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Who opposes labor regulation? Explaining variation in employers' opinions

Matthew Amengual*
Massachusetts Institute of Technology, Cambridge, MA, USA

Salo Coslovsky
Robert F. Wagner Graduate School of Public Service, New York University, New York, NY, USA

Duanyi Yang
Massachusetts Institute of Technology, Cambridge, MA, USA

Abstract
Competing accounts of the effect of globalization on labor politics agree that firms influence regulations, but make contrasting predictions for which firms are most likely to oppose regulations. Using survey data from employers in 19,000 manufacturing firms in 82 developing countries, we examine the determinants of employers' opinions toward labor regulation. In contrast to the predictions of optimistic theories of globalization, we find that (i) firms that export are more likely to have negative opinions toward labor regulation than those that sell domestically, and (ii) firms that receive foreign direct investment have similar views as firms that rely only on domestic capital. Further, we show that systematic differences in employers' opinions depend on the intensity of the competitive pressures they face and their use of skilled workers. In doing so, we provide an empirically grounded account of the heterogeneous opinions of key actors in economic policymaking in developing countries.

Keywords: labor regulation, globalization, regulatory politics.

1. Introduction

In developing countries, firms have substantial influence over labor regulations. They often lobby governments directly to obtain regulations that advance their interests (Frundt 1998; Caraway 2004; Murillo 2005; Cook 2010; Kuruvilla *et al.* 2011; Berliner *et al.* 2015b). Even when firms do not actively seek to influence regulations they have structural power, as politicians anticipate employers' needs and adjust regulations to attract investment (Haggard *et al.* 1997; Fairfield 2015). Despite widely held agreement that the preferences of firms affect labor regulations, researchers have not analyzed how developing country employers view their own interests. In this paper, we ask: Which employers hold a negative opinion toward labor regulations in developing countries?

We organize our analysis around the competing answers to this question derived from debate over the effects of globalization, which has created novel pressures and opportunities for firms across a range of regulatory domains, including not only labor (Schrank 2013; Toffel *et al.* 2015; Mosley 2017) but also the environment, human rights, finance, telecommunications, intellectual property, taxation, food safety, and others (Braithwaite & Drahos 2000). In all these domains, firms play a critical role in influencing the types of regulatory policies countries adopt and how they are implemented. In labor politics, some accounts of globalization suggest that employers exposed to foreign trade and footloose capital have negative views of labor regulations because these firms seek to minimize labor costs (Chan & Ross 2003; Merk 2014). Others, however, disagree, and challenge the view that global economic integration leads employers to resist labor regulations (Flanagan 2006; Neumayer & de Soysa 2006). Instead, they hold that developing country firms that receive foreign direct investment (FDI) may urge host governments to protect workers (Mosley & Uno 2007; Mosley 2010). Studies also suggest that firms that export are more likely to adopt employment practices that align with the requirements of minimum labor standards (Flanagan 2006). They predict that developing country employers

Correspondence: Matthew Amengual, Massachusetts Institute of Technology, MIT Sloan School of Management, Institute for Work and Employment Research 100 Main St. E62-338, Cambridge MA 02143, USA. Email: amengual@mit.edu
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exposed to globalization should be less inclined to oppose regulations. Thus, competing accounts make conflicting predictions vis-à-vis employers' opinions toward regulation, and empirical studies have not examined which predictions are correct. Are firms that engage most directly in the global economy, either because they export their goods or receive FDI, more or less likely to view labor regulations as an obstacle?

One reason why these theories make different predictions is that FDI and trade trigger mechanisms that can foster both negative and positive opinions toward regulation. On the one hand, firms that export or depend on foreign capital can face intense pressure from market competition that might compel managers to minimize labor costs in ways that conflict with the requirements of labor laws. On the other hand, these firms also tend to adopt production systems that require the use of skilled workers, who often command higher wages and better working conditions. Moreover, employers depending on skill-intensive production systems are often more interested in improving labor productivity than minimizing labor costs. As a result, these firms may be disinclined to engage in employment practices that conflict with the requirements of labor regulations, making opposition to regulations unlikely. Thus, existing theories that connect globalization to labor politics in developing countries through firm-level action are constructed upon two firm-level mechanisms, namely (i) intensity of competition, which is associated with increased antipathy toward labor regulation, and (ii) adoption of skill-intensive production systems, which is associated with sympathy or indifference toward labor regulation – but these theories disagree on whether globalization favors the former or the latter.

