

The Cooperative Roles of Chinese Unions in Multinational Corporations

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Abstract

Multinational corporations (MNCs) are facing various labor legislations and labor institutions in different countries. This paper investigates the functions and effectiveness of Chinese unions in MNCs. Survey evidences suggest that Chinese unions play cooperative roles in helping MNCs to harmonize industrial relations (internal functions), and to build trust and long run coordination with the Chinese government and local authorities (external functions). Empirical estimation based on the manufacturing census data shows that the presence of Chinese unions is positively associated with average wage and productivity of MNCs.

Keywords: unions, wages, productivity, multinationals, China

1. Introduction

Capital labor relationship is the key relationship in global production network. One concern of globalization is that it may challenge the global labor standard and weaken the strength of the trade unions. With the extension of global value chain, multinational corporations (MNCs) are able to shift the production stages to developing countries with weak employee protection, have greater employment flexibility, and thus reduce the collective bargaining power of the employees. To examine the impacts of globalization on employment relations, an important task is to understand the role of trade unions in MNCs.

The case of China is particularly interesting. China is one of the most fast-growing economies and major FDI recipients in the world. MNCs account for over half of China's trade, and contribute more than twenty percent to China's total GDP (Whalley and Xin 2010). Despite the importance of the MNC sector, there are only a few studies investigating the labor institutions and labor activities in the MNCs and the role of Chinese unions in MNCs remains unclear.

The labor institution in China is unique in that Chinese unions are not politically independent but controlled by the Chinese government through a hierarchical system. Workplace unions have weak bargaining power in collective consultation/bargaining with the management, as they are to a large extent subordinated to the management. Chinese unions pursue multiple objectives: to assist the government in an administrative function to maintain social and political stability, to collaborate with enterprise management to improve production efficiency, and to represent and protect the interests of employees. These objectives are increasingly contradictory, and especially in the non-state sector. A more nuanced explanation of this contradictory 'traditional dualism' of Chinese unionism could be the *unitarist* assumption inherent in the 'transmission belt' rhetoric of communist union functionality coined by the Russian revolutionist Lenin (Lenin 1965), who argued for the

identical interests among the Communist vanguard Party, the socialist enterprise management and socialist workers. Therefore, it emphasizes the importance of the union's role to coordinate and mediate relationship between the workers and managers for the purpose of productivity improvement and political stability (Chen, 2003; 2009). This provides a historical and theoretical root for the functions of Chinese unions in the MNCs.

In this paper we investigate the roles of Chinese unions in MNCs. First, we examine the functions and activities of Chinese unions in MNCs base on a field study. The qualitative case study shows that unions play important role in assisting MNCs to harmonize industrial relations, to communicate with regional unions and local authorities, and establish mutual trust and long-term cooperation with the government.

Second, we empirically investigate the effectiveness of Chinese unions in MNCs based on a large firm-level data of 2004 Economic Census. Our results suggest that the presence of unions in MNCs is positively associated with both average wage level and productivity of foreign affiliations. These evidences indicate the effective roles of unions in both protecting the benefit of employees and cooperating with multinational management.

This paper contributes to the literature by investigating the labour institutions and labour activities in MNCs. The extant literature in this topic focuses on the impacts of labour regulations and employment protection legislations in host countries on MNCs. Only a few studies have examined union recognition and union functions in MNCs. For example, Kim et al. (2014) have studies the union recognition of MNCs in China and found that the institutions in both home countries and host countries are significantly linked to union recognition. Our study extends this strand of literature by exploring the functions and effectiveness of unions in MNCs.

This paper also contributes to a small but expanding literature on Chinese unions. Previous qualitative case studies have shown that Chinese unions are not able to effectively protect the benefit of the employees, but only function as welfare club (e.g., Chan, 2000,

Taylor Chang and Li., 2003, Metcalf and Li, 2007). Our evidences based on both field study and firm-level estimation indicate the more important and effective role of unions in the MNCs. Especially we show that the presence of unions in MNCs provides a channel for MNCs to communicate with regional unions and local authorities, to build trust and long run coordination with Chinese government.

This paper is organized as follows: Section 2 provides institutional background. Section 3 examines the functions and the activities of Chinese unions in MNCs. The linkages between unionization and firm wage and productivity are estimated in Section 4, and Section 5 concludes the paper.

2. Institutional Background

Chinese unions have long tradition to cooperate with enterprises and the government. In a state-owned central planning economy, there is little conflict between management and workers since both parties serve the State and are under the direct supervision of the government. The major task of unions is to administer a large part of the government's social and welfare provisions within the enterprises. There is no collective bargaining between unions and management. Unions collaborate with management to improve workers' morale and production efficiency and maintain social stability. Union officials above the workplace level are usually not elected by the union members but appointed by the government and belong to the government administration. As such, unions are an integral part of the government administration and socialist enterprise management in the planned economy.

The transition into a market economy under globalization has fundamentally changed industrial relations in China. The tensions between employers and employees keep on arising, so does the demand for the unions to protect the interests of employees. During the

transition process, the role of Chinese unions is ambiguous. On the one hand, unions are required to be the social partner of government and enterprise management; and on the other hand, unions are required to be the representative of the employees against management in collective bargaining. The unions' function in organizing workers' collective actions can be in conflict with the government's objective of retaining social and political stability.

Subordination to the government does not imply that Chinese unions serve merely as the "transmission belt" between the State-Party and the workplace employees. The role of Chinese unions may be explained in the context of the concept of 'developmental state' and 'state corporatism' that was developed firstly by Schmitter (1974) and later, Unger and Chan (1993), and Fang and Ge (2012), who argued that unions may play an effective role of cooperating with enterprise management in raising productivity and boosting innovations in the burgeoning private sector including the MNCs. This can be seen as an extended function of unions besides the traditional role of top-down transmission belt in SOEs. To retain social and political stability in the economic transitions, the government recognizes that the unions need to be more effective in representing and protecting the employees' interests. Chinese unions are increasingly involve in various activities such as accepting employees' grievances, mediating labor disputes, monitoring work conditions and the implementation of labor laws, and providing employees various services and welfare regimes such as employee training and annual leave benefits.

