

**GROWING IN THE NICHE:  
THE STATE-SPONSORED UNIONIZATION, UNION LEADERS  
AND DIVERSITY OF ENTERPRISE UNIONS IN THE PEARL  
RIVER DELTA of CHINA**

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## ABSTRACT

The existing research asserts that enterprise union is inherently weak due to its dependence on enterprise and state. This paper suggests that this structure-centric view cannot explain the diversity of enterprise unions at firm level. The paper argues that union efficacy is determined by enterprise's perception of the state-sponsored unionization and union chairperson's ability to make union work. When enterprises perceive the state-sponsored unionization as resources, enterprise unions led by capable union leaders are more likely to develop specialized union functions and engage in effective collective action for promoting employees' economic interest. The paper is based on an 8-month fieldwork in the South China, the city of Shenzhen, where more than 50 interviews were conducted on enterprise unions, official union, labor NGOs, and workers.

## 1. Research Background

With the ascendance of neoliberalism, the deregulation of economy, the shrinkage of public sector and the rise of informal sector lead to a decline of union power. The withdrawal of state claims the primary responsibility for the declining unionism, since the state was once an important source of financial support of social organizations and provided a favorable policy environment to union organizing. Union density<sup>1</sup> of OECD countries dropped from 40% in 1990 to 29% in 2010 (OECD, 2012). However, unionism that is withering away in the Western hemisphere is only a part of the picture.

When neoliberalism began to erode union movement in the developed industrial countries in 1980s, unionism in East Asia has been on the rise. In South Korea, thanks to an early entry into industrialization and the presence of an urban working class, independent union movements joined pro-democracy resistance to pressurize the government into accepting a transition to democracy. In countries such as China and Vietnam that has embarked on industrialization in late 1970s and 1980s, the state not only leads industrialization but also molds the formation and development of industrial relation. In these countries with the Leninist political tradition, union organizing becomes important both as a social and political task for the ruling party. This is because economic reform and rapid industrialization have generated contestation and instability in industrial relation, in a form of both institutionalized labor disputes such as arbitration and litigation and un-institutionalized disputes such as labor unrest, petition and protest, the latter of which is perceived to be threatening to regime legitimacy.

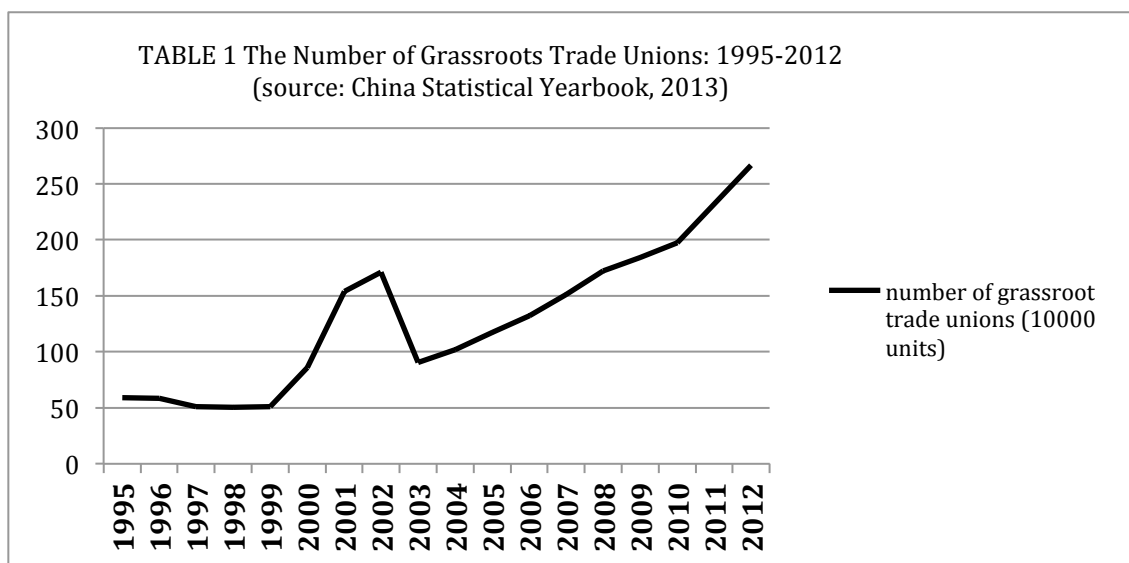
Focusing on China's state-sponsored unionization, this research explores the diversity of unionization outcomes in the Leninist state that is undergoing dramatic transformation. Transitioning from the early reform era (1970s-2000s) to the post-reform era (2008-now), the government has been increasingly aware of the urgent need to balance

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<sup>1</sup> According to OEDC (2012), union density refers to "the number of trade union members as a percentage of wage and salary earners".

growth and equity. Since 2000s, a series of laws and supplementary regulations addressing labor relation have been enacted to promote workplace stability and equity, to reduce labor-capital conflict, and to bring socially combustible labor protests into formal institutions promoted by the state. Two landmark legislations were passed during 2000s, the Trade Union Law in 2001 and the Labor Contract Law in 2008. Both legislations seek to increase the predictability of employment relation in favor of employees.

The 2001 Trade Union Law, in particular, aims to build up firm-level labor institutions to nip the bud of labor dispute at shop floor. The law expects enterprise unions to become a representative institution of employees and the primary conciliator of labor dispute at firm level. The law also obliges that enterprise union to integrate the interests of employees and those of the enterprise. By restricting union organizing at firm level, the state attempts to simultaneously control labor organizations and monitor industrial relation at workplace. The implementation of the law was assisted by the state-sponsored unionization following soon afterwards. Primarily targeting at the private sector, the campaign, carried out by official unions, has significantly increased the number of enterprise union. As TABLE 1 demonstrates, the number of grassroots union, mostly enterprise union, has reached 2.6 million by 2012.