These mechanisms build upon a related literature on advanced industrial countries that provides accounts for variation in firm preferences for labor regulation – for example, by pointing to the importance of employing skilled workers in shaping firm preferences for regulation (Swenson 1991; Estevez-Abe *et al.* 2001; Wood 2001; Mares 2003; Martin 2005). Yet scholars have not directly examined whether these theories can indeed be extended to developing countries, which have economic and political characteristics that clearly place them outside of this literature's scope conditions (Schneider 2013). For instance, if labor laws are unenforced, as they often are in much of the developing world, we may not observe any difference in opinion among employers with varying characteristics.[1] Are the opinions of employers in developing countries toward labor regulation sensitive to the intensity of competitive pressures they face? Do employer opinions depend on their firms' production systems, especially those that require skilled workers?

The lack of answers to fundamental questions about the opinions of employers in developing countries in the literature is not the result of an absence of theoretical import, but rather empirical limitations. Indeed, dominant theories highlight the ways by which economic forces lead firms to develop an interest in regulatory policies that support their competitive position, and that these interests become reflected in policy because politicians respond to the needs of capital. Yet cross-national quantitative studies of labor politics in developing countries often rely on country-level datasets unfit for testing firm-level predictions. The literature is characterized by what Mosley and Singer (2015 p. 290) call "a disjuncture between the level of analysis of the causal mechanisms, on the one hand, and the level of analysis of the data, on the other" (see also Berliner *et al.* 2015a). In this paper, we bridge this disjuncture by using micro-level data from a World Bank survey of approximately 19,000 employers in formal manufacturing establishments located in 82 developing countries (an establishment is a stand-alone subunit of a firm). The survey asks employers whether labor regulations are an obstacle for the operations of their establishment. Responses to this question provide a direct measure of employers' opinion of de facto labor regulation.

Analyzing these data, we find that employers in manufacturing establishments that export are more likely to have a negative opinion of labor regulation than those that sell to domestic markets. Furthermore, we do not find evidence that establishments that receive FDI have a more positive opinion of labor regulation. These results are incongruent with the view that developing country subsidiaries of multinationals urge their host governments to strengthen labor regulations (Mosley 2010, p. 53) and that exporters and foreign firms easily comply with regulations because of their superior labor practices (Flanagan 2006; Neumayer & de Soysa 2006). While our empirical analysis is not designed to determine whether there is a race to the top or bottom, we contribute to these debates by showing evidence that is more consistent with the microfoundations of the pessimistic accounts. To be clear, we are not arguing that "climb to the top" accounts are wrong in their predictions regarding national-level outcomes (we do not test those predictions); rather, we show that the firm-level mechanisms that these theories contend explain such outcomes are not supported by the evidence.

We extend this analysis by testing the two factors that the literature theorizes underlie employer opinions, that is, competitive pressure and reliance on a skilled workforce. We investigate competitive pressure in two ways. First, we analyze the difference in opinion among employers whose establishments sell their output in the same municipality in which they are located and, therefore, face less competitive pressure than establishments that sell

in national or international markets. We find that employers whose firms sell mainly in less competitive local markets have a more positive opinion of labor regulation. Second, we use exposure to competition arising from the informal sector as an additional measure of competitive pressure. While all firms in our sample are formal, they face different types of domestic competitors; some compete exclusively against other formal firms, but others also compete against firms that flout basic regulatory requirements (i.e. informal sector). This measure parallels the undercutting competition that exporters face from countries with lax regulatory requirements. We find that formal firms that compete against informal ones are substantially more likely to have a negative opinion of labor regulations, providing further evidence that competitive pressure underlies opposition to labor regulation. Finally, we investigate variation in productive systems by focusing on skilled workers. We find that establishments that employ a higher proportion of skilled workers are indeed less likely to have a negative opinion of labor regulation. Those who argue that labor practices and regulations can improve under globalization appear to be correct in one key way, as reliance on skill-intensive production systems is associated with more positive opinions toward labor regulation.

