales to measure union governance: the union autonomy scale, the union organizational strength scale, and the democratic management scale.

8.4 THE EFFECTS OF UNIONIZATION AND COLLECTIVE CONSULTATION ON WAGES

Do Unions Create a Union Wage Premium in China?

As mentioned earlier, the last decade has seen a rapid institutionalization of collective bargaining practices at workplaces in China. Whatever its quality and effectiveness, this is a remarkable development when we consider that collective bargaining was virtually unknown until the early 1990s. It was only in the mid 1990s that collective bargaining began to slowly spread in Chinese workplaces as the 1995 Labour Law introduced legal provisions on collective bargaining.5

However, it is not clear whether this quantitative development has been matched with improved quality of collective bargaining processes and agreements, though there is some anecdotal evidence that ACFTU’s campaign for wage negotiation since the early 2000s has brought a degree of improvement of the collective bargaining process and the quality of collective agreements (Lee 2006).

Indeed, most case studies so far paint a picture of enterprise unions that are incorporated into management at the workplace, which makes them unable to bargain for wage increases (Chen 2008; Lee 1999), and of collective bargaining that is usually characterized by strong formalism (Clarke, Lee, and Li 2004; Warner and Ng 1999). Although in a few SOEs and IJVs enterprise unions are able to gain certain wage increases through collective contracts or wage agreements, these gains highly depend on some favourable conditions such as strong support of enterprise Party secretaries, capable union chairs, and back-up of local governments (Chan 1995; Tong 2005) rather than the unions’ own bargaining power.

The quantitative studies, however, show a more mixed picture. Ge (2007) uses a sub-data set of the First National Economic Census in 2004 (which has 82,357 mining enterprises, 1,328,948 manufacturing enterprises, and
39,832 enterprises in electrical power, gas, and water supply) to estimate the enterprise unions’ effect on average wages of enterprises. Two measures of unionization are used: the union dummy and union density. The OLS regression results show that both union existence and union density are significantly and positively related to enterprise average wages. In particular, average wages of unionized enterprises are around 27% (1.104−1=0.27) higher than those of non-unionized. Ge’s (2007) study is supported by Yao, Li, and Han (2009), who also found a significant and positive relationship between enterprise union density and average wages using the Economic Census Data of Zhejiang Province in 2004. However, Ding, Goodall, and Warner (2002), based on their survey of 62 manufacturing enterprises located in two types of Chinese regions (that is, prosperous southern and coastal areas, and the relatively less developed northern and inland regions), find that the difference in average monthly wages between highly unionized and relatively weakly unionized enterprises is not significant. In addition, using the Chinese Private Enterprise Survey Data in 2006, Lu, Tao, and Wang (2008) find a non-significant relationship between union existence and average wages and bonuses of enterprises (total wages and bonuses divided by total employment).

The mixed empirical findings (especially the findings that support positive union wage effects) may be associated with the fact that Ge (2007), Lu et al. (2008), and Yao et al. (2009) all use secondhand, cross sectional survey data in which some important variables such as managerial strategies and human resource practices that may affect both unionization and average wages are missing. According to Liu (forthcoming), managerial strategies play important roles in shaping union and worker outcomes. Management attitude and human resource practices may be significantly associated with both wages and unionization: enterprises, especially FIEs, may use sophisticated human resource practices to avoid workers’ unionization requests. Failing to control for these variables may lead to a spurious relationship between unionization and average wages.

Based on surveys of general managers, human resource managers, financial managers, and enterprise union chairs in 600 enterprises in four cities (Shanghai, Changchun, Hangzhou, and Shenzhen), Liu and Lee (2011) estimate union wage effects by using the union dummy as the measurement of unionization and controlling for managerial competitive strategies (cost-based, quality improvement, and innovation focus), human resource practices (a scale constructed by 20 practices in selection, training, performance appraisal, compensation, and employee participation and voice), and other enterprise characteristics including enterprise location, industry, ownership status, history, and employment size. The dependent variables include both average ‘total’ wages and ‘take-home’
wages. ‘Total’ wages are wages before employee contributions to various social insurances and housing funds, income taxes, and other direct deductions, while ‘take-home’ wages are what employees actually receive at the designated pay day. According to the descriptive statistics of Liu and Lee (2011), unionized enterprises have higher average total wages but slightly lower average take-home wages than non-unionized enterprises. It is also worth noting that average wages in this study are calculated from wage data of randomly selected employees.6

The above finding may imply that unionized enterprises are more likely to make social insurance contributions, as unionized enterprises might have better labour law compliance than non-union enterprises. However, it is not clear whether this is because unions are able to ensure that employers follow legal regulations on social insurance or simply because enterprises which allow unions are likely to follow other regulations as well.