The evidences in the effectiveness of Chinese unions are mixed. Previous studies based on qualitative case studies have suggested that Chinese unions cannot effectively protect the rights and interests of employees, especially in the non-state enterprises. For example, Chen (2003) conducted several case studies and showed that the representation role of unions has been highly restricted because their influence stems not from organized labor but from their official institutional status. Metcalf and Li (2006) investigated three unionized non-state

enterprises in Hainan province and found that the workplace unions are weak in collective bargaining and dispute resolution, and they mainly play a welfare role. They concluded that neither can Chinese unions impose costs on the enterprises, nor can they improve the efficiency of enterprises.

However, recent empirical studies based on firm-level data have demonstrated a different pattern. Lu et al. (2010) used the Private Enterprise Survey data and found a positive link between unions and employee benefit and enterprise productivity. Based on a survey of 1268 firms in 12 Chinese cities, Yao and Zhong (2013) found that unions have significant and positive effects on employee welfare. Ge (2013) estimated the effectiveness of Chinese unions and found that unions in the workplace significantly improve employee wage and non-wage compensation, along with employee training.

Recent studies also emphasize the interactions and coordination among the unions, enterprise management and the government. For example, He and Xie (2012) investigated the unionizations in Wal-Mart, and found that Wal-Mart unions are double co-opted by management and government. Their main functions are directed to achieve efficiency through maintaining workplace hierarchy, harmony and employee loyalty, which also accommodates the government's aim of maintaining social and political stability. Some studies have argued that the bottom-up pressure from the employees and the support from the society might contribute to more active role of unions in representing workers and result in a "constrained" worker voice (e.g. Fan and Gahan, 2012; Liu and Li, 2014). However, this "constrained" worker voice is still embedded in the 'government-led' collective bargaining process through upper level union bureaucracies (Chan, 2012; 2014).

Two recent studies, Kim, et al. (2014) and Liu and Li (2014), investigated MNC's union recognition from the perspective of management. They treated the MNCs' union recognition in China as a strategic choice which depends on not only local environmental pressure, but also the attributes of management and the institutions of home countries. Kim et al. (2014)

found that the MNC's union recognition in China is positively linked to both the legitimacy of collective representation arrangements in home countries and local institutional environments. Liu and Li (2014) constructed two "decision trees" of MNC management to indicate the important factors in union recognition and unions functions. They found that the managerial industrial relations ideologies, including management's perceptions to unions, their attitude towards labor laws and belief in the value of employee involvement, play a central role in union recognition when environment pressures barely exist or are bearable by management.

3. The Role of Chinese Unions in MNCs: the Evidence Based on Fieldwork

3.1. Overview on the forms of unions in MNCs and the background for the fieldwork

Under the state corporatist context of China, the All-China Federation of Trade Unions (*zhonghua quanguo zonggonghui*) is the only legal central body of Chinese unions incorporating union organizations at various regional levels, and also at the firm level. Consequently, the ACFTU has a vertical hierarchical structure with the 'grassroots level' unions (*jiceng gonghui*) situated at the bottom, and various levels of unions positioned above the grassroots level. The latter have normally been referred as the 'upper level unions' (*shangji gonghui*), which direct and coordinate the work of unions at the grassroots level. All the union organizations existing in Chinese MNCs can be categorized as grassroots level unions.

MNC unions in China can be classified into three types according to the approach that generates union leadership. The first type of union is affiliated with the personnel department of the firm. The union leadership, including the union president, is normally selected from the middle-rank managers of the firm. The second type of union is led by

'professional union presidents' (*zhiyehua gonghui zhuxi*) sent by the upper level unions from outside the firms. The third type of union involves leadership elected by the rank-and-file union members. However, all three types of MNC unions are subjected, although to a varying degree, to direct and/or indirect intervention and guidance from their upper level unions.

The major fieldwork of this study was done in 2009. A number of case studies were conducted to reflect the various forms of unions within MNCs in China. The unions at RetailCo in B city represent those of management-selected leadership. The unions established in K city's MNCs are examples of MNC unions led by professional union leaders sent by the upper level unions. Finally, the two unions set up at RetailCo branch stores in S city, G province are samples of MNC unions with a member-elected leadership.

Interviews were conducted with union leaders at both the grassroots and upper levels, with rank-and-file union members and, in some cases, with human resource managers. The details of the interviews and interviewees involved are provided in *Table 1*.

[Table 1 about here]

It has been discovered that, in contrast to most western labor unions, which hold a 'pluralist' assumption presuming that labor relations is fundamentally a zero-sum game for workers and employers (Freeman, 1984, 2005; Kaufman, 2004; Metcalf, 2003), all three types of MNC unions in China hold the 'unitarist' assumption that the relations between labor and employer are a positive-sum game where the interests of the two parties could be closely aligned (Clarke, 2005; Clarke et al., 2003; Fang and Ge, 2012). Based on this assumption, the protection of workers' rights and interests is largely conditional upon: first, the increase in the profitability and productivity of the firms where workers are employed; and second, stable labor relations between workers and management/employers. These two factors are also in line with the State-Party's interest in upholding industrial peace and sustaining economic growth.

To this end, the MNC unions were observed not only to offer welfare provisions and elicit workers' suggestions to improve productivity as their counterparts do in SOEs and domestic private firms, but also to play a more distinct role in directing their activities towards moderating the multilateral relations among MNCs, government and workers. Particularly, this intermediary role is evident in that MNC unions help with maintaining stable labor-management relations within the MNCs and assist MNCs with liaising and coordinating with local government authorities for business-related issues. Using case study evidence, the following two questions will be discussed in this section: in the two aforementioned processes, how the three types of MNC unions perform differently to the unions in western firms and how these differences could contribute to the organizational performance of the MNCs.

