



# Does union membership pay off?

## Evidence from Vietnamese SMEs

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UNU-WIDER PROJECT ON 'STRUCTURAL TRANSFORMATION AND INCLUSIVE GROWTH IN VIET NAM'

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13/9-18

# Introduction

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- *March 2018: 1000s of workers at a Taiwanese footwear firm protested against the company's new salary system, occupying a national highway in Dong Nai Province (Southern Industrial area)*



- In 2017, 314 *wildcat strikes* - 10% rise from 2016
- 6,282 strikes between 1995 and 2016 (FES, 2018) > any other Asian economy
- Strikes have increased in frequency since 2001 => peaked in 2011 (993 strikes)
- Have the protests been successful? In 96% of strikes workers achieved at least one demand (Anner, 2017)
- Unionization is also on the rise:  
*What is the role of enterprise based unions, and are they able to secure gains for workers?*

# Why strikes?

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- As economic openness deepens labour unrest increases: *“where capital goes, labour-capital conflict follows shortly”* (Silver, 2014)
- Labour-repressive managerial styles of investors
- Social backlash against increasing commodification of labour and harsh working conditions
- Weak regulatory framework
- Passive role of TUs: *Collective bargaining by riots*
- Waves of high inflation

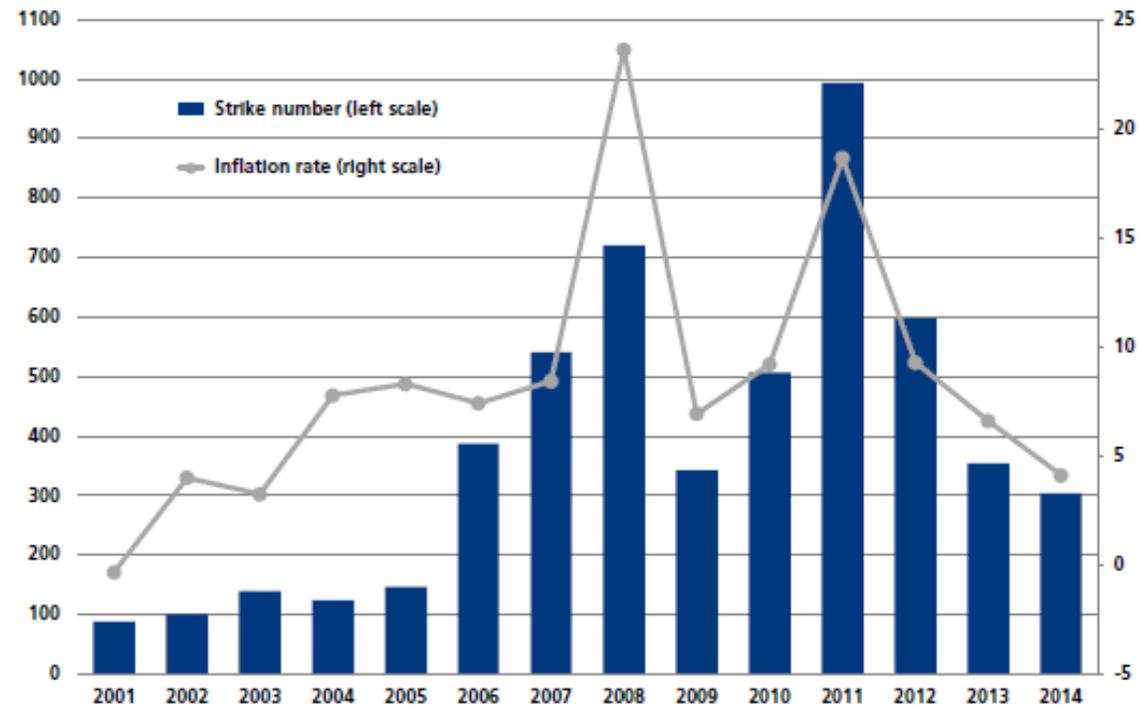


*Workers striking at the Pou Yuen factory in HCMC*

*March 2015: 90,000 workers protested against changes to social policy legislation; shifting focus from employment relations to government policy.*

# Waves of inflation and strikes

Figure 5: Strike Incidence and Inflation Rate, Vietnam, 2001–2014



Source: VGCL Strike statistics and World Bank Economic Indicators.