However, a quantitative leap of the number is far from indicating the strength of

organized labor, since enterprise unions are registered by enterprises. This particular mode of union organizing suggests that the state seeks capital's consent to establish pro-labor institution at firm level. Some scholars suggest that the state-sponsored unionization is merely a matter of formalism (Liu, 2009), which serves to fulfill unionization quota set by official unions. But one thing could be sure is that the consent from enterprises is impossible if the state makes no concession to them. Enterprises determine how union operates and functions to a large extent, despite intermittent guidance from official unions. When the state no longer commands economy and social life, private sector grows and labor conflicts soar, and social organizations such as trade unions increasingly become a contesting ground for various actors to assert their interests.

To understand how trade unions grow within institutional constraints will be a complement to the current research, which focuses primarily on unionism in developed countries. The research will demonstrate how enterprises and the state interact to shape enterprise union and the agent they dispatch in order to make enterprise union become what they expect to be.

## 2. Literature Review

The research on unionism in China derives from a structure-deterministic point of view, seeing enterprise unions either dominated by state or capital. The existing research can be divided into three primary approaches: union as state instrument, union marginalization and dual cooptation. Union as state instrument approach is applied to explain unionism under state socialism. Union marginalization approach suggests that the market reform and the decline of public sector lead to an irreversible trend of union decline and marginalization. Dual cooptation approach argues that state-sponsored unionization leads to a cooptation of enterprise union by both capital and state, which drives a hollowing-out of labor institution at firm level.

## 2.1 Union as State Instrument

Inspired by literature on totalitarianism, union as state instrument approach suggests that dominance of the Leninist party-state diminishes union autonomy. The Leninist state intends to maintain a close control of social organizations and garner their obedience and support in the fulfillment of its collective social tasks (Linz, 2000; Lenin, 1921, cited in Feng, 2006). In return for labor loyalty, state workers were guaranteed a lifelong employment. With the absence of class conflict, the role of enterprise unions was reduced to promoting productive efficiency, countering bureaucratism (Lenin, 1921, cited in Feng, 2006) and conveying opinions of the employees to the enterprise.

The dependence of the union on the state led to its own decline. Since 1990s, the party-state embarked on the reform of public sector, which subjects state-owned enterprises (SOEs) to market pressure in order to spur efficiency of this ill-performed sector. SOE managers were given full authority to discipline and to dismiss workers (Lee, 1999). Although veteran state workers resisted vehemently (Lee, 2007), their mobilization was thwarted due to their own fragmentation and the suppression from the enterprise and the government (Cai, 2006). Ironically, when the public sector reform was threatening the very base of union organization and the livelihood of union members, enterprise unions in SOEs were ordered to assist the reform. Therefore, unions in public sector are nothing more than a transmission belt. Its function is confined to conveying and implementing economic and ideological policies of the state, rather than to represent and defend the working class in front of economic restructuring.

## 2.2 Union Marginalization

With the rise of the private sector, union marginalization approach argues that the reform has largely severed state control on economy, allowing the private sector to create its own domain of dominance. Local governments were given full autonomy to promote economic growth by every possible means such as attracting foreign direct investment and encouraging local entrepreneurship. Literature on local developmentalist state highlights the symbiotic relation between local governments and enterprises

(Walder, 1995; Oi, 1995; Wank, 2001). These studies suggest that the state-capital collusion has led to a prioritization of economic growth over economic and workplace safety of labor (Gallagher, 2005; Lee, 2006). Although the central government managed to close legislative loopholes by enacting pro-labor legislations, its legislative thrust was largely blunted by law-evasion practices prevalent in private sector, which has been acquiesced by local governments. Enterprises, especially those with no prior experience in unionization, tend to ignore the Trade Union Law. Even when a union is registered, it is prone to be marginalized. Gallagher (2005) summarizes that the prevalence of weak enterprise unions is due to managerial autonomy and a lack of will on part of local governments to enforce law:

*“The state’s withdrawal from its previous role as administrator of labor allocation and employment has granted enterprises a great degree of power in setting their labor practices. Attempt to balance this withdrawal with greater attention to laws and regulations as a means of regulating managerial power have been mostly unsuccessful. Developmentalist local governments have neither the capacity nor the will to implement constraints on capital. The strengthening of worker organizations as a means to mitigate the unequal relationship between firms and individual workers has also not been achieved.”* (p.96)

### 2.3 Dual Cooptation

The *dual cooptation approach* argues that union is largely coopted by state and capital in a marketizing economy. This approach argues the state shows an ambiguous face in front of the rising labor conflicts. The Leninist state has no intention to empower independent unions to represent and to defend labor interest. Yet, the state-sponsored unionization attempts to create firm-level labor institution under state control. But, the dilemma lies at how far the state allows the union reform to proceed without letting it deviate from its primary goals of economic growth and social control.

Some research emphasizes the role of official union rather than enterprise union (Chen, 2003; Han, 2010). In reality, official union handles labor disputes on behalf of enterprise union due to the latter’s lack of authority and legitimacy in the eyes of both employers and employees. Others suggest that capital is the co-determinant of union efficacy at firm level, which significantly mitigates the impact of official union on enterprise unions. Therefore, union registration and union functioning are dependent on the negotiation

between the enterprise and official union (He & Xie, 2011; Liu, Li & Kim, 2013). Most recent research uses managerial industrial relation (IR) ideology to explain unionization outcomes in China. Liu & Li (2014) identify three types of managerial IR ideologies and their impacts on the outcomes of unionization and union efficacy. They find that unionized enterprises tend to perceive the state-led unionization as political necessity or operational input. An Enterprise establishes its union when it feels imperative to cooperate with the ruling party's policy, or when it believes bringing more employee involvement in corporate governance will be beneficial to corporate operation. However, Liu & Li (2014) primarily explores the conditions under which enterprises accept unionization, but not the diversity of enterprise unions.

#### 2.4 Gap in the Literature

After 30 years of economic reform, the state-centric approach needs a re-examination as the state no longer controls economy. What I constantly encountered in the field is the complaints from union cadres on the tremendous difficulty to persuade enterprises to comply with the Trade Union Law. Official unions provide guidance to enterprise unions in terms of how to operate union, how to prepare union paperwork, how to make regular reports of union activities to the supervising official union and many other issues pertaining to union functioning. But, the extent to which the expectation of official unions could be met is dependent on the enterprise's continuing cooperation with them. Enterprises appoint union chairperson, fund union operation and provide personnel and logistical support to enterprise union. While union registration becomes more or less a norm, union due<sup>2</sup> meets strong resistance. A conclusion can be made is that the state influences primary unions in an indirect way and in a form of persuasion rather than coercion.