3.2. Helping with upholding stable labor-management relationships within the MNCs

Since stable workplace labor relations can be beneficial to both firm productivity and industrial and social peace, local government, firms, and unions share the same interest in maintaining a productive labor-management relationship. The major tasks of local unions thus were almost all been directed towards this objective, which is reflected in a summary given by a senior official from K city municipal union:

"We did a difficult job in establishing union organizations within MNCs. What we would do is to ensure that the unions play a role in securing a cooperative relationship with the MNCs in labor management issues. First, to ensure the MNCs comply with labor law and regulations in terms of social insurance contributions and wage levels; second, to make sure the MNCs have a division responsible for organizing social events and providing pastoral care to their employees; and third, to mediate collective labor disputes in the MNCs" (M-K-MG, 2009).

Particularly, unions in MNCs have been proactively maintaining industrial peace at the firm level by detecting and managing labor disputes and discontent, and by helping MNCs

to sign collective contracts to form sustainable labor-management relations. These union activities are conducted through the coordination among the upper level unions and MNC unions.

3.3.1 Signing collective contracts

In China, collective contracts have been widely used by government and unions for various purposes. Similar to their western counterparts, collective contracts in China are signed by unions/worker representatives and employers, basically prescribing issues such as remuneration, benefits, working time, holidays, occupational health and safety and welfare and insurance.

Although sharing some similarities, compared to their western equivalents, collective contracts in China show more emphasis on maintaining stability. This point has been evidenced in the official rhetoric in wording the collective negotiation as ‘collective consultation’, rather than ‘collective bargaining’, downplaying the confrontational nature of the negotiation process. Furthermore, the terms and conditions of collective contracts and the process of making the contract are vastly different across various MNCs in China.

Collective contracts have been utilized as either an instrument to proactively ensure *law compliance* or a reactive measure to *manage collective labor discontent*, or both. For the management-selected MNC unions, such as K city MNC unions and RetailCo B city branch store unions, legal compliance is the overarching purpose for signing collective contracts. This goal is evidenced by the content of the signed collective contracts, which mainly prescribe the statutory minimum labor standards to be applied to the whole firm/industry. This has turned the collective contract signing process into a ‘formality’ with no genuine negotiation involved (Chan, 2014). By comparison, member-elected unions, such as RetailCo S city branch store unions, face the constant pressure from the rank-and-file workers from bottom up and top-down pressure from upper level unions. As a result,

negotiations on terms and conditions involve input from rank-and-file members in order to calm down member discontent.

Corresponding to the different purposes, the process of collective negotiation also varies. In cases of RetailCo B city and K city, the collective negotiation process is launched by upper level unions and conducted between unions and MNCs, with MNC workplace unions and their upper level unions on one side; and human resource/general managers on the other. During the process, without genuine involvement of workers, the upper level unions normally seek consent from employers rather than workers. For example, in K city, the procedure for conducting annual collective negotiation and signing collective contracts is reported to take the following common pattern. At the beginning of each year, the local labor bureau issues an instructional wage increase rate range (*gongzi zengzhang zhidao qujian*), which is used to guide the wage negotiation (M-K-MO, 2009; M-K-GP-Y3, 2009). First of all, all grassroots unions select their wage bargaining representatives and identify the claims to be made in negotiation. Second, grassroots unions make a formal collective negotiation offer (*jiti xieshang yaoyue*) to every single employer, including MNCs. In cases where the employers reply to the offer, a formal collective negotiation formally commences. In cases where individual employers do not respond, however, upper level unions, particularly the municipal unions, intervene and seek to persuade the employers into negotiations. In these cases, the negotiation is conducted between upper level union cadres and the management. Third, the particular wage negotiation typically follows the subsequent procedure, in which the firms' (including MNCs') interests and performance are largely taken into account. The municipal or district unions (or, in rural areas, the township unions) would normally send staff to help each firm union (including all MNC unions) negotiate with their management. The township union staff firstly distribute the sample contracts to the firm union president and the firm union committee. The local union committee members, who are normally middle or senior managers, discuss and seek to work out a wage increase rate within the

range recommended by government agencies. The specific rate of increase varies and is worked out based on the particular firm's operational performance. In cases where the firm is not performing well, the firm would be exempted from the wage increase rate range. While sending the draft contract to rank-and-file workers, the union president also sends the draft to the employers. It is the employer who has the last say on the final rate of increase granted (M-K-GP-Y1; Y3, 2009). If the employer does not object, the wage rate increase and other contract terms and conditions would be delivered to the Workers' Congress¹ for formal approval (M-K-GP-Y3, 2009; M-K-GP-L1; L2; M-K-GP-Q1; Q3, 2009).

In B city RetailCo stores, the collective negotiation proceeds almost in the same way as K city, with negotiations conducted between the local labor bureau and the human resource department of RetailCo B city headquarters. In the case studied, a draft contract was drawn up and distributed to each store union president for discussion. In the meeting, the provisions were discussed by union presidents from each of the stores (R-TD1-GP, 2009). The revised draft was then distributed to each store union president for a further in-store discussion. Around 20 workers in the case store were chosen to 'observe' the in-store discussion without substantive input to the draft.

Some minor revisions were made to the original draft regarding the wording of certain terms and conditions. After the discussion, the final draft was submitted to the local labor bureau for approval (R-TD1-GP, 2009). The specific content of the collective contract covered the issues of wages, working hours, maternity and child care leave benefits for female workers, social insurance payments, worker welfare and occupational health and safety. The average annual wage increase rate was set between 8%-10%, for the year 2008 and 2009 (R-TD1-GP, 2009; R-TD1-SD, 2009).