The OLS regression results of Liu and Lee (2011) show, however, that once factors related to enterprise characteristics such as ownership and size are controlled, the above relations between unionization and total/take-home wages largely disappear. Given that a large number of Chinese enterprise unions may be ‘paper unions’ without any substantive functions, or may not have engaged in collective consultation, using unionization as the independent variable may fail to discover the wage effects of enterprise unions that do perform union functions, especially the collective consultation function. Therefore, Liu and Lee (2011) further examine the effects of collective contracts and wage agreements on average wages using a unionized subsample. According to the OLS regression results, neither the collective contract dummy nor the wage agreement dummy is significantly correlated to average wages (both total and take-home). This is consistent with the findings of existing qualitative case studies. Liu and Lee’s study indicates that enterprise unions in China may not be capable of creating a union wage premium.

An obvious explanation for the absence of a union wage premium in China is that enterprise unions are still under either heavy influence or dominance of individual employers at the workplace level. Another factor could be the absence of the legal right to strike, which would definitely weaken the bargaining power of workers. A further explanation might be that enterprise unions play only a catch-up game to narrow gaps between the market average wage and the wage level of their enterprises. This is a plausible explanation, given that trade union leaders would pay close attention to government wage guidelines and market wage price information,7 issued by the local labour bureau, in formulating their bargaining proposal. Under the current union governance structure, the collective
Can Enterprise Unions Reduce Intra-firm Wage Inequality?

The effect of unionism on wage inequality has long intrigued researchers in the developed countries. Empirical studies since the 1980s have consistently shown that labour unions reduce inequality (see the survey of Card, Lemieux, and Riddell 2004). According to Freeman (1980) and Freeman and Medoff (1984), although unions’ monopoly power widens wage dispersion, the voice aspect of unions has equalizing effects on wages among union workers through ‘standard rate’ wage policies among different groups of workers within a company, and across companies and industries. All in all, they concluded that the inequality-reducing effects are larger than the inequality-increasing effects.

Our survey indicated that enterprise unions in China do not appear to produce a union wage premium. Then, what about the effects of trade unions on wage (in)equality in China? Here we will not deal with inter-firm or inter-industry wage inequalities, but focus only on intra-firm wage inequalities among different groups of workers within the same firm. This is largely because trade unions in China do not have their own explicit bargaining policies designed to standardize wages across firms, sectors, and localities. Although there are some attempts to build practices of regional/sectoral bargaining and also to coordinate decentralized enterprise bargaining in some localities, at present the degree of collective bargaining coordination and centralization is extremely low in China.

Liu and Lee (2011) (the only study on this subject so far) examine the effects of unionization on intra-firm wage inequality using enterprise survey data. Based on representative, individual wage data in each surveyed enterprise (in which top management compensation is excluded), they compute intra-firm wage inequality (both total and take-home wage inequality) as the normalized standard deviation (that is, the standard deviation divided by the mean) of the randomly selected employees’ wages. The OLS regression results indicate that, after controlling factors related to enterprise characteristics, managerial competitive strategies, and human resource practices, unionization is significantly and negatively associated with intra-firm wage inequality (both total and take-home). In the subsample of unionized enterprises, unionized enterprises with good democratic management practices – particularly collective bargaining, information sharing (so-called business transparency practices), evaluation of management by workers and union reporting to workers – have significantly lower level of wage inequalities in both total and take-home pay.
These results suggest that, although Chinese trade unions and collective bargaining may not create a union premium vis-à-vis non-union enterprises, unionized enterprises in general are likely to have lower intra-firm wage inequalities. Furthermore, unionized enterprises where institutions of collective voice such as workers’ congresses and collective bargaining are installed are more likely to have a lower level of intra-firm wage inequalities.