While the managerial IR ideology, as applied in Liu & Li (2014), does offer a fresh

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<sup>2</sup> As a financial mechanism to control primary unions, the Trade Union Law demands enterprise union to pay 2% of employee's wage bill monthly as union due to official union. Official union then refunds 50% to 60% of the amount to the independent account of the enterprise union.



perspective on part of management, the approach shows an inferential gap by assuming union efficacy is causally related to the management's perception of the state-led unionization campaign. Enterprise unions are led and staffed by managerial personnel. All union chairpersons and committee members are managerial personnel or with managerial background, either from operation department, R & D department or logistics department. Union efficacy varies not with whether the union is led by managerial personnel, but depending on how union leader operates the union.

Therefore, this paper attempts to bridge the inferential gap between managerial IR ideology and union efficacy by introducing the agency of union chairpersons. The agent of enterprise union, the person who runs the union on a regular basis, is missing. The exiting research displays a strong tendency to ignore the initiative of union leaders. The logic lies at that since the enterprise has the right to appoint union leaders or to appoint union candidates to slate, the role of union chairperson is relegated to management's agent and not counted as an explanatory variable. Based on my fieldwork, I argue that the initiative of union chairperson is decisive in mobilizing resources and personnel in union activities and collective actions. The position itself confers a sense of responsibility. Employees who are appointed to union leaderships are usually popular figures among their fellows. In SOEs, for example, union chairpersons are appointed from senior employees who are well respected. A similar pattern is observed from enterprise unions in the private sector, where employees who are seen as considerate, reliable and responsible among colleagues are usually appointed or elected as union chairpersons. Hence, my research focuses on union chairpersons as the primary explanation of union efficacy at firm level.

### 3. Research Question: the Diversity at the Firm Level

The research identifies three types of enterprise unions, which are paperwork unions, managerial unions and proto-economic unions. Union efficacy is measured by the following standards (TABLE 2).

	Proto-economic Union	Managerial Union	Paperwork Union
Union registration	✓	✓	✓
Union welfare	✓	✓	×
Collective action	✓	×	×

### 3.1 Paperwork Union

Paperwork unions represent a failed attempt of the state to install functioning unions in enterprises hostile to the state-led unionization. This happens when one of the two conditions is present: 1) the management disallows unions to perform substantial functions in order to avoid any interference of managerial authority; or 2) the enterprise has no financial or human resources to support union operation.

### 3.2 Managerial Union

Managerial union is enterprise union that plays a limited role in performing traditional welfare functions, such as organizing recreational activities and distributing gifts during festivals. Their primary task is to assist the enterprise or other functional departments such as human resource department to manage employees rather than to represent employees' interest. Nevertheless, the categorization shall not lead to an underestimation of its internal diversity. Managerial unions perform tasks ranging from providing auxiliary services to enterprise, organizing recreational activities for employees, to managing union welfare.

### 3.3 Proto-economic Union

An enterprise union is categorized as proto-economic union when one of the two conditions is satisfied: 1) the enterprise union is capable of engaging in wage bargaining with the management; or, 2) the enterprise union is directly involved in organizing or coordinating collective actions in order to maximize economic interest of the employees. Proto-economic unions aggregate employees' interest in collective actions, but efficacy

of proto-economic unions is determined by the extent to which the union is able to control collective action process.

#### 4. Explaining Union Efficacy: Enterprise's Perception of the State-sponsored Unionization and Initiative of Union Chairperson

TABLE 3 lays out the explanatory framework, in which the two explanatory variables are enterprise's perception of the state-sponsored unionization (IV-E) and the initiative of union chairperson (IV-C). The value of IV-E varies between extraction and resource. Enterprise's perception of the state-sponsored unionization is the prerequisite of union functioning at firm level. On one hand, when enterprises primarily see the state-sponsored unionization as a form of extraction, operational space of the union will be largely diminished. In this case, management will very likely to appoint its loyal agent to serve concurrently as the union chairperson, which ensures a total subordination of union. On the other hand, perceiving the state-sponsored unionization as resource creates an incentive for enterprises to allow the union some operational space. Thereafter, the union chairperson could take initiatives. When the union chairperson acts as the agent of management, enterprise union becomes managerial union, which assists the enterprise to manage employees. When union chairperson acts as the agent of employees, the enterprise union evolves into proto-economic union, which could organize or coordinate collective action for promoting economic interests of the employees.

What differentiates managerial union from proto-economic union is whether or not the union is capable of bargaining for substantial economic interest on behalf of employees, even by organizing or coordinating collective actions. The union chairperson who has the ability to control collective action process, which brings parties with conflicting interests to the bargaining table, is the litmus test of proto-economic unions. As the ability of union chairperson to control collective action increases, enterprise union is more likely to wrestle concession from capital as well as winning recognition from the

state. When union chairperson is incapable of establishing reputation among employees and unable to control collective action process, enterprise union is unlikely to gain recognition from both capital and the state. Under these conditions, the collective action itself has a higher risk of failure. The following sections will detail the explanatory process by elaborating the role of union chairperson and its impact on union efficacy.

		Initiative of union chairperson	
		Act as the agent of management	Act as the agent of employees
Enterprise's perception	Extraction	<i>Paperwork union</i> (N=3)	N/A
	Resource	<i>Managerial union</i> (N=13)	<i>Proto-economic union</i> (N=4)

#### 4.1 Paperwork Union

Paperwork union represents capital's determination to compromise the state-sponsored unionization. Enterprises acquire union registration only to display an ostensible compliance with the law and cease cooperation with the state after the registration.

Paperwork union occurs under two conditions. The enterprise perceives the state-sponsored unionization as an extraction and manages to minimize its harmful impact. Concomitantly, the union chairperson is appointed by the management as a loyal agent to ensure the union's subordination to managerial authority. Enterprise union is thereafter prohibited from performing any function as stipulated in the Law. LH's paperwork union is illustrative of hostile enterprises, which determine to compromise the state-sponsored unionization and to use the appointment of union chairperson to actively marginalize enterprise unions.