¹ Workers' Congress (*zhidaihui*) is a traditional workplace level democratic management institution, through which workers, via their representatives, exert their influence in firm decision-making and in monitoring management performance. According to the *Trade Union Law 2001*, before taking effect, the terms and conditions of collective contracts should be discussed in, and approved by, the Workers' Congress. Although functioning well in SOEs, in POEs and MNCs, the worker participatory role through the Workers' Congress takes is significantly less than substantial. For more detailed discussions on Workers' Congress, see Shen and Leggett (2007) and Feng (2005).

Overall, due to the lack of substantive rank-and-file participation, the final wage increase rates typically fell within government mandated guidelines and firms' ability to pay, rather than reflecting rank-and-file workers' demands. The final terms and conditions in the collective contract typically follow the minimum statutory labor standards.

By comparison, in the member-elected RetailCo unions in S city, collective contract negotiation involved rank-and-file participation and genuine bargaining between workers and management. Collective negotiation in RetailCo S city stores also took place at the municipal level, but was conducted between the member-elected union representatives and RetailCo regional headquarters management (R-BU1-GP, 2009; R-BU1-GP, 2009). The collective negotiation campaign was initiated by the municipal union. At the same time, a process for determining union representative also started. Initially, the selection process was reported to be manipulated by management, who nominated the deputy director (HR) of RetailCo China as the chief union negotiator. Following growing agitation from rank-and-file members, the municipal union then intervened and queried the legitimacy of the selection, and called for a new selection process, which involved 45 union representatives from all 15 RetailCo S city stores. Ten union negotiators were elected via an open vote. According to one informant, five of these ten negotiators were from bottom-up unions². However, the ten also included deputy director (HR) of RetailCo China. Nonetheless, in a second vote, the leader of the BU2, one of the case store unions studied, was elected as the chief negotiator (R-BU1-GP, 2009; R-BU1-GP, 2009).

This election outcome was unexpected, even for the municipal union leaders. They reported that their initial expectation was for the collective negotiation in RetailCo to proceed as any other formalistic process would, and that it would simply result in the legal minimum standards being included in the collective contract for legal compliance purpose.

² The 'bottom-up unions' refer to the store unions established under ACFTU's organizing strategy from bottom up. The leadership of these unions are elected by the rank-and-file workers.

Thus, the municipal union originally prepared to sign the contract on behalf of all store unions with management. However, because of the vote results, municipal union cadres found their role shifted from being a direct negotiator to a facilitator and monitor of the contract negotiations.

In addition to a slightly higher annual wage increase³, union representatives also negotiated to formalize the discretionary entitlements that had been promised by management to employees, including provisions covering RetailCo's holiday and welfare benefits. For example, according to the *Labor Contract Law*, workers with one year (or more) of continuous service are eligible for minimum five days of annual leave. However, at RetailCo, these workers could have up to ten days of annual leave. Extra benefits like the annual leave were negotiated to be included into the collective contract (R-BU1-GP, 2009).

Once the terms and conditions were agreed between the elected union negotiators and management, a draft of the contract was distributed to each store, where all members were asked to approve in the form of a local vote. In our case study, the approval rate was 66% (Zhang, 2008), and so the member-approved draft was submitted to the RetailCo China head office for signing off. Finally, the draft contract was submitted to the municipal labor bureau for final approval (R-BU1-GP, 2009; R-BU2-GP, 2009).

Although in the RetailCo S city case, management was pressured to promise a slightly higher wage increase rate and include discretionary benefits in the contract, RetailCo still benefited from the negotiation and the contract. This is because labor discontent was detected by the union and was prevented from being escalated into disputes, which avoided potential losses in productivity and profit in the RetailCo.

³ RetailCo S city store workers received a 9% annual wage increase plus a performance-based increase of 1%. This is higher than the 8% annual increase negotiated in RetailCo stores at YS city and other cities where workers are not genuinely involved in the negotiation. It is worth noting that the YS city store unions are all management-sponsored RetailCo unions.

3.3.2 Detecting and mediating labor disputes/discontent

Another important function that MNC unions serve in China is detecting and mediating labor disputes and discontent. Unlike western unions, Chinese unions not only serve the purpose of promoting worker welfare and employment security, but also emphasize ‘consideration of the overall situation’ (*guquan daju*), which links industrial peace to local economic growth and social stability.

K city

In K city, most of the large Taiwanese, Japanese and South Korean manufacturing firms employ a great number of rural migrant workers. In this context, there is a concern that, the growing incidences of collective industrial protests could quickly escalate into broader social unrest. Each of the grassroots firm level unions, therefore, takes the responsibility of mediating and reporting disputes. The MNC unions are no exceptions.

Every firm in K city is required to set up a labor mediation committee (*laodong tiaojie weiyuanhui*), or at least appoint a mediation coordinator. The municipal union weaves such a network that covers all levels of unions in the city with each of the in-house labor mediation committees serving as ‘node’ in the network. In this scheme, the ‘nodes’ are expected to detect and mediate any potential labor disputes, and report the disputes to the upper level unions for solution when necessary (M-K-MO, 2009).

Whenever disputes occur, the firm union is obliged to investigate the disputes. Should there be a breach of labor law, the union will negotiate with the employer and seek to rectify their non-compliance with the law. In those cases where the grassroots union leaders are not able to determine whether the company is in compliance with the relevant laws, or face challenges in correcting unlawful behaviors, they can request the involvement of upper level union leaders (township/municipal level) for assistance (M-K-GP-L1; L2, 2009; M-K-MO, 2009). If, however, the employers agreed to comply with their legal obligations, the union

leaders will then seek to persuade workers to accept the mediation results rather than pursuing any further arbitration or court action (M-K-MO, 2009; M-K-GP-L1; L2; Q2, 2009). The mediation, in this sense, avoids further costly dispute resolution actions, such as labor arbitration or litigation. Such union functions could potentially benefit the MNCs.