Figure borrowed from FES, 2018

# Strikes and unionization

- >70% of strikes occur in FIEs in industrial parks, esp. garment sector; 24% in private domestic firms
- 64% take place in the Southern provinces
- 70% of strikes take place in unionized firms
- Union density 33% in private sector; 63% among FIEs
- Union membership has increased to 10 million in 2016
- CB coverage is 67% among unionized firms, *but*
- Collective bargaining is a mere formality



*Workers at the Ho Chi Minh City Nike factory. In 2007 > 10,000 workers walked out in protest against low wages and poor working conditions*

# Vietnamese trade unions

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- Growing private sector represent an opportunity for a new labour relations system, *but:*
- The Party-controlled VGCL remains the only recognized union organization
- Top-down approach to setting up enterprise unions & leaders operating as an “extended arm” of the personnel department
- Strikes are legally permitted (unlike China) - if authorised by the upper-level union
  - Yet, the 2013 union law removed the right to strike over rights (e.g. unpaid overtime or OSH violations)
- *Given their limited independence and weak representation capacity....how effective are enterprise unions in representing workers interests?*

# Existing work

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## International:

- Card and De La Rica (2006) using matched employer–employee data from Spain show that firm-level unions are associated with a 5–10 % individual wage premium.
  - The wage gain is larger for more highly paid workers!
- Rama (2000) finds that in developing countries, unionized workers usually earn 5-30% more than non-unionized workers
- Schultz and Mwabu (1998) show that in South Africa the union wage gap varies greatly along the wage distribution, however, the study does not account for firm attributes, which could explain much of the gap

## Viet Nam:

- A case study by Clarke et al. (2007) show that trade unions are able to negotiate wages that are 5% higher than those in non-union firms
  - Anner and Liu (2016) present sporadic evidence of workers approaching union representatives to ask for support to increase wages => *also among SMEs?*
- => Mostly qualitative/unable to account for worker specific attributes*

# Data

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- Current study uses Vietnamese SMEs using matched employer–employee data from 2013 and 2015
- Analysis covers manufacturing firms categorized as private enterprises, cooperatives/collectives/partnerships, and limited liability and joint stock companies.
- Unbalanced panel: 1,594 permanent workers:
  - 885 in 2013 and 709 in 2015, corresponding to 301 firms
- Balanced employee panel: 758 workers (379 in each year), corresponding to 152 firms
- SMEs are not strike-prone, thus not a factor in the current analysis



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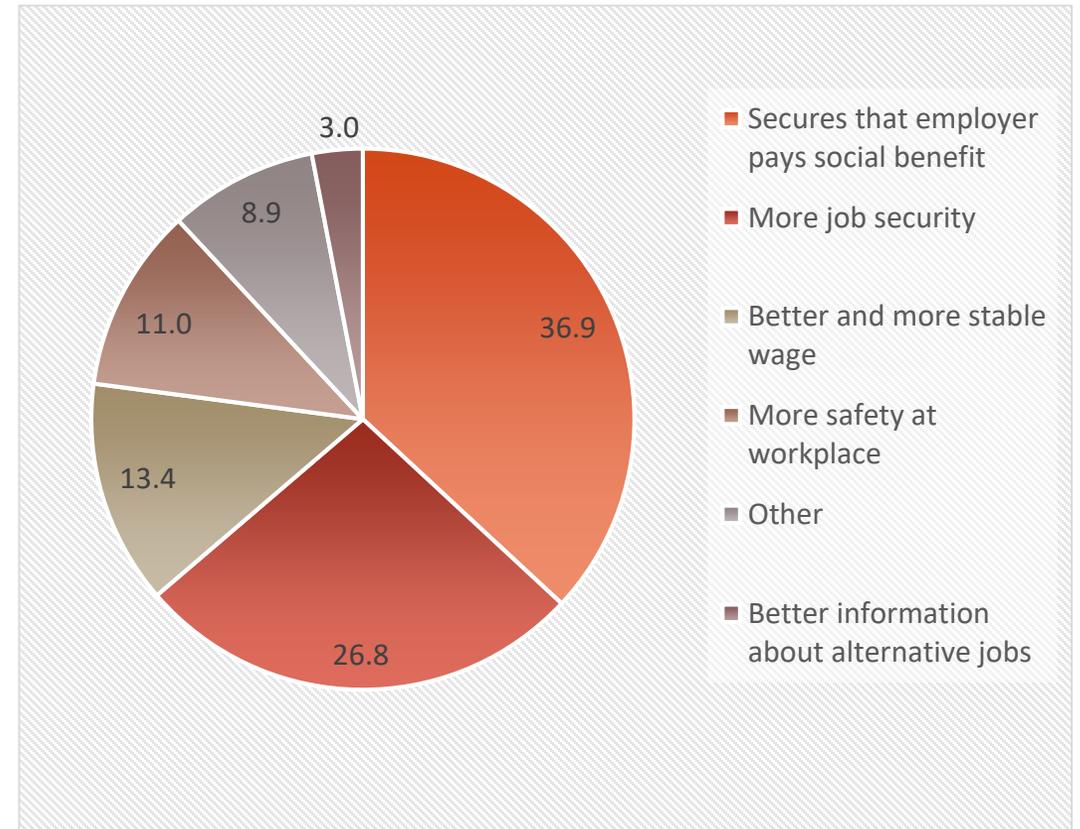