#### *Unionization as State Extraction*

LH, a Japanese-invested enterprise, acquired union registration in 2006 after being persuaded by the local official union. Since the registration, the firm has tried every best means to avoid union publicity. Most significant among these measures are the appointment of the members of production and life team<sup>3</sup> to double-sit the union committee. The team leader is appointed as the union chairperson.

The hostility to union stems from a concern on union dues. Both the chairperson and the human resource manager regard union dues as a form of state extraction. For the enterprise, union dues are heavy burdens imposed by the state and a sign of government corruption. The human resource manager complained to me: “Why union dues have to be paid to the government (the official union)? The government is so corrupt. Nobody knows where the money would go. The wage bill of our firm is around 3 millions. Paying 2% of 3 million as union dues means that we have to pay 160 thousand RMB per month and 720 thousand RMB per year. How could that be possible?”. The union chairperson shares the same concern: “50% of the union due will be refunded to the enterprise, but what about the other half? It will be confiscated by the state”.

#### *Union Chairperson as the Agent of the Management*

The union chairperson then describes the union as “being registered”. The involuntary union registration is an implicit agreement between the firm and the official union. According to the chairperson, the firm is willing to cooperate with the government so long as the cooperation does not affect the company’s core interest. The enterprise is willing to have a paperwork union, so long as the unionization campaign imposes no real cost on the firm.

The union chairperson then told me two reasons why the firm maintains the superficial cooperation with the official union. The firm does not want to leave an impression on employees that the company has a union. If employees know the existence of the union,

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<sup>3</sup> According to LH’s union chairperson, the production and life team is an institution in many Japanese firms. The team, which handles employee’s complains, can be seen as part of enterprise culture of Japanese enterprises.

they will use it as a vehicle to make more economic demands such as bargaining for wage increase. For the union chairperson, these demands are excessive and will make management more difficult. Second, the union chairperson regards the union as a duplicated and redundant institution. For him, the union is very similar to the production and life team of the enterprise. The two organizations have duplicated functions in terms of handling employees' complaints. Therefore, formalization of the union is not a worthy investment as the production and life team has specialized on these matters.

#### 4.2 Managerial Union

When firms see the unionization as a resource rather than extraction, enterprise unions have a higher possibility of developing a formal structure and obtaining limited recognition within the enterprises. Managerial unions operate in accordance with the enterprises' administration policy. The enterprises tends to see the managerial union as a supplementary department for addressing employee's trivial complaints, maintaining a regular communication between management and employees, and handling logistical issues that fall outside duties of other departments.

#### *Unionization as Resource*

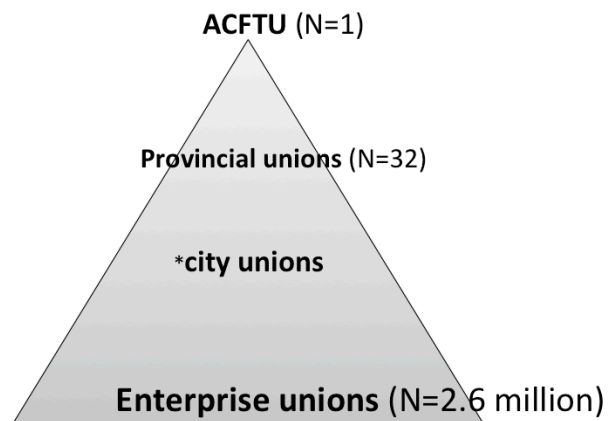
A minimum compliance with the Trade Union Law opens firms an access to state resources. After balancing cost and benefit, these firms are willing to establish enterprise unions as an institution to receive state resources. This is caused by the corporatist nature of China's union system. The union system resembles an administrative pyramid of the government (TABLE 4). By law, all unions shall affiliate with the national peak labor organization – the All-China Federation of Trade Unions (ACFTU). The ACFTU legally represents all official unions and primary unions at national level. Moving down the pyramid, every province has one provincial level union federation and so does each city. Further down the pyramid are union federations at sub-district<sup>4</sup> level, which are created since 2006 as a part of downward penetration of the state. At lower level,

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<sup>4</sup> A municipality is divided into several sub-districts.

community-level union federations are established in areas with a high concentration of industry and working population. Enterprise unions lie at the lowest rung of this pyramid and constitute the overwhelming majority of primary unions.

**Table 4 Union System in China**



Although the institutional design reflects the Leninist state's intention to control labor organizations, the market reform empowers actors in the private sector to effectively compromise this ostensible hierarchy. By law, enterprise unions are answerable to the official unions one level above them. In reality, official unions have no legal or administrative authority to enforce the Trade Union Law on primary unions that are *de facto* social organizations. Therefore, official unions have to rely on economic means to encourage enterprises to cooperate. One way for the official union to induce their cooperation is to distribute resource through union system to unionized enterprises. The prerequisite for receiving resources is to establish an enterprise union. A number of enterprises acquire union registration in order to gain access to beneficial state resources.

SJB, an enterprise in jewelry industry, established enterprise union in 2010. "Amiable" is the word used by the union chairperson to describe their relation with the supervising sub-district union federation. In her eyes, the official union is different from other state organs. The official union brings various benefits to the firm, including but not limited to recreational activities and vocational training sessions. For example, vocational

training on workplace safety and human resource management are in great demand by many enterprises that are eager to improve the quality of workforce. Enterprises are reluctant to fund vocational trainings of employees out of their own pockets due to the relatively high cost of the training and the high turnover rate among employees. Nevertheless, with union registration, enterprises have access to a variety of these important resources at low or zero cost.