RetailCo

The unions that were studied in B and S cities RetailCo stores demonstrated different features in dealing with labor disputes. The union president and store HR manager at B city RetailCo case union claimed that since RetailCo is a law-abiding company, the union's role is to coordinate with upper level unions and store human resource department to enhance productivity and employee morale. Thus, it was not necessary for unions to deal with labor disputes (R-TD1-GP, 2009; R-TD1-M1, 2009; R-TD1-HR, 2009).

In contrast, informants from the two studied RetailCo unions in S city reported a regular union involvement in dealing with workplace dispute resolution, which was a process of seeking legal expertise and authorization from the S city municipal union.

Union leaders reported that, with support from the municipal union, they achieved some success in solving several labor disputes, including a dispute over the terms of redundancy for middle-ranked managers. In spring 2009, facing the challenges posed by the global financial crisis, RetailCo China sought to cut a number of middle level managerial positions, which was reported as the 'the middle manager layoff dispute' (*fenliumen*) (R-BU1-GP, 2009, and a series of media reports). Altogether, in excess of 100 middle managers were affected in RetailCo S city stores. According to several media reports, the targeted middle managers were left with three choices: to resign, to be transferred to a new store, or to be demoted.⁴ For those who did not accept the above three options, RetailCo

⁴ For those who were willing to resign, a compensation package would be provided appropriate to the term they had served the company plus an extra month's salary. For those who took the demotion option, they could still

reserved the right to terminate the contract with a lump-sum redundancy payment plus an extra month's salary payment.

Redundancies were initially conducted secretly until they were disclosed by the media. On April 14, 2009, six middle manager representatives sought to discuss the issue with senior management at the head office, but failed to reach an agreement. Later that afternoon, more than 100 middle managers walked in a group to the RetailCo headquarters and conducted a public protest, which attracted the attention of branch store union leaders, who then reported this issue to upper level union cadres (R-BU1-GP, 2009; R-BU1-GP, 2009). After the initial unsuccessful negotiation, around 50-60 middle managers marched to the municipal government offices, asking for government intervention. Concerned about the potential consequences for social stability (R-BU1-GP, 2009), both the grassroots union leaders and the municipal union cadres attempted to persuade the two parties back to the negotiation table (R-BU1-GP, 2009). In this instance, union representatives mediated a resolution of dispute between the protesting managers and the regional senior managers. The parties agreed to modify the options in a way that was more favorable to the affected middle managers.⁵

This, and other cases where the dispute went beyond the store level, also demonstrate how the primary concern of grassroots union leaders shifted from representing workers to maintaining social stability as the dispute escalated and went beyond the workplace. Accordingly, their role shifted from a worker representative to a labor dispute mediator in order to mitigate labor-management confrontation and keep the dispute at a manageable level. In this process, normal operation of RetailCo was restored, avoiding further losses in

stay at the store to which they had been affiliated. For those who were willing to be transferred to another store, they had to accept the demotion first and then wait to be transferred to a new store.

⁵ According to a media report, in the final agreed resolution, if the affected middle managers would like to be transferred to a new store, they would get a ¥3,000 yuan reimbursement and relocation allowance. For those who opt to stay, the position and wage level would remain unchanged. For those choose to leave, they would be receiving an extra 'service contribution award' (*fuwu gongxian jiang*) in addition to the lump-sum redundancy payment plus an extra month's salary.

productivity and profit caused by the collective protests.

3.4 Assisting MNCs with liaising and communicating with local government authorities

This function of MNC unions was evident in all the case unions. The case unions take on the role, to a varying degree, of liaising and coordinating with local government agencies for a long-term cooperative relationship between government and the MNCs. It is worth noting that the role was largely realized through upper level unions, who have close working relationships with local Party and government, and hence are able to leverage power from these agencies. For example, in the case of the RetailCo union, the upper level union leaders, particularly the S city municipal union leaders, played a vital role in mediating the aforementioned middle manager protest.

However, because the MNC union leaders in K city were dispatched by the upper level unions to the firms, the liaising role of K city union is particularly evident. K city municipal union is one of the first upper level unions to send union leaders to large MNCs. The initiative was launched in K city at the onset of the FDI inflow in 1993, when the incoming MNCs were unfamiliar with local business regulations and inexperienced in dealing with local administrative authorities (M-K-MO, 2009; M-K-MG, 2009). Considering the large number of migrant workers hired by the MNCs, the main purpose of this experiment was to uphold social stability in large MNCs, typically employing more than 1,000 employees (M-K-MO, 2009; M-K-MG, 2009). It was under this backdrop that the K city municipal union dispatched former government workers to the MNCs as union presidents.

Since 1993, more than 100 union presidents have been dispatched to the MNCs. Most of them were former public servants working in the government agencies or former middle-ranked managers employed in the SOEs. At the very beginning, the MNC employers were reluctant to accept dispatched presidents, concerned about the potential loss of control

and other negative impacts that the leaders might bring about. As the dispatched union presidents utilized their previous working experiences and connections to assist with completing relevant business registration procedures with various local administrative authorities (M-K-MO, 2009), MNC employers found it was in their own interests to involve the union leaders as an intermediary between government and the firms, thus building up long-term relationships with local government (M-K-MG, 2009). Most of the dispatched leaders were subsequently appointed as director of the general affairs office or other managerial roles dealing with public relations issues. In the later years, witnessing the positive results generated by the dispatched presidents, some of the MNC employers were even reported to proactively request union presidents to be dispatched to their firms (M-K-MO, 2009; M-K-MG, 2009).

3.5 Summary: The cooperative roles of Chinese unions in MNCs

Based on our field study, Chinese unions in MNCs have played important bridging roles between the government and the firm, serving three primary functions, each of which contributes to the organizational performance of the MNCs in its own way. First, the unions help with achieving a collective contract, through which MNCs reassure the local union and government that MNCs will comply with the legally required ranges of annual wage increases, thus promoting their cooperative relations with local government. In addition, through negotiation with worker representatives, the MNCs find an official channel to reduce productivity and profit losses caused by potential industrial actions and disputes. In this sense, signing a collective contract contributes to the productivity and profitability of the MNCs. Second, unions help MNCs with implementing labor laws and regulations at the workplace level and with mediating labor disputes and managing labor discontent through the collective contract. Third, unions assist firms in communicating with local government authorities, therefore helping MNCs to establish mutual trust and

long-term cooperation with the government.