This paper opens up a new dimension in the study of regulatory politics in developing countries by directly investigating the views of managers within firms. Many recent studies analyze public opinion toward economic policy, trade, and FDI in developing countries (e.g. Baker 2005; Pandya 2010; Carnes & Mares 2013). Such research is key to determining whether theoretical accounts of policymaking match actors' understanding of their own interests. Although scholars have long recognized that firms, and the managers who direct them, play an important role in the politics of a variety of policy domains, few have examined the preferences of developing country firms. This oversight is surprising given that the study of firm influence on policy in advanced industry countries has involved an extensive and fruitful debate over the complex nature of firm preferences (Swenson 1991; Estevez-Abe *et al.* 2001; Wood 2001; Mares 2003; Martin 2005). While we focus on labor regulation, the factors that we explore – trade, FDI, intensity of competition, and firm capabilities – are central to a wide range of regulatory domains, including the environment, product standards, taxation, food safety, and more (Garcia-Johnson 2000; Bull 2007; Genschel & Schwarz 2011; Perez-Aleman 2013; Cashore & Stone 2014; Nadvi & Raj-Reichert 2015). By uncovering the underpinnings of managers' opinions, we contribute to the construction of more complete theories of regulatory politics in developing countries.

2. Globalization and employers' opinions

Theoretical accounts of the effect of globalization on labor politics in developing countries point to a number of pathways through which global integration can influence regulations and practices – some pathways involve relations between states, some involve international organizations (Anner & Caraway 2010), and still others involve firms and their influence on policy. We focus on the firm-based pathways. Employers influence labor regulation in two ways. First, when employers find regulations to be an obstacle, they lobby politicians to gain regulatory policies that they prefer, as has been shown repeatedly in developing countries (Frundt 1998; Caraway 2004; Murillo 2005; Cook 2010; Kuruvilla *et al.* 2011). Second, firms allocate investment and production across jurisdictions, allowing them to penalize or reward localities that adopt regulatory policies that they perceive to contravene or advance their interests (Fairfield 2015). Crucially, this structural power does not depend on direct lobbying for desired policies – politicians may seek to attract and retain investment by catering to the (perceived) desires of management, whether firms are interested in stronger or weaker regulations (Vogel 1995). While there are debates regarding the precise conditions under which employers are most influential, there is consensus that their preferences matter tremendously. Yet dominant theories of labor politics make untested, and contradictory, predictions about employers' opinions of labor regulation. In this section, we outline these predictions regarding the two components of global economic integration that have been central to the literature, trade and FDI.

We organize our discussion around the contrast between globalization "optimists" and "pessimists." Although these terms are normatively inflected, they provide a useful shorthand to organize the literature. On one side, globalization pessimists argue that trade exposes firms to more intense competition, which forces them to minimize labor costs. According to this view, employers that export resent labor regulations, and politicians respond by eliminating (or failing to enforce) these regulations (Chan & Ross 2003). Consistent with this view, studies have shown that trade weakens collective labor rights (Mosley 2010) and that countries that are more open to trade tend to neglect

to enforce labor regulations (Madrid 2003; Caraway 2004; Cook 2010; Stallings 2010; Ronconi 2012). The underlying firm-level mechanism theorized by pessimists is straightforward: (i) firms that export face intense price competition, often from firms located in countries with lax regulations; (ii) pressured to reduce labor costs, they seek to adopt production and employment practices – such as excess overtime or extensive use of temporary workers – that conflict with the requirements of regulations; and (iii) as a result of discord between employers' views of their material interests and what regulations require of them, they form a negative opinion of labor regulations. By contrast, firms that produce for domestic markets, especially those that are protected from imports, face less competition and are more likely to operate on a level regulatory playing field. In sum, the pessimistic view leads to the prediction that firms that export are more likely to have a negative opinion of labor regulations than firms that do not export.