Receiving state resources could help enterprises form a positive image of the state-sponsored unionization. Sharing the similar view, the union's vice-chairperson of FM, a Singaporean-invested enterprise in electronic manufacturing industry, told me that the municipal union federation manages more than a dozen million RMB of union fund specifically for vocational training. The official union makes annual plan on how to distribute the fund to enterprises. Last year, FM's union applied for subsidies from the official union in order to fund five employees to attend vocational training sessions on human resource management. When talking about union welfare, the vice-chairperson beamed with delight: "The official union has done a good job. So far, what we need to do is to enjoy union welfare". The above cases suggest that enterprises are more likely to develop a positive attitude on unionization when they perceive the state campaign as resources. Short of paying union dues, union registration channels a considerable amount of resource to enterprises at low or zero cost.

#### *Union Chairperson as the Agent of the Management*

In general, a managerial union has very limited functions. The enterprise unions of SJB and FM mostly provide auxiliary services to enterprise or employees so as to smooth corporate governance. Other than distributing welfare, managerial unions hardly fulfill their most other obligations stipulated in the Trade Union Law. In particular, managerial unions have no bargaining power, nor is it eligible to participate corporate decision-making, which could substantially affect employees' economic interest. Union chairperson of managerial union takes the identity of manager. For them, union is necessary either because it is a legal requirement or a natural development of corporate



structure. Nevertheless, managerial union could become more effective in improving employee's welfare. Union chairperson's initiative largely determines the extent to which managerial union is able to balance the interest among employees in managing and distributing union welfare.

In order to triangulate the explanatory framework in TABLE 3, a within-case analysis of managerial union is employed to illustrate the role of union chairperson in expanding the scope of union functions. TABLE 5 includes two more cases in order to strengthen the causal inference between union chairperson's initiative and union efficacy. The union chairperson, who is more committed to union work, makes the union more effective in promoting union welfare. When union chairperson has a weak initiative, the union tends to develop little specialization, only performing auxiliary functions.

TABLE 5 A Within-case Analysis of Managerial Union

	Ownership	Enterprise's perception of the state-led unionization	Union chairperson's union ideology	Union chairperson's initiative	Relation with official union	Union efficacy (union welfare)
BM	State-holding	Guidance/ Political necessity. Union due is paid on a regular basis (the tradition of state-owned enterprises).	Union is to protect employees by supervising the enterprise to abide the law.	Weak initiative. Appointed by the enterprise	Infrequent contact.	Weak/no specialization: provided logistical support to recreational activities organized by the enterprise.
FM	Foreign	Mixed: union welfare as resource; union due as state extraction. The management does not yet pay union due.	Union is not much different from corporate management.	*Strong initiative. Recommended by the ex-chairperson.	Infrequent contact.	Weak-medium/assist corporate governance: e.g. union suggestion box *Assertiveness: persuaded the boss to pay union due a couple of times.
SJB	Domestic	Resource/guidance. Union due is a burden.	Unionization is a "necessary trend". Union is a bridge that communicates employees to the company.	Weak initiative. Elected.	Infrequent but amiable	Weak/no specialization: organized recreational activities.
YN	Foreign	Mixed: unionization as a means to improve employee loyalty; union due as state extraction. Nevertheless, the enterprise pays union due on a regular basis.	Union shall show solicitude to employees.	*Full-time appointment. Strong initiative. Appointed by the senior manager.	Infrequent contact.	*Strong/Specialization: equalization of the distribution of union welfare. Institutional innovation: establishment of union groups in chain store. Plan for the distribution and usage of union due.

#### 4.2.1 Case study 1: Weak Initiative, Little Specialization

Previously a state-owned enterprise, BM is a public-holding company and a leading producer in glass industry in China. Following the tradition of state-owned enterprise, BM has an enterprise union since 1990s. The company's employment practice strictly abides the Labor Contract Law and the Trade Union Law. The union elects and re-elects union chairpersons and union committee members on a regular basis. In 2006, a new regulation on union organization came into effect, which bans deputy director from sitting as union chairperson. The firm immediately complied and removed the deputy director.

BM's enterprise union, however, has never articulated a representative voice on behalf of employees. The union does not have a particular role to play in corporate governance other than to organize some recreational activities. The union chairperson told me: "The

responsibility of union, as I understand it, is to protect employees. Enterprise unions shall stand behind employees when the enterprise violates the law. As an established firm with a law-abiding tradition, the enterprise has basically eliminated labor dispute from its root. Now, the union barely needs to do anything. So long as there is no labor dispute, the union pretty much fulfills its mission”.

The union chairperson’s view reflects a narrowly defined role of managerial union. Enterprise unions shall supervise the enterprise to comply with the law, but shall not go beyond the minimum legal requirements. When employees make economic demands on the enterprise above what the law stipulates, the union chairperson handles the claim in favor of the enterprise. The company had a couple of disputes on severance pay with senior employees, who worked for more than a decade. According to the Labor Contract Law, the compensation for one-year employment is one month’s average salary. Some senior employees demanded a larger amount of severance pay, given their long-term services. However, most of them lost their cases because the firm has made compensations strictly in accordance to the law, and in some cases, higher than the amount prescribed by the law. During the whole dispute process, the union chairperson stood firmly in line with the enterprise’s decision, rather than assisting the employees to bargain for a higher amount of severance pay.

#### 4.2.2 *Case Study 2: Strong Initiative, Increasing Specialization*

When union chairperson is willing to take more initiatives in either expanding union welfare or innovating union organization, managerial union becomes more effective in terms of developing functional specialization, albeit within operational space allowed by the enterprise.

YN is a catering company, which owns more than 30 chain stores in its headquarter city. The enterprise union was registered in 2012, 6 years after the company was established. In the first two years, the enterprise union was nothing but a paperwork union. The turning point came in 2014, when the general manager, one of the shareholders, decided

to activate the union to substantiate the union functions. He appointed Ms. Tong (pseudonym) as the full-time chairperson. Ms. Tong told me that behind this decisive move was the general manager's concern on the high turnover rate of the employees, which results from, as he believes, the enterprise's excessive fever on profitability rather than to cultivate employee's loyalty. The general manager expects the union and its full-time chairperson to specialize on handling employees' welfare, training and career development.