It is worth noting that all these roles are almost always heavily facilitated by the upper level unions as a result of the structural dependence of workplace firm unions on their upper level superiors. Due to the state sponsorship of Chinese unions, the facilitation from upper level unions was firmly linked to the local Party and government's intention to maintain industrial and social stability and promote local economic growth. As evidences suggested in this section, these priorities and goals of the unions and government have also profoundly contributed to the productivity and profitability of the MNCs.

4. The Effectiveness of Unions in the MNCs: Empirical Analysis

4.1. Data

The literature of union impact on firm performance in the West has been extensive (Blanchflower et al., 2004; Fang and Heywood, 2006; Fang and Verma, 2002; Freeman, 1984, 2005; Hirsch, 1991, 2003, 2004). However, there is paucity of studies of Chinese unions and firm performance (Fang and Ge, 2012; Yao and Zhong, 2013). To investigate the effectiveness of unions in MNCs, we compile a large firm-level dataset from the First National Economic Census, conducted by the National Bureau of Statistics of China (NBSC) in 2004. The data covers the entire population of foreign firms in manufacturing industries⁶. Among total 53303 foreign firms, 14,940 firms establish workplace unions and 38363 are non-unionized.

[Table 2 about here]

Table 2 reports the summary statistics of firm attributes between unionized and non-unionized MNCs. There is systematic difference between unionized and non-unionized MNCs. Unionized firms are much larger than non-unionized ones in the term of total employment, total assets and total sales. Unionized firms have higher wage, higher labor

⁶The category of foreign firms does not include enterprises invested by firms based in Hong Kong, Macao or Taiwan.

productivity and higher profit than non-unionized ones. Unionized firms are more capital intensive. Gender composition of the employee is measured by female share, which is defined as the proportion of female workers in total number of employees. Skill composition of the employees is measured by three variables: graduate share is defined as the proportion of employees with graduate education (more than 16 years of education). College share is defined as the proportion of employees with college education (16 years of education). High school share is defined as the proportion of employees with high school education (12 years of education). Table 2 shows that there are no significant differences in gender composition and skill composition between unionized and non-unionized MNCs.

4.2. Union Wage Premium

To compare the systematic difference in average wage level between unionized and non-unionized MNCs, we estimate the following wage equation:

$$w_i = \beta_0 + \beta_1 Union_i + \beta_2 WFOE_i + \gamma X_i + \sum \delta_j I_{ij} + \sum \theta_k R_{ik} + \varepsilon_i \quad (1)$$

where w_i is the logarithm of the average wage of foreign firm i . $Union_i$ is a dummy variable which is equal to 1 if firm i has a union and 0 otherwise. $WFOE_i$ is the indicator of Wholly Foreign Owned Enterprises (WFOEs). X_i includes firm size, capital labor ratio, gender composition and skill composition. Firm size is defined as the logarithm of total employment. Capital labor ratio is defined as fixed asset divided by total employment. I_{ij} is the industry dummy, and R_{ik} is the province dummy, β_0 is a constant; and ε_i is the idiosyncratic productivity shock.

[Table 3 about here]

Column 1 of Table 3 reports the OLS results. The estimated coefficient of union dummy is about 0.15 and statistically significant at 1% level, indicating that the logarithm of

the average wage is 15% higher in unionized firms than in non-unionized counterparts.

WFOEs pay about 7% premium than joint ventures. Larger, more capital intensive and more skill intensive firms have higher average wage. The firms with higher proportion of female employees have lower average wage level. To identify the different effectiveness of unions between WFOEs and joint ventures, we include the interaction between unions and WFOE dummy into the regression and the results are reported in Column 2 of Table 3. The evidences suggest that while WFOEs offer higher wage than the joint ventures, the positive link between the presence of unions and average wage is significantly weaker in WFOEs.

This positive link between wage and unionization might due to larger, more productive, higher wage firms self select into unionization. To identify the causality between firm performance and unionization, we adopt two-stage least-squares (2SLS) estimator for this dummy endogenous variable model. Following Wooldridge (2002), in the first stage, we estimate logit model of the determinants of the probability of union recognition. We then obtain the fitted probability of unionization and estimate equation 1 using the fitted probability as instrument in the second stage.

The results of first stage are reported in Column 3 of Table 3. We use two instruments for determinants of unionization: firm age and the administrative subordination level of firms. The pressure of unionization to MNCs mainly comes from the government through the top-to-bottom persuasion of regional unions. The results in Column 3 show that firm age is significant and positively related to unionization. The longer MNCs enter Chinese market, the higher probability they will establish workplace unions. In an establishment, a foreign firm is subordinate to or supervised by a certain level of official authority, ranging from central government (top level) to street/village committees (bottom level). The decentralization of the subordination level implies the weaker influence of government on foreign firms. The results in Column 3 indicate that the subordination level is an important determinant of unionization. The decentralization of the subordination level is negatively

related to the probability of union recognition.

The 2SLS estimators are reported in Column 4 of Table 3. The coefficient of union dummy is significantly larger than the OLS estimator, suggesting a large positive link between the presence of unions in multinationals and average wage level. For other firms attributes, the estimation results are similar with the one in Column 1.

4.3. Unions Productivity Premium

If Chinese unions play an effective and cooperative role in MNCs, then the productivity of unionized MNCs will be significant higher than non-unionized counterparts. We adopt two approaches to estimate union productivity premium. First, we use labor productivity which is measured by value added per worker and estimate the linkages between labor productivity and various firm attributes. The results are reported in Table 4.