On the other side, globalization optimists have challenged the view that trade exerts downward pressure on labor practices that could lead employers to hold a negative opinion toward labor regulation (Drezner 2001).[2] These accounts tend to focus on the greater capabilities of exporting firms. In fact, a large literature shows that exporting firms tend to have higher productivity and pay higher wages than non-exporters (Van Biesebroeck 2005; Schank *et al.* 2007). Drawing on this literature, optimistic accounts claim that exporting firms "offer…working conditions that are superior" to domestic firms (Flanagan 2006 p. 67). Similarly, scholars argue that "wages and labor standards tend to be higher in export-oriented sectors in developing countries" and that "higher labor standards in these [export oriented] companies are likely to be seen [by management] as necessary to produce products efficiently" (Neumayer & de Soysa 2006, p. 35). In brief, trade optimists point out that exporters often devote more effort toward improving labor productivity than reducing labor costs. For this reason, firms that export are more likely to rely on skilled workers who command higher salaries and better working conditions, and thus they are unlikely to see labor regulations as an obstacle.

Global economic integration entails not only trade but also FDI, an equity investment by individuals or companies from one country in a firm operating in another country. Once again, pessimistic and optimistic accounts disagree on the effects of FDI on host-country employers' opinions. Pessimistic arguments hold that foreign investors are fickle and ready to sell their stakes in any one location so they can move their capital to other countries promising lower production costs and higher returns. Merk (2014), for example, finds that large multinational apparel manufacturers, many of them headquartered in Hong Kong, Korea, and Taiwan, locate subsidiaries throughout Asia and Latin America and use the threat of relocation to press for lenient labor regulations. Congruent with this case study research, Payton and Woo (2014) present a formal model and quantitative evidence showing that countries with weaker labor laws attract FDI.[3] According to this view, firms that receive FDI strive to reduce their production costs, including labor costs, to please their foreign investors. Their labor cost-reduction efforts increase the likelihood that plant-level managers will seek employment practices that conflict with labor regulations. Thus, just as with the trade pessimists, the key mechanism in these theories is competitive pressure, which leads employers in firms that receive FDI to be more likely to perceive labor regulations as an obstacle.[4]

Not all agree that employers in foreign-invested firms hold negative opinions of labor regulations that would serve as the basis of actions that erode labor law. Rather, cross-national studies find that FDI has a positive impact on collective labor laws and rights (Mosley & Uno 2007; Mosley 2010). Optimistic theories hold that firms play a key role in making inflows of FDI translate into stronger labor practices and regulations for many of the same reasons as the trade optimists. Foreign firms are understood to be more productive, demand higher skilled labor, and pay higher wages than their domestic counterparts (Pandya 2010). As foreign investors are attracted to locations with skilled workers (as opposed to lower labor costs), they tend to support workers' rights because rights "enhance […] the opportunity for the host country's citizenry to attain higher levels of education and training" (Blanton & Blanton 2007, p. 146). Similarly, Mosley and Uno argue that local subsidiaries of foreign firms "urge governments directly to improve the rule of law, [and] protect the vulnerable" (2007, p. 925). Mosley and Uno also suggest that multinationals "bring the best practices for workers' rights to host countries," which enhances their capabilities and drives laws and practices upwards (2007, p. 925). Additionally, Mosley argues that foreign-owned firms "are competing with local firms to hire skilled workers" and "may want to avoid the competitive disadvantage that would result from a reputation for repressing labor rights" (2010, p. 53). Furthermore, "even in sectors with mostly unskilled workers, many [foreign] firms may believe that workers whose core rights are protected (and whose working conditions meet minimum standards) are more likely to remain on the job and work efficiently" (Mosley 2010, p. 54). Thus, the explanation for why FDI is associated with stronger regulatory protections implies that, all else equal, employers in foreign-invested

firms should view labor regulations more favorably than counterparts in firms owned exclusively by domestic investors.[5] Just like the trade optimists, FDI optimists argue that foreign-invested firms place more emphasis on increasing workers' productivity than minimizing labor costs. This emphasis reduces conflict between the interests of the firm and the mandates of regulation, and thus increases managers' acceptance of labor regulations.

In sum, the literature on globalization suggests two sets of competing hypotheses pertaining to employers' opinion toward labor regulations:

H1
All else equal, employers in firms that export (sell to the domestic market) are more likely to have a negative (positive) opinion of labor regulations.