Ms. Tong, previously an experienced operations manager at one of the chain stores, is very committed to union work. A standard enterprise union has one chairperson, one vice-chairperson and 5 to 6 union committee members who are in charge of a particular aspect of union function.<sup>5</sup> Soon after assuming the position, she started to innovate the union organization by creating a union team in each of the chain stores. The innovation was neither prescribed in the law nor initiated by the official union. It is an innovation conceived by the chairperson herself, after consulting the manager, in order to stimulate enthusiasm of the chain store employees in corporate governance and to participate in corporate social responsibility activities, as well as to strengthen information exchange mechanism between the headquarter and its 38 chain stores.

Another significant move of Ms. Tong is to equalize the distribution of union welfare between headquarter employees and chain store employees. The distribution of union welfare has created much tension between the headquarter managers and Ms. Tong. The source of tension lies at the union dues paid by the enterprise. According to the Trade Union Law, a unionized enterprise pays 2% of its wage bill to the official union as union due every month. In practice, in order to obtain the support from enterprise for unionization, the official unions have to negotiate the terms with employers to settle the acceptable amount of union due paid by the enterprise. Despite employing more than

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<sup>5</sup> The union committee of an enterprise union normally consists of 5 to 6 committee members, including but not exclusive to committee member of auditing, committee member of recreation, committee member of organization and committee member of public relation. Some enterprise unions appoints committee member of female employees to handle workplace problems particular to women.

1000 persons, YN pays 2% of wage bill of only 100 employees, mostly at the headquarter, as the union dues. Therefore, when Ms. Tong proposed to extend union welfare to chain store employees, her plan was immediately objected by some headquarter managers, who claimed that only those who have paid are entitled to the welfare. Despite the pressure from these managers, Ms. Tong insisted that the profit of YN is contributed by all employees rather than a small number of headquarter staff. Therefore, all employees shall be entitled to union welfare.

#### 4.3 Proto-economic Union

Proto-economic union represents the most effective enterprise union in the Leninist state.

The term indicates an approximation to economic union/business union in the Anglo-American context, where trade unions strive for their members' economic interest by engaging in collective bargaining or economic strikes against the employers.

TABLE 6 compiles three cases of proto-economic unions to illustrate the causal connection between the union chairperson's ability to lead and control collective action process and union efficacy in case of union-led collective actions.

TABLE 6 A Within-case Analysis of Proto-economic union

	Ownership	Enterprise's perception of the state-led unionization	Union chairperson's union ideology	*Union chairperson's initiative (control of collective action process)	Relation with official union	Union efficacy (Collective action)
ZS	Foreign	Guidance/legal obligation. Union due is paid on a regular basis before 2015.	The middle man – aggregation of employee opinion	*Effective. Elected. Consult, collect and aggregate employee's opinion on wage increase.	Infrequent but informative	*Effective. Union has the priority to initiate the wage bargaining, which is recognized by the management.
ME	Previously domestic; now foreign	Legal obligation. Union due has been paid on a regular basis since 2009.	Union is to protect employees.	*Effective. Elected. Consult, collect and aggregate employee's demands and effectively control the collective action process	Frequent. Maintained a close contact with the official union throughout the collective action process.	*Success. The enterprise made additional compensation to the employees, apart from the N+2 severance package.
SPG	Previously foreign; now joint venture	Unknown. But, the union was largely a managerial union before the strike. Union due is not paid.	Union is a formal organization, which plays a key role in handling labor dispute.	Weak. Elected. Unable to aggregate employee's demands and unable to control the collective action process.	The official union does not recognize the elected vice-chairperson.	Failure. The enterprise refused to offer severance pay to the employees. The union chairperson was subjected to administrative detention. Workers who participated the collective actions were dismissed.

#### 4.3.1 Wage Negotiation

ZS is a small firm specializing on OEM watches manufacturing, which employs 100 persons. The firm is a subsidiary of the Montrichard Group, a global supplier to MNCs such as Disney and Avon. The enterprise union was established in 2011. The union chairperson, Mr. Xu (pseudonym), also a veteran and a member of Chinese Communist Party, was re-elected last year. He describes to me that the position is like a duty assigned to him.

When commenting on the primary achievement of the union, Mr. Xu emphasizes that the union has established a collective wage bargaining mechanism on behalf of assembly line workers with the management. In 2014, the statutory minimum wage was increased to 1800 RMB per month. Although at that time ZS' base salary was significantly higher than the minimum wage, Mr. Xu started to hear some complaints from the employees. He then convened a meeting with assembly line workers and line leaders to consult their opinions on the amount of wage increase. Skilled workers demanded an increase of 350 RMB on base salary, while general workers 200 to 250 RMB. After an investigation of wage standards of the industry, the union proposed an increase of 350 RMB for skilled workers and 250 RMB for general workers. The proposal was then written into a report, which was sent to the finance manager and then to the enterprise owner.

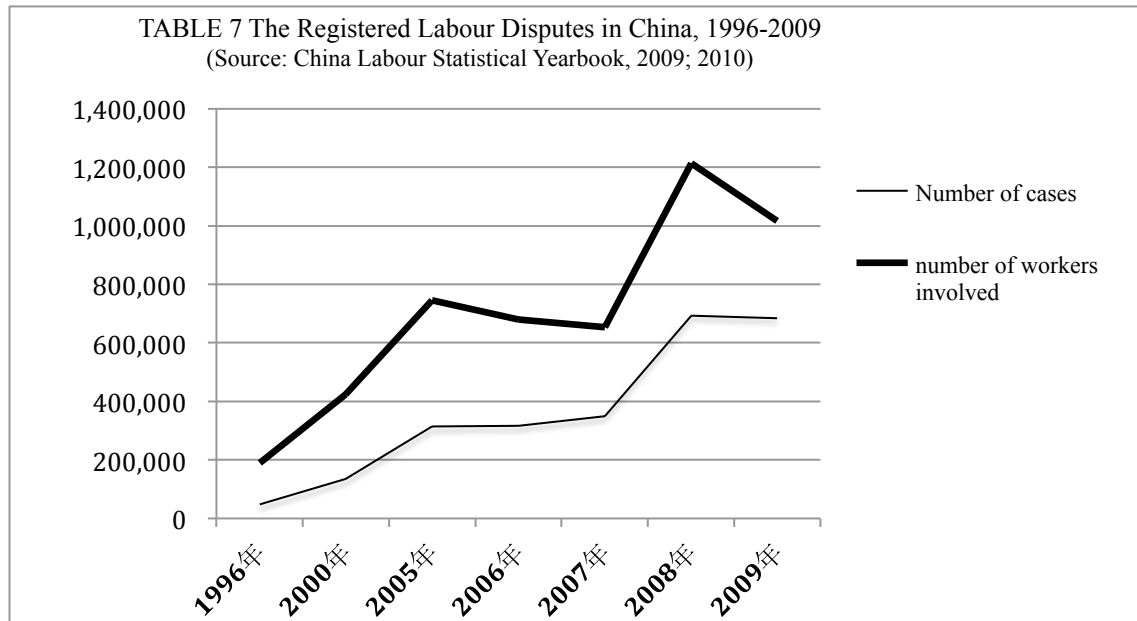
The enterprise owner soon sent a delegate to negotiate with the union, who then put forward two enquiries. Why is there a demand for wage increase? What are the reasons for the proposed amounts? Mr. Xu responded that the proposal takes account of three factors that affect employee's livelihood, a wage comparison with adjacent factories, the living expense of the area and the employee's own demand. The union stressed the necessity of a living wage as the basis of wage increase and suggested the delegate to accept a wage increase at the level of a living wage. That means that the employees shall be paid sufficiently to support not only themselves but also their families. The management later conducted its own investigation and finally came to the same