[Table 4 about here]

Columns 1 and 2 of Table 4 report the OLS estimators and Column 3 reports the 2SLS estimators. These results using different estimation methods are consistent. The presence of unions in MNCs is significant and positively correlated with labor productivity. Firm size and the proportion of female employees are negatively related to labor productivity. Capital intensity and skill intensity are positively associated with labor productivity. WFOEs are less productive than joint ventures, and there is no significant difference in union productivity premium between WFOEs and the joint ventures.

Second, we estimate log-linear Cobb-Douglas production function to examine the impact of unions on total factor productivity:

$$y_i = \alpha + \beta_L l_i + \beta_K k_i + \lambda_1 Union_i + \lambda_2 WOFE_i + \gamma X_i + \sum \delta_j I_{ij} + \sum \theta_k R_{ik} + \varepsilon_i \quad (2)$$

Where y_i is the logarithm of value added of firm i ⁷; l_i is the logarithm of employment of firm i , k_i is the logarithm of capital of firm i . Other firm attributes include wholly foreign ownership dummy, gender and skill composition of employment, and technology usage which is measured by the logarithm of total number of computers.

[Table 5 about here]

The OLS and 2SLS results are reported in column 1-3 in Table 5 and these results are consistent with the results using labor productivity. The estimated elasticity of value added relative to capital and labor are 0.22 and 0.56, respectively. The union productivity premium is about 10%, both statistical and economic significant. WFOEs are less productive than joint ventures, and there is no significant difference in union productivity premium between WFOEs and the joint ventures. Female employment share is negatively correlated to productivity, and skill intensity and technology usage contribute to productivity.

In summary, the empirical evidences based on the economic census support the cooperative role of Chinese unions in MNCs. The presence of unions in MNCs is positively associated with both the wage level of the employees and the productivity of foreign firms. These findings are consistent with the quantitative evidences based on the field studies.

5. Conclusion

This paper investigate the functions and effectiveness of Chinese unions in MNCs. Based on the field-work, we show that the unions play cooperative roles in the state-capital-labor relationship: first, the unions promote the collective contracts, through which MNCs reassure local authority that MNCs will comply with the labor regulations and

⁷ The information of value added is only available for the limited sample, which includes most of SOEs and large and medium sized non-state enterprises (with total sales roughly above 5 million Yuan).

labor standards. Second, the unions mediate labor disputes and manage labor discontent to harmonize the industrial relation. Third, the unions assist MNCs management to communicate with government authorities, and establish mutual trust and long-term cooperation between the companies and the government.

To test the effectiveness of union activities, we use a large firm-level data to estimate the impacts of Chinese unions on firm performance. Consistent with previous studies on the union wage premium (Lu et al., 2010, Yao and Zhong, 2031, Ge, 2014), we find that the average wages in unionized firms are significantly higher than the one in the non-unionized firms. This implies that even Chinese unions do not have strong bargaining power or use strike as a weapon, they are able to monitor and pressure the MNCs to comply with labor regulations and protect the interests of the employees. We also find a significant productivity-enhancing effect of the presence of unions. This is consistent with the “collective voice” function of the unions that the unions help MNCs to harmonize industrial relations (internal functions), and build trust and long run coordination with the State-Party and local authorities (external functions).

Our study deepens the understanding of the roles and functions of Chinese unions in the MNCs. The “negative view” of Chinese unions usually emphasize that the unions lack of independence, have weak collective bargaining power and cannot pose a threat to the companies using strike as a weapon. We offer a more balanced view of the Chinese unions in that the unions play an important bridging role in communication, coordination and collaboration among the government authorities, the management and the employees. Future research should further explore the heterogeneous activities and functions of the Chinese enterprise unions, especially those at the regional levels, and their interactions with local environment and their unique position in global value chain.

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Table 1 Details of Interviews and Informants*

RetailCo	B city	R-TD1-SD	Staff, Sub-district Union
		R-TD1-GP	President, TD1 Store Union
		R-TD1-HR	HR Manager (interviewed as a rank-and-file member), TD Store
		R-TD1-M1/M2/M3/M4/M5/M6	Rank-and-file Members
	S city	R-BU1-GP	Union President, BU1 Store
		R-BU1- M1/M2/M3/M4/M5	Rank-and-file Members
		R-BU2-GP	Union President, BU2 Store
		R-BU2-M1/M2	Rank-and-file Members
K city	M-K-MO	Director, Municipal Union Organizing Department	
	M-K-MG	Director, Municipal Union Labor Protection Department	
	M-K-TP-L	President, L Town Union	
	M-K-GP-L1/L2/L3	Professional Union Leader, L Town Union	
	M-K-TP-Q	President, Q Town Union	
	M-K-GP-Q1/ Q2/Q3	Professional Union Leader, Q Town Union	
	M-K-TP-Y	President, Y Town Union	
	M-K-GP-Y1/Y2/Y3/Y4	Professional Union Leader, Y Town Union	

Note: * Below is a detailed explanation of the coding for interviewees in the first column of the *Table 1*:

1. First level:
 - a. R: RetailCo
 - b. M: Municipal Worker Protection Model
2. Second level:
 - a. TD: workplace union established from top down
 - b. BU: workplace union established from bottom up
 - c. K: K city
3. Third level:
 - a. SD: sub-district union
 - b. GP: grassroots union president
 - c. HR: workplace human resource manager
 - d. M1-M6: rank-and-file member
 - e. MO: K city municipal union official, organizing department
 - f. MG: K city municipal union official, labor protection department
 - g. TP: Township union official
4. Fourth level:
 - a. L, Q, Y: Township union presidents
 - b. L1-L3, Q1-Q3, Y1-Y4: Dispatched union leaders in the MNCs at L, Q, Y townships

Table 2 Summary Statistics

	Total	Unionized Firms	Non-unionized Firms
Total employment	130 (171)	213 (203)	98 (145)
Total sales	29652 (53308)	54454 (67878)	19993 (42677)
Total asset	31678 (54558)	54928 (69189)	22623 (44487)
Average wage	17.26 (99.64)	19.72 (154.60)	16.22 (63.15)
Value added per employee	4.02 (1.25)	4.11 (1.22)	3.95 (1.28)
Return on asset	0.02 (0.31)	0.04 (0.28)	0.003 (0.32)
Capital labor ratio	185 (499)	207 (451)	176 (519)
Female share	0.45 (0.27)	0.48 (0.26)	0.43 (0.28)
Graduate share	0.01 (0.06)	0.01 (0.03)	0.01 (0.06)
College share	0.22 (0.26)	0.17 (0.19)	0.24 (0.28)
High school share	0.34 (0.26)	0.34 (0.23)	0.34 (0.28)
Observations	53303	14940	38363

Note: standard deviations are reported in parenthesis.