H2
All else equal, employers in firms that receive FDI (domestically-owned firms) are more likely to have a negative (positive) opinion of labor regulations.

To be clear, testing these hypotheses will not resolve the debate between pessimists (i.e. "race to the bottom") and optimists (i.e. "climb to the top"). Rather, our hypotheses address one particular pathway or mechanism through which trade and FDI can influence domestic politics: through the opinions of employers. This pathway is important because firm preferences are central to all of the above theories – we cannot expect that firms urge governments to enact or enforce more protective regulations if they have a negative opinion toward regulation, just as we would not expect firms to undermine regulations if they have a positive or neutral opinion of them.

3. Competition and skills

Both optimistic and pessimistic theories of globalization and labor politics in developing countries rely on a shared understanding that employers' preferences for labor regulation derive, in part, from (i) their exposure to competitive pressure, and (ii) the relationship between the particular production systems they use, such as those that require skilled workers, and the requirements of labor regulations. Thus, while scholars disagree on the consequences of trade and FDI for labor politics, they implicitly accept that these two forces underlie differences in employers' preferences. Although there have been studies of firm preferences in Europe and the United States, we are not aware of any studies that empirically substantiate the mechanisms implied by these theories in developing countries that clearly lie outside of their scope conditions. Thus, we ask: In developing countries, are employers who face more intense competitive pressures more likely to have a negative opinion of labor regulation? And are employers in firms that adopt production systems that require the use of skilled workers less likely to have a negative opinion of labor regulation?

First, as described above, the theories tying globalization to employer antipathy for labor regulations emphasize the pressure from intense competition. Quite simply, firms exposed to more intense competition are motivated to reduce costs, including those associated with labor, and as a result their employers are more likely to have a negative view of labor regulations that infringe on their abilities to cut labor costs. While globalization pessimists focus on variation in competitive pressure as a result of trade and FDI, competitive pressure can arise from a wider variety of sources that, if this theory is correct, should also influence employers' views. Ideally, intensity of competition should be measured through the number of competitors a firm faces in a given market, as well as their average productivity. This type of data rarely exists for large samples of firms in developing countries, thus we must look for proxies. One such proxy for the intensity of competition used by trade economists is the size of the market in which a firm competes; as Melitz and Ottaviano argue, both "market size and trade affect the toughness of competition" (2008, p 295). The logic is that just as the international market harbors a larger population of very productive firms than national markets, larger national markets also harbor a larger population of very productive firms than smaller subnational markets. If the intensity of competition varies with the size of the market in which a firm competes, those firms that compete for customers mainly in subnational markets will be – on average and all else equal – less likely to have a negative opinion of labor regulations than firms that compete for customers in national or international markets. Naturally, this parallel is approximate and it fails to capture some features that are particular to international markets. For instance, differences in regulatory policies within countries are likely to be smaller than differences between countries.[6] Therefore, size of the

domestic market is a conservative indicator of the intensity of competition in the sense that it captures a milder form of competition compared to that stemming from globalization.

In addition, in developing countries, a particularly important source of competitive pressure not captured by the size of the market comes from the informal sector. Informality has many dimensions, but a critical feature is that informal firms are largely unconstrained by regulations, rendering this form of competition conceptually similar to the type of undercutting competition envisioned by some globalization pessimists (in which firms face competitors from jurisdictions with lax standards). Indeed, when enforcement is weak and compliance uneven, firms compete with other firms that do not meet the same regulatory standards even if they are located in the same jurisdiction. Most developing countries have large informal sectors and many workers lack formal employment protection (International Labour Organization 2012); in our sample of formal manufacturing establishments, 56 percent of employers report that they compete against firms in the informal sector. Formal firms that contend with informal competition can be expected to face greater pressure to cut labor costs and, as result, may be more likely to hold a negative opinion toward regulations. In short, while the globalization literature posits that international competition from firms located in countries with lax regulations fuels the race to the bottom, domestically the informal sector can play a similar role. In sum, to test the mechanism that competitive pressures underlie opposition to labor regulations independently of trade and FDI, we examine the relationship between employers' opinions and the size (i.e. geographic scope) of firms' product markets, as well as competition from the informal sector.