conclusion with the union.

Mr. Xu told me that a remarkable difference brought by the union is the transformation of individual claims into a collective claim. Prior to the existence of the union, the company had no collective mechanism for wage negotiation. There was no one who could effectively aggregate and convey employee's complaints and opinions to the management. In the end, employees had to resort to individual negotiation with the manager. When these individual demands were not met, workers engaged in stoppages or strikes to express their frustration. Now the union has transformed the employees' unorganized and spontaneous demands for higher wages into a coordinated collective action, which significantly reduces incidents of stoppage and strike.

#### 4.3.2 Collective Action for Severance Pay

The aftermath of 2008's financial crisis saw a build-up of pressure on the export-driven manufacturing sector and a steady increase of the statutory minimum wage. The decline of export demand forces the state to revise its developmental strategy, which for a long time has relied upon labor-intensive and export-driven manufacturing industry. Local governments accelerate industrial upgrade by urging labor-intensive industries to relocate to less-developed regions or countries and revising FDI policy in favor of capital-intensive and high-tech entrepreneurship. The years followed saw a mass decline of labor-intensive industries in the Pearl River Delta, the region where traditional manufacturing enterprises once concentrated. Factories were closed. Production lines were removed. The demand for assembly line workforce decreased. The relocation of labor-intensive industry triggered a tide of labor disputes (TABLE 7). Further aggravates the situation was the enactment of 2008 Labor Contract Law, which significantly raises the cost of industrial upgrade on part of employers. The law stipulates that an enterprise is liable for severance pay, when it lays off 20 employees, or 10% of its workforce when it employee less than 20 persons. Employers then are liable to compensate one average month salary to employees for each one year of employment.



The role of enterprise union in handling severance pay is barely explored in the existing research. This is due to the political taboo that any non-state actor's participation and organization of collective actions will be either heavily restricted or punished by the Leninist state. Therefore, the existing research does not treat enterprise union as a relevant actor in analyzing the process and outcome of collective action. My fieldwork suggests that the enterprise union is capable of leading, organizing and controlling the collective action process, provided that union chairpersons are able to control collective action processes in a way to yield concession from capital and to win the recognition of the Leninist state.

#### 4.3.2 Effective Union Leadership and the Success of Collective Action

ME, a subsidiary of TE Connectivity, specializes in designing and manufacturing telecommunication devices. The enterprise union was established in 1998. In 2009, the union held its first democratic election. Mr. Cao (pseudonym), an engineer from the Research & Development Department, was elected as the union chairperson. The subsequent event suggests that the union chairperson played a crucial role in leading the union's collective action towards its success.

Since 2010, ME began to lose its market share in China due to its inability to compete



with native firms. In 2013, the company's annual sales suffered a constant decline, with an estimated deficit reaching 8 million USD. In order to minimize the loss, the parent company announced its decision to totally cease ME's manufacturing and production lines. On September 10<sup>th</sup>, ME announced its lay-off contingency plan. The plan aimed to cut 500 out of 667 employees. The severance package proposed by the firm was N+2, which means ME will pay two extra months' salaries apart from the amount calculated by the length of service.

Since the announcement of the plan, the union, led by Mr. Cao, undertook a series of measures to maximize severance package. At first, Mr. Cao collected information from a couple of other subsidiaries in order to know the maximum amount that the parent company is willing to offer for severance package. He found out that the employees of one subsidiary, which will be relocated to another city, were offered 2N package. Based on the information, the enterprise union demanded ME to offer a severance package by the same standard. But, the management rejected the union's first proposal immediately on a basis that the two subsidiaries are different. The union then proposed N+3 package for employees who worked for minimum 5 years and N+4 for those above 7 years. Again, the second proposal was rejected. The firm insisted on the original N+2 scheme. Knowing the management's firm stance, employees became restive and decided to launch a labor petition to the sub-district government. This time, the employees demanded a negotiation with the representative of the parent company, instead of the management of the subsidiary.

Labor petition carries a high risk in the Leninist state. This is not only because local state and enterprises have intertwined interests but also collective action is prone to invite state suppression. Local governments have a high stake in maintaining social stability and demonstrate a propensity to clamp down collective actions of any sort. The successful leadership of Mr. Cao was the key to maintain organizational discipline of the petition, which dissipates the government's anxiety and obtains its recognition of union legitimacy.

On the morning of November 22<sup>nd</sup>, 200 employees marched towards the government building of the sub-district, after the enterprise refused to negotiate with them at the industrial park where the firm was located. The petition was well organized. The union chairperson demanded that all union committee members must try every best means to maintain order among the employees whom they are familiar with. The marching crowd followed the union's order subsequently. After meeting the government official, the union and the employees demanded that the representative of the parent company be sitting at the negotiation table. With the pressure from the government, the parent company finally decided to send a group of 4 delegates to negotiate with the union, the employee's representatives and the local government.