It is not clear how unionized enterprises, regardless of different union governance structure and industrial relations processes, can produce less intra-firm wage inequality, when there are many unions under either control or influence of employers. This would require more elaborate and quantitative studies as well as in-depth case studies. However, it is plausible, on the other hand, that enterprise unions, which operate in a range of institutions designed for the collective voice of workers, may be able to reflect (if not represent), articulate, and harmonize divergent interests of various groups of employees better through the industrial relations process, leading to less intra-firm wage inequality.

Another factor may be the role of the Party at the workplace and residual influence of socialist legacy on fairness at the workplace. Due to the socialist ideology of egalitarianism, wage inequalities in the Chinese workplace were extremely low before China’s economic reform in 1978. Although various wage reforms have greatly increased wage flexibility and inequality, the shared sense of fairness and equality among employees is said to persist, albeit in much more weakened and altered forms, in some Chinese enterprises, especially SOEs and old enterprises. Therefore, workers who are dissatisfied with high wage inequality may collectively demand more equal and fair wage distribution through unions, collective consultation, or workers’ congresses, forcing management to change wage policies – at least for regular workers. It is also plausible that the preference of most of the workers for narrower gaps may be supported by the Party-State’s new policy directive for decreasing income/wage gaps. For instance, one of the factors that determine the compensation of top management in large SOEs is average wages of employees, which has been introduced by the government to prevent increasing income gaps. In this respect, we may be able to say that the workers’ collective voice for narrower wage gaps finds its way into less intra-firm wage inequality through the Party face of trade unions at the workplace.

The small sample size of the survey (600 enterprises) does not allow us to make a general statement. If we can assume our findings are relevant and reliable, this is rather interesting, but further research is required to find out why and how unionized enterprises can have lower intra-firm wage inequality than non-union enterprises.

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8.5 THE EFFECTS OF UNIONIZATION AND COLLECTIVE CONSULTATION ON EMPLOYEE BENEFITS

The literature on union effects on employee benefits in the US has consistently found that unionized employees have more generous benefit packages than comparable non-union workers (see the survey of Budd 2004). Trade unions on the one hand can win additional benefits for workers by using monopoly-based bargaining power, and on the other hand promote average rather than marginal worker preferences of higher percentages of benefits in total compensation (Freeman and Medoff 1984).

Trade Union and Mandatory Social Insurance Schemes

In China employee benefits normally include various social insurances (pension, health insurance, unemployment insurance, work-related injury insurance, and maternity insurance) and housing subsidies, all of which are mandatory, although the contribution rates of enterprises and individuals differ across regions. Freeman (1981) and Freeman and Medoff (1984) find that expenditures on legally required benefits are not significantly different between union and non-union employers. However, labour unions may facilitate benefits receipt by increasing workers’ awareness (Budd 2004; Budd and McCall 1997; Weil 1996).

In China, although those employee benefits are mandatory, the extremely weak labour law enforcement, combined with an ambiguous regulatory framework, leads to violations in many enterprises. In Ge’s (2007) sample, which has over 1.4 million enterprises, only 15% provide housing subsidy to their employees, about 55% provide pension and health insurance, and 25% provide work injury and unemployment insurance.

The existing empirical studies support the positive effect of unions on mandatory employee benefits. Ge (2007) finds that unionization is significantly and positively associated with enterprises’ implementation of employee benefits programmes, including pension and health insurance, housing subsidy, and work injury and unemployment insurance. In addition, the relationships between unionization and enterprise expenditures (per employee) on these benefits schemes are positive. Yao et al. (2009) also find positive effects of union density on enterprise expenditures on the three benefit schemes. Lu et al. (2008), based on the national survey data of POEs, find that unionization is positively related to percentages of employees that enjoy the five types of social insurances and housing subsidy.
The above findings seem to suggest that the presence of trade unions at the workplace is likely to ensure higher levels of employers’ compliance with mandatory social insurance contributions.

However, these results should be interpreted with caution. First and most important, these empirical studies suffer from the omitted variable bias mentioned in the discussion on union wage effects. In addition to the two omitted variables, that is, managerial competitive strategies and human resource practices that may impact both unionization and employee benefits, another important but omitted variable is law abiding behaviour of employers. Perhaps the positive effects of unions on mandatory employee benefits occur not because unions are successful in ensuring that employers comply with mandatory social insurance schemes, but because employers that allow unionization (which is an even weaker labour regulation than the regulations on employee benefits) are more likely to comply with mandatory social insurance and other employee benefit schemes. Once these variables are controlled, the observed significant relationships may prove to be spurious.