Table 3 Unions and Wages

	OLS		1 st Stage	2 nd Stage
	(1)	(2)	(3)	(4)
Union	0.154*** (25.17)	0.184*** (22.29)		0.688*** (28.77)
Union* Wholly foreign ownership		-0.0639*** (-5.530)		
Size	0.0734*** (27.93)	0.0733*** (27.88)	0.530*** (54.36)	0.00645* (1.805)
Capital labor ratio	0.000198*** (15.14)	0.000198*** (15.15)	0.000143*** (5.701)	0.000179*** (26.42)
Wholly foreign ownership	0.0709*** (11.95)	0.0907*** (12.38)	-0.380*** (-14.53)	0.146*** (20.73)
Female share	-0.228*** (-15.17)	-0.228*** (-15.11)	-0.158*** (-2.790)	-0.217*** (-14.90)
Graduate share	1.143*** (10.47)	1.145*** (10.48)	-0.311 (-0.843)	1.149*** (14.74)
College share	0.837*** (41.92)	0.835*** (41.86)	0.104 (1.521)	0.866*** (52.18)
High school share	0.190*** (15.00)	0.190*** (14.98)	0.0757 (1.538)	0.175*** (13.71)
Age			0.138*** (47.81)	
Province			-0.236 (-1.209)	
City or Prefecture			-1.075*** (-5.682)	
County			-1.272*** (-6.670)	
Township or District			-1.510*** (-7.833)	
Street/Village committee			-1.485*** (-7.309)	
Other			-1.574*** (-8.588)	
Industry Dummies	Yes	Yes	Yes	Yes
Province Dummies	Yes	Yes	Yes	Yes
Observations	47,257	47,257	46,635	46,276
R-squared	0.283	0.284	–	0.190

Note: Column 1 and 2 report the OLS estimators. Column 3 reports the results of 1st stage logit model of determinants of unionization. Column 4 reports the 2SLS estimators using the predicted probability of unionization as instrument. Robust t-statistics are reported in parenthesis. **, and *** represent 5%, and 1% significance level, respectively.

Table 4 Unions and Labor Productivity

	<u>OLS</u>		<u>2SLS</u>
	(1)	(2)	(3)
Union	0.176*** (13.15)	0.188*** (10.68)	0.711*** (14.82)
Union* Wholly foreign ownership		-0.0249 (-0.967)	
Size	-0.0901*** (-13.73)	-0.0902*** (-13.75)	-0.143*** (-18.31)
Capital labor ratio	0.000574*** (19.02)	0.000574*** (19.02)	0.000539*** (32.14)
Wholly foreign ownership	-0.0580*** (-4.299)	-0.0475*** (-2.638)	0.0298* (1.896)
Female share	-0.620*** (-18.12)	-0.619*** (-18.11)	-0.596*** (-17.49)
Graduate share	2.130*** (6.948)	2.132*** (6.953)	2.138*** (8.497)
College share	1.537*** (32.04)	1.536*** (32.02)	1.529*** (36.44)
High school share	0.443*** (14.95)	0.443*** (14.94)	0.435*** (14.80)
Industry Dummies	Yes	Yes	Yes
Province Dummies	Yes	Yes	Yes
Observations	26,890	26,890	26,888
R-squared	0.318	0.318	0.278

Note: Column 1 and 2 report the OLS estimators. Column 3 reports the 2SLS estimators using the predicted probability of unionization as instrument. Robust t-statistics are reported in parenthesis.**, and *** represent 5%, and 1% significance level, respectively.

Table 5 Unions and Total Factor Productivity

	<u>OLS</u>		<u>2SLS</u>
	(1)	(2)	(3)
Union	0.0994*** (7.590)	0.104*** (6.103)	0.316*** (6.332)
Union* Wholly foreign ownership		-0.0106 (-0.424)	
Log(labor)	0.224*** (38.03)	0.224*** (38.03)	0.210*** (36.23)
Log(capital)	0.555*** (56.28)	0.555*** (56.27)	0.552*** (59.68)
Wholly foreign ownership	-0.106*** (-8.020)	-0.101*** (-5.740)	-0.0685*** (-4.420)
Female share	-0.379*** (-11.29)	-0.379*** (-11.29)	-0.385*** (-11.75)
Graduate share	2.134*** (7.226)	2.135*** (7.230)	1.993*** (8.334)
College share	1.015*** (20.04)	1.015*** (20.04)	1.031*** (23.48)
High school share	0.195*** (6.702)	0.195*** (6.699)	0.207*** (7.269)
Log (computer)	0.170*** (19.64)	0.170*** (19.62)	0.168*** (21.65)
Industry Dummies	Yes	Yes	Yes
Province Dummies	Yes	Yes	Yes
Observations	26,904	26,904	26,889
R-squared	0.553	0.553	0.549

Note: Column 1 and 2 report the OLS estimators. Column 3 reports the 2SLS estimators using the predicted probability of unionization as instrument. Robust t-statistics are reported in parenthesis.**, and *** represent 5%, and 1% significance level, respectively.