On November 27<sup>th</sup>, the two parties engaged in three rounds of intense bargaining. The primary contention was on legality of the original severance scheme offered by ME. The delegates insisted that the N+2 package is strictly legal and there shall be no substantial concession the enterprise could make. Mr. Cao refuted their claims. He told the delegates: "Abiding the law is the basic obligation of an enterprise. We, as senior employees who worked here for more than a decade, demand 『fair and reasonable』 compensation." Pressurized by the union's insistence and the strong claim made by the chairperson, the delegates finally came to an agreement with the union to increase the amount of compensation by adding an extra bonus calculated by the length of service, apart from the original N+2 scheme. By the end of the bargaining, the parent company agreed to offer an extra 1 million RMB to the employees as part of severance package.

#### 4.3.3 Weak Union Leadership and the Failure of Collective Action

When the union chairperson is neither capable of aggregating employee's interest nor able to control the collective action process, union mobilization may lead to its own defeat. The failed collective action of SPG highlights the necessity of union chairpersons to control collective action process in a precarious social and political environment.

SPG is a process trade enterprise in footwear sector. Previously an Australian-invested enterprise, its ownership was transferred to a Hong Kong investor in 2010. In 2013, after the second transfer of the ownership, it becomes a joint-venture enterprise. Subsequently, The legal representatives of the firm were changed. The series of ownership transfer was triggered by a change in the local government's FDI policy, which now favors capital-intensive and high-tech industry. In 2008, the provincial government issued a document, which urges all process trade companies like SPG to undertake industrial upgrade. The third transfer of ownership was thus the compliance to the new FDI policy. On May 19<sup>th</sup> 2015, SPG formally announced to the employees that the enterprise has completed the ownership transfer. But, the firm promised to maintain the same level of salary and welfare of the employees, and most importantly the length of service will be continued after the transfer.

However, most employees did not trust the management. Their suspicion stemmed from a fact that the latest transfer has completely severed the tie between SPG and its parent company, an MNC listed in Australia, making SPG now an independent firm without fixed assets. For many employees, the management's promise was nothing more than a bounced check. The union's vice-chairperson, Mr. Niu (pseudonym), explained the employees' anxiety to me: "The firm promises us that the salary and welfare will be maintained. But, what do workers worry about? Now, the firm is just like a shell. It has no asset to guarantee the life of our employees". Mr. Niu's remarks reflect the worries of a large number of affected employees, who were soon motivated to demand severance pay. The severance pay later became not only a source of friction between the employees and the management but also a source of cleavage between the union and the employees.

SPG rejected to offer severance pay to frustrated employees. The management insisted that the transfer does not affect the employees' financial interest, nor does the firm have any plans of relocation. Since the enterprise's plan of industrial upgrade completely abides by the law and the regulation on industrial upgrade, the employees' demand for

severance pay is not reasonable. In response to the rejection, some workers petitioned to the local government, but were soon dispersed by the police. Some others blocked the factory gate in order to pressurize the management into offering severance package. Most others joined production stoppage.

The collective actions, however, were fragmented, lacking a centripetal force. Workers employed their own means to pressurize the management in a hope to maximize their respective gains, sometimes even by creating chaos. In the process, no individual or organization, including the enterprise union, was able to effectively coordinate and aggregate the employee's demands and transformed them into a collective voice. Two weeks after the outbreak of the stoppage, the enterprise union held a democratic election factory-wide, where Mr. Niu was elected as the vice-chairperson of the union. As a senior employee who had worked at SPG for more than a decade, he had a good reputation among his subordinate group members. Nevertheless, Mr. Niu was not able to control the collective action process either. He and the union could do nothing to restrain the employees from demanding severance compensation. He told me: "severance compensation was not among the union's demand. We just talked about the guarantee. The company has no intention of relocation or lay-off anyway. It is impossible to ask for a severance package, right? However, some employees are naïve. They are hoping to get the enterprise to make compensations before resigning the employment contract with them. We've told them again and again that compensation is unrealistic".

The union's suggestion, however, fell on deaf ears. In the first month of the stoppage, a large number of employees insisted on severance pay as a prerequisite for resuming assembly line production. Others engaged in even more confrontational actions, including but not limiting to occupying the office building of SPG. In spite of the enormous pressure the workers tried to impose on the enterprise, the enterprise did not yield nor attempted to negotiate with the angry crowd. After the two-month protracted standoff between frustrated employees and the management, the local police were involved to restore the order in the factory, which literally ended the uncoordinated

collective actions. In the end, the management did not yield to the pressure of the employees. Many employees were dismissed during and after the stoppage. Many others resumed production. Some employees who were active participants of the occupations were put under administrative detention, one among whom is Mr. Niu. He was accused of instigating the workers to engage in illegal collective actions, which inflicted severe losses on the enterprise and threatens social stability.

The existing research has a strong tendency to disassociate collective action from enterprise unions created by the state-led unionization (Chen 2003; Chen 2010). The logic asserts that the Leninist state has crippled the ability of labor to organize and to mobilize autonomously by imposing unionization on enterprises. Enterprise unions are coopted by the management and are unable to demonstrate labor militancy. My fieldwork suggests that enterprise union can be mobilized to organize or coordinate collective actions. There is a possibility that discontent employees use formal institutions to legitimize their confrontation with the management. However, the success of collective action is highly dependent on the ability of union chairperson to control collective action process. Well-organized collective actions led by competent union leaders are not only capable of forcing concession from capital but also winning recognition from the state. By contrast, a poorly organizing collective action with no center of leadership drains patience of the Leninist state, which leads to its own defeat.

## 5. Conclusion

This article explains union efficacy from an actor-centric perspective. Since in the Leninist state primary unions are organized at firm level, the structure-centric arguments on state and capital are insufficient to explain the diversity of enterprise unions. The research contributes to an in-depth multiple case study of enterprise unions, thus enabling us to evaluate the influence of the firm-specific factors that shapes outcomes of the state-sponsored unionization.

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