By contrast, the optimistic view of globalization is underpinned, in part, by the idea that firms that export and have foreign capital tend to adopt production systems that prioritize more productive workers rather than lower labor costs. These firms are often distinguished by the reliance on skilled workers; for example, Mosley argues that "the bulk of MNCs [multinational corporations] are concerned with the hiring and retention of skilled workers," as opposed to the sole pursuit of lower labor costs (2010, p 53). Consistent with the literature on advanced industrial countries, firms that rely on skilled workers may support regulations that allow employers to coordinate with employees so they can jointly invest and benefit from skills (Wood 2001).[7] Globalization optimists also suggest two pathways by which reliance on skill-intensive production systems may influence employer preferences: (i) the need to retain and attract skilled workers, and (ii) an alignment between the employment practices adopted by a firm and the requirements set forth by labor legislation.

Consider the example of minimum wage regulations. For firms that rely on low-cost, unskilled workers, wage floors are likely to conflict with their preferred employment practices, as they do not have to attract and retain skilled workers. By contrast, employers who rely on skilled workers are likely to offer higher wages to attract and retain these workers, rendering minimum wages less of a constraint. Another example can be found in legal requirements that limit the use of short-term labor contracts and require severance pay upon dismissal. If given free reign, many employers would not provide workers with long-term contracts that reduce managers' authority to hire and fire, and would not pay severance when they reduce the size of their workforce. Indeed, employers have resisted these regulations in Brazil (Pires 2008), China (Kuruvilla *et al.* 2011), and Indonesia (Amengual & Chirot 2016). Yet firms that employ workers who learn skills on the job should incur distinct costs from these regulations than firms that do not. Quite simply, replacing workers who have acquired skills is likely to reduce productivity, meaning that employers are less interested in short-term contracts. Moreover, if firms seek to maintain a stable workforce, severance pay is less likely to be a substantial cost, as employers do not need to lay off workers and hire new ones as often. For these reasons, the more a firm relies on skilled workers, the less likely it should be to oppose labor regulations.

Qualitative studies of labor conditions in different industries and localities provide further evidence that reliance on skill-intensive production systems reduces the likelihood that employers in developing countries will object to the mandates of labor regulations. One example comes from a study of two Mexican exporting garment factories (Locke & Romis 2010). One of these factories employed skilled workers as part of a bundle of practices designed to improve productivity, such as job rotation. This factory sought to retain and reward its skilled workers for productivity and thus it was able to meet minimum labor standards with ease. In contrast, the other factory utilized low-skilled workers in a Taylorist system of production. Its use of low-skilled workers performing simple tasks decreased the cost of turnover and channeled managers' attention toward ways to minimize labor costs. Consequently, managers chosen approach to managing human resources clashed with labor regulations, which transformed compliance into a daily struggle and fueled resentment against labor regulations.

Another example can be found in sugar and ethanol manufacturers in Brazil. Historically, most Brazilian sugar and ethanol mills hired a new set of unskilled production workers at the beginning of each harvest season, assigned them to either a day or night shift of 12 hours without interruption, and laid everyone off six or seven months later, once all the available sugarcane had been processed. Naturally, these production practices clashed with many provisions of Brazilian labor law, including those pertaining to maximum allowed overtime, mandatory weekly rest, and safeguards against hazardous work. These firms also incurred significant costs to register all workers at the beginning of the season and pay mandatory severance packages later on. Not surprisingly, they either skirted the law (and faced the risk of punishment), or tried to comply and incurred extremely high costs without any offsetting benefit, such as higher productivity. In either case, managers' reliance on unskilled workers set them on a collision course with the legislation and fueled bitter opposition to labor laws (Coslovsky 2014). Over time, some of these same firms adopted skill-intensive production systems that entailed higher wages and better working conditions that were naturally aligned with the mandates of labor regulations. Thus, firms employing skilled workers became less likely to find minimum wages or basic health and safety requirements onerous compared to those employing unskilled workers.