Second, when using percentages of employees that enjoy mandatory employee benefits, or enterprise expenditures on these benefits as dependent variables, one may need to control for employee composition. It is well known that – due to the household registration system that segregates rural from urban workers – migrant workers and employees with rural household registration often continue to be excluded from mandatory employee benefits. In enterprises where these workers are covered by social insurance schemes, they are usually arranged into inferior benefits schemes that provide very limited or little social protection. This makes many of these workers refuse to participate in mandatory benefits schemes (Wu 2008). In addition, a large number of workers working either without labour contracts or as dispatched labour are excluded from mandatory employee benefits. Therefore, both of the two dependent variables are highly related to employee composition on household registration status and types of employment, which may be also significantly associated with unionization (enterprises with more migrant workers and temporary workers are more likely to avoid unions to save union dues).9 Failing to control for the employee composition variables may lead to estimation bias.

Trade Unions and Supplementary Benefits

In addition to mandatory employee benefits, Chinese enterprises, especially some SOEs and FIEs, also provide non-mandatory fringe or supplemental benefits to part or all of their employees in order to retain and motivate employees. Do enterprise unions play any role in securing non-mandatory
supplementary benefits? According to Freeman (1981, 1985) and Freeman and Medoff (1984), average workers in the US are more likely to prefer benefits because they are generally older and less mobile than workers on the margin of joining or quitting the firm. The union’s collective voice face therefore may rearrange the total compensation package toward more benefits and lower wages. It is not clear whether average Chinese workers prefer additional benefits to wages. However, if wages are fixed or there is a cap on wage increase imposed by the government, workers may ask for additional benefits through unions, collective consultation, or workers’ congresses, especially when enterprises are profitable, and their request may be approved by management given the moral pressure from workers.¹⁰

So far only Liu and Lee (2011) have empirically examined the effects of unionization on additional benefits using a logit model and controlling for a series of firm-level variables including enterprise financial performance, which may have effects on both unionization and additional benefits. They find that unionization in general is not significantly associated with enterprises’ provision of supplemental pension and supplemental health insurance benefits that are enjoyed by all employees (note that enterprises’ provision of supplemental benefits to certain employees is usually not because of the effect of unions but due to concern for retaining talent). However, using the unionized subsample, their analysis shows that the existence of collective contracts is significantly and positively correlated to enterprises’ provision of both of the additional benefits, indicating that collective bargaining is useful at least in securing additional benefits, if not higher wages.

In a nutshell, the presence of trade unions in general, regardless of their characteristics, is associated with employers’ better compliance with mandatory social insurance contributions, but it is not likely to succeed in securing additional, non-mandatory benefits (such as supplementary pension or medical schemes). Only unions with collective bargaining practices are likely to succeed in securing additional, non-mandatory benefits.

The above findings may offer a clue to understanding the functions of enterprise unions in today’s China. At the least, the presence of trade unions at the workplace can be taken as a signal for employers’ better compliance with legal requirements. It does not necessarily mean that unions are successful in securing employers’ compliance with labour laws. As we pointed out earlier, however, employers who allow unions in their workplaces are more likely to comply with other legal requirements. Therefore, we may say that unions, whatever characteristics they may have, are likely to enhance employers’ compliance. Furthermore, when unions are active in carrying out collective bargaining, those unions are likely to succeed in securing additional, non-mandatory benefits for their members.
8.6 UNIONs’ EFFECTs ON EMPLOYEE TURNOVER, LABOUR–MANAGEMENT CONFLICTS AND ECONOMIC PERFORMANCE

Unions, Employee Turnover and Labour–Management Conflicts

According to Freeman and Medoff (1984), unions in the US can reduce employee quit rates. When workers have a ‘voice’ mechanism (that is, trade unions) to improve their conditions, workers would choose to express their ‘voice’ in the company rather than to ‘exit’ the company. Can trade unions in China reduce employee turnover?

Ding et al. (2002) find an insignificant relationship between union density and employee turnover. However, this study is based on a very small sample; their analysis (ANOVA) does not control for enterprise characteristics; and union density may not be an appropriate measure for effects of unions in the Chinese context where enterprise unions are supposed to represent all employees.