# Descriptives

- Union density is 37% (33% in 2013 => 43% in 2015)
- Within unionized firms membership rate is 80%
- CBA incidence is 66%
- Variables include: *gender, age, worker education and training, job function, hiring method, reasons for choosing current job, firm size, legal status, location, sector, wage determination method, owners' gender and education, the share of professional, casual workers, and women workers*
- Individual wages depend on worker and firm characteristics => Abowd and Kramarz (1999) model:

$$\ln Y_{ijt} = \alpha + X_{ijt}\beta + Z_{jt}\gamma + U_{ijt}\delta + \varepsilon_{ijt}$$

Figure 1: Benefits of union membership



# Methods

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- **Worker FE** to account for unobserved heterogeneity  
=> e.g. worker ability or motivation
- **Matching techniques:** control for *determining factors* and selected observed *time-varying factors* that may simultaneously influence the decision to unionize and subsequent wage outcomes (e.g. policy changes)  
=> Compare differences in wages between workers who unionized in the period 2013–15 and similar workers who remained non-unionized in the 2015 survey.
- **IV identification:** control for *time-varying unobserved* characteristics, e.g. if the decision to unionize is a function of the perceived wage increase (beyond what is captured by unobserved fixed effects or observed changes in firm/worker attributes)  
=> To instrument for union membership, use the district and sector level share of firms that have unions + the share of firms reporting having good knowledge of the Labour Code
- **Standard errors** are clustered at the firm level allowing for within-firm correlation over time and between workers, while maintaining the assumption that the observations are independent across firms.



# Main results

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- **The union wage gap ranges from 9-22%**, depending on the specification and econometric approach
- **Quantile regressions** reveal that the union membership gain increases when moving up the wage distribution: 4% for the tenth quantile to 22% for the ninetieth quantile
- **Within unionized firms**, the union-wage gain is 10%
  - Thus, what is observed is the **direct** membership premium—rather than spill-over from union firm presence
- Further analysis reveal no *lighthouse effect* on the informal sector

=> Overall results are driven by small firms, which also represent the largest share.

=> similar to Card and Rica (2006) yet differ from UK, US, South Africa and Ghana studies

=> not surprising given the lack of effective collective bargaining



# Summing-up

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## Union membership does pay off, yet:

- The union wage effect is **stronger** for more **skilled workers** => *widening of the wage-skill differential*
- Need for the extension of CA based on effective and inclusive negotiations => to better represent the interests of all union members
  - The revised LC extends the right to CB to non-unionized workers, but this needs to be enforced...
  - Sector-level CB has increased in garments and rubber
  - Since 2014, the VGCL evaluating the quality of CBAs, yet the majority remain direct copies of the law

## Opportunities for improving labour relations?

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
  - Extensive labour rights commitments under the EU-Vietnam FTA
- => push for VGCL reform and major legal revisions, especially in terms of FOA and CB
- New (draft) labour code to be presented to the NA in 2019