In sum, both globalization optimists and pessimists presume that intensity of competition and the adoption of skill-intensive production systems underlie employers' preferences for labor regulation. Yet these relationships have not been tested in developing countries, and this omission hinders our understanding of the factors that shape employers' opinions. Thus, we advance two additional hypotheses:

H3
All else equal, employers facing more intense competition, from the informal sector or because they operate in larger markets, are more likely to have a negative opinion of labor regulation.

H4
All else equal, employers in firms whose workforce includes a higher proportion of skilled workers are more likely to have a positive opinion toward labor regulation.

4. Data and analysis

To empirically examine, on one side, the relationship between trade, FDI, intensity of competition, and skills, and on the other, employers' views of labor regulation, we draw upon World Bank Enterprise Surveys (ES).[8] In over 100 countries, these surveys are administered to a stratified random sample that is representative of private formal firms.[9] To complete the survey, enumerators engage in face-to-face interviews with managing directors, accountants, human resource managers, and other relevant company staff. At times, the enumerators interview more than one person to have a specialist for each area of the establishment. For simplicity's sake, we refer to respondents as "employers" or "managers."[10]

Enterprise Surveys contain data on "establishments," which are distinct physical and administrative units of a firm (a single firm may have more than one establishment). While ES cover both the service and manufacturing sectors, only the module designed for manufacturing establishments asks key questions related to worker skills. For this reason, we restrict our analysis to formal establishments in the manufacturing sector. This focus is appropriate because the theories being examined suggest that the forces of globalization, both positive and negative, are particularly strong among those that produce tradable goods. The focus on formal establishments is also propitious, as it assures that respondents are visible to the state and comply with some regulations (at the very least they are registered as legal entities). After eliminating observations with missing data, we obtained a cross-section of approximately 19,000 employers located in 82 developing countries surveyed in or around the year 2010. We chose 2010 as our focal year because it allows us to maximize the number of observations while keeping the data recent.[11] To make sure that our results are not an artifact of the time period we study (during the Great Recession), we replicate the main analysis using data from earlier waves of the survey conducted in or around the year 2004 (see Table A8).

To measure employers' view of regulation, we use responses to the survey question: "To what degree are labor regulations an obstacle to the current operations of this establishment?" Permissible answers are: no obstacle (0), minor obstacle (1), moderate obstacle (2), major obstacle (3), or very severe (4). We use this original coding in our main analyses (in Table A4 we report generalized ordered logit models showing the results at various cut-off points). Further,

and as reported on the section devoted to robustness checks, we also analyzed the results of an additional survey question that asks employers to identify the most important obstacle they face from a list of 15 possibilities.

Despite the common assumption that employers universally oppose labor regulations, 41 percent of managers indicate that labor regulations are not an obstacle for their establishment. An equally large proportion of employers believe that labor regulations are either a "minor" (22 percent) or "moderate" (21 percent) obstacle. A comparatively small portion of employers describes labor regulations as a "major" (10 percent) or "very severe" (5 percent) obstacle for their establishment. We do not take these answers as indicative of the labor conditions faced by employees of each surveyed establishment – managers that are forced to provide their workers with better labor conditions, in fact, might be more likely to resent regulations than managers who can act as they please. Nor does this measure capture political action or lobbying against regulations. Rather, we take a narrower reading, and interpret employers' answer that labor regulation creates obstacles for the operations of their establishment to mean that they hold negative opinions of regulations, which are important given the acceptance in the literature that firms influence policy, in part, to reduce the regulatory obstacles they face.

An important aspect of this measure is that the survey question is phrased in a way that elicits opinion of de facto labor regulations, as faced by employers in a particular industry and country. Therefore, we do not expect that an employer who operates in a context of permissive laws or lax enforcement will report that regulations are an obstacle based purely on ideological grounds. By contrast, an employer who is forced to comply against his or her will may be more likely to see regulations as an obstacle. The sensitivity of our dependent variable to the lived experience of respondents is an advantage of these data, as in much of the world there are substantial differences between de jure and de facto regulations (Caraway 2009). The alternative, to asking employers to articulate their general preferences toward regulation or deregulation unmoored from their lived experiences would rely on the respondents' ability to anticipate what it would be like to operate under distinct regulatory conditions. By contrast, the contextualized nature of this question provides a measure of employers' views in light of their experiences, making it ideal for adjudicating among the competing theoretical accounts that tie economic conditions to employers' understanding of their own interests.