Liu and Lee (2011) use a Tobit model to estimate the effects of unionization on semi-annual quit rates, controlling for enterprise characteristics, managerial competitive strategies, human resource practices, average nominal wages, and financial performance (return to assets or ROA). The results indicate an insignificant relationship between the presence of enterprise unions and quit rates. They also use an OLS regression model controlling for the same firm-level variables to examine the relationship between unionization and labour conflict levels, which are measured by a scale based on frequencies or extents (a 7 point Likert scale) of work stoppages or strikes, threats of work stoppages, labour disputes, and loss of work days in labour conflict. Again, the relationship is not significant. So, the presence of an enterprise union per se is not likely to reduce either employee turnover or the level of labour conflicts.

To further examine the collective voice face of Chinese unions, Liu and Lee (2011) use the same Tobit and OLS models to estimate the effects of the existence of collective contracts, wage agreements, and labour dispute mediation committees on quit rates and labour conflict levels. The regression results show that the existence of collective contracts and wage agreements have significant and negative effects on both quit rates and labour conflict levels, while the existence of a labour dispute mediation committee has a negative effect on labour conflict levels but no significant effect on quit rates.

The above findings again support a view that the presence of an enterprise union alone does not provide a credible voice mechanism and therefore fails to reduce either employee turnover or the level of labour conflicts. But enterprise unions which carry out collective bargaining are
likely to provide a more credible voice mechanism and therefore succeed in reducing both employees’ turnover and the level of labour conflicts. It is interesting to note that Liu and Lee’s study shows that the presence of a labour dispute mediation committee at the workplace can reduce the level of labour conflicts, as there is a prevailing view among Chinese industrial relations researchers that the committee is of no use and is dysfunctional.

The Effects of Unionization and Collective Consultation on Economic Performance

Trade unions in the US could have both positive and negative effects on productivity, through voice/response interaction and restrictive union work rules respectively, depending on the quality of labour relations at the enterprise (Freeman and Medoff 1984). Empirical evidence suggests that aggregated effects of trade unions on productivity are close to zero. The union effect on profits, however, has been consistently found negative, because unions’ wage increases reduce employers’ shares of profit (Freeman and Medoff 1984; Hirsch 2004).

The existing empirical studies seem to support the positive effects of Chinese unions on productivity, but differ on the relationship between unionization and profitability. Ge (2007) and Lu et al. (2008) both find a significant and positive relationship between productivity and unionization. However, while Ge (2007) finds a negative effect of unionization on profitability, Lu et al.’s (2008) results show that the relationship between unionization and profitability is not significant. Kim’s findings (2008), based on a subsample of Ge’s (2007) data (the First National Economic Census in 2004) which exclude SOEs, Hong Kong/Taiwan/Macau invested enterprises, and industries other than manufacturing, support the negative relationship between unionization and profitability. Moreover, he finds that unionization plays a positive moderating role in the relationship between foreign majority ownership and profitability. Given the Party face of Chinese trade unions, allowing unions may increase the legitimacy of foreign companies and therefore alleviate the negative effect of foreignness on performance. Liu and Lee (2011), after controlling for managerial strategies and human resource practices, also find an insignificant relationship between unionization and profitability measured by return on assets (ROA). To further examine the effect of Chinese unions’ collective voice face on profitability, Liu and Lee (2011) also regress ROA on the existence of collective contracts and wage agreements. Again, the relationships are not significant.

Different from their counterparts in the US and other developed economies, Chinese trade unions may not negatively impact productivity. It
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may be because trade unions at the enterprise level are simply too weak or irrelevant to create any effects on productivity. Or in some cases, trade unions may have some positive effects on productivity, as trade unions in China are often required, by national union policy, to cooperate with the management to improve the productivity and competitiveness of businesses. As a partner of the management, Chinese enterprise unions are often in charge of managing welfare, organizing ‘socialist labour emulation’, and mediating labour disputes, all of which can act as a motivator for workers. Therefore, the net effect of Chinese unions on productivity may be positive. The net effect of Chinese unions on profitability, however, is not clear. On the one hand, the productivity gains caused by unionization may increase profits. On the other hand, unionization may reduce profits because unions may provide workers with additional benefits (as suggested earlier) and employers have to pay 2% of total wage bills as union dues.

8.7 CONCLUSIONS

The extraordinary size of the country, diversity and pace of change defy any attempt at generalization in China. With a full knowledge of the risks, we have nevertheless tried to portray trade union and industrial relations developments and their effects, based on a review of various surveys, including our own, and case studies.

It is not surprising at all to find that whether unions exist or not itself makes little difference in most aspects of working conditions such as higher wages, better benefits, employee turnover and others, as enterprise unions are often under heavy influence of employers at the workplace. There are numerous studies which support these findings.

What is interesting is that when unions have better governance structures (such as elections) and are supported by workplace institutions of workers’ collective voice (such as workers’ congresses and collective bargaining), unions can actually produce some positive effects such as less intra-firm wage inequality, better law compliance, supplementary benefits and lower employee turnover.11 This may imply that the recent quantitative expansion of industrial relations institutions such as trade unions, collective bargaining and workers congresses cannot be dismissed as just a matter of formalistic and bureaucratic exercise. It appears that those workplace industrial relations institutions offer a channel for the collective voice of workers at the workplace – to a certain extent.

A key question is to what extent trade unions in China can function as the collective voice of workers. There are other forces at work in defining
the degree of collective voice face of enterprise unions in China – notably, absence of freedom of association, and the Party face of the trade unions, which would either limit or alter collective voice functions of trade union institutions at the workplace and beyond. From our review, it is impossible to shed light on the way the collective voice face and the Party face converge to produce outcomes through political process within unions and also between different stakeholders – union, Party, management and workers – at workplace level. More research has to be done, including case studies at the enterprise level, which might reveal the industrial relations processes at the workplace in China.

NOTES

1. For more details about the structure and functions of ACFTU see for example Ng and Warner 1998; Metcalf and Li 2006.
2. In recent years, there has been a rapid increase in the number of workers covered by regional/sectoral collective agreements. These types of collective bargaining appear to take place mostly in localities where small and medium sized firms are clustered around one and the same industry. But it is safe to say that enterprise bargaining is still the predominant form of collective bargaining in China.
3. In fact, since the revision of trade union law in 2001, there have been legal and practical changes regarding the principle of enterprise unionism. Workers in small enterprises with less than 25 employees can organize a joint union of enterprises (article 10 of the trade union law). After this revision, there has been a proliferation of new forms of joint unions, which were instrumental in development of regional/sectoral bargaining in many localities.
4. In this respect, the ACFTU campaign to organize Wal-Mart branches was rather unusual. In face of Wal-Mart’s refusal to give permission for union establishment, ACFTU took a different approach where organizers persuaded rank-and-file workers to set up unions, then declared establishment of unions and demanded employers’ recognition. Though there were some reports that a similar pattern was followed by local union federations, the traditional approach still prevails.
5. China’s labour laws, including trade union law and various regulations, use a term collective consultation (jitixieshang) instead of collective bargaining (jititanpan) to avoid the confrontational connotation of jititanpan and also as a proper reflection of the Chinese reality that there is no right to strike. In this article, we will just use the term collective bargaining.
6. However, top level managers (who are also eligible for union membership and covered by collective contracts and wage agreements) are excluded for two reasons. First, top management compensation is usually viewed as a corporate secret in China. Second, top management compensation is mainly determined by performance, government policies, personal attributes, and other hard to measure factors (such as corruption), has a very large range, and tends to be much higher than rank-and-file workers’ wages. Therefore, average wages excluding top managerial employees may be a better dependent variable for the purpose of this study.
7. The government wage guideline was introduced as a part of efforts to guide wage bills and distributions in state-owned enterprises, as the reform gave autonomy to enterprise in wage fixing. But as China began to promote wage negotiation, this guideline, which is issued annually by local governments, is used as a guideline for wage negotiation as well.

9. In China union dues are mainly paid by employers, and equal 2% of total wage bills.

10. To control inflation, Chinese local governments issue wage guidelines annually which set caps on wage increases. Although wage guidelines are not well enforced in the workplace, some enterprises (mainly SOEs) do consider them when making wage policies.

11. Some may view the positive effect of unions on intra-firm wage inequality as contradictory to the principles of sophisticated HR management which aim to motivate and retain talents through higher pay and additional benefits. However, given the huge and rapidly increasing wage gaps in Chinese enterprises, we view the relationship between union governance and intra-firm wage inequality as the positive effect of trade unions from the perspective of equity and social justice. This perspective is particularly relevant in the Chinese context.

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