To interrogate the hypotheses outlined above, we draw on a series of variables. *Export* measures the percentage of output that the establishment exports. *FDI* measures the percentage of the firm owned by foreign investors.[12] We use two variables to measure the competitive pressure faced by an establishment. The variable *Competition from Informal Sector* equals one if the employer self-reports that his or her establishment competes against informal firms. The variable *Non-Local Product* equals zero if the employer reports that the "main market" for his or her establishment's products is the same municipality in which the establishment is located, or one, if the main market is either national or international. To measure an establishment's reliance on skilled workers, we use the percentage of production workers (*Skilled Worker*) described by management as having "some special knowledge or (usually acquired) ability in their work."[13] This variable provides a contextualized measure of skills by drawing on the managers' perception of what counts as special knowledge or ability.

We also include a series of controls for variables that can potentially confound our analysis. First, we control for *Establishment Size*, measured as the total number of full-time employees (thousands of permanent and temporary workers), as larger establishments may be more likely to attract enforcement or have more sophisticated human resource practices. Second, we control for *Labor Intensity* of production, measured as labor cost divided by total production cost,[14] as labor intensive firms may be particularly sensitive to any costs imposed by labor regulations.[15] Third, we control for the percentage of workers with permanent contracts, *Permanent*, as an indicator of human resource practices; those establishments that choose to employ more permanent workers are more exposed to the costs of regulations, but may have done so voluntarily to minimize turnover, which may render them less likely to object to labor laws.[16] Fourth, some managers might just complain about everything; if that is the case, our measure of employers' views toward labor regulation will capture general negativity rather than anything particular about labor regulation. Fortunately, the ES dataset contains 12 separate but similarly worded questions about other obstacles – such as inadequate infrastructure, corruption, and taxes – that allow us to construct a baseline measure (*Average Obstacles*) of how much each employer complains overall.

To analyze these data, we use models with country fixed effects and dummy variables for 11 distinct manufacturing sectors,[17] allowing us to focus on the establishment level variables that are central to the theoretical debates.[18] In subsequent models, we include city fixed effects to control for differences in local labor markets and

regulatory enforcement, as well as product fixed effects to address more fine-grained differences in what each establishment produces. While cross-sectional analyses do not support causal claims, the theoretical predictions that we examine do not imply unidirectional causation. Rather, the theories we test predict that firms with particular characteristics differ systematically in their opinion toward labor regulation. Optimistic theories of globalization and labor politics predict that firms that receive FDI will have a more positive opinion of regulation than firms that rely exclusively on domestic capital, either because employers become more supportive of regulation after they receive FDI, or because FDI flows toward firms that support regulation. Similarly, pessimistic theories of globalization predict that firms that export will have a more negative opinion of regulation than firms that sell mostly in the domestic market. Again, this relationship may emerge because employers who relentlessly try to decrease labor costs are more likely to export, or because exporters become especially sensitive to the burdens of regulation. In the absence of an experimental design or a credible instrument, identifying the direction of causation is impossible and, more to the point, not our present goal.

4.1. Analysis

Table 1 contains a series of ordinary least squares (OLS) models with *Obstacle* as the dependent variable and with standard errors clustered at the city/town level.[19] We first show simple models that only include one explanatory variable along with country, year, and industry dummies (Models 1–5). These preliminary analyses permit an assessment of whether the findings from the more complete models are robust to parsimonious specifications. Reassuringly, coefficients of key variables in the parsimonious models are consistent with those of the more complete models, with the exception of FDI. To discuss the results in detail, we draw on our preferred specification, Model 6, which includes basic controls.

We find that employers whose establishments export more are substantially and statistically significantly more likely to perceive labor regulations as an obstacle (H1). All else equal, moving from not exporting at all to exporting all output is associated with a 0.2 increase in the *Obstacle* variable. This coefficient is equal to 17 percent of the mean of the dependent variable, revealing a substantive difference between firms that export and those that do not. This finding is consistent with the pessimists' prediction that employers exposed to global competition are more resistant to labor regulation.[20] Turning to FDI, once we include controls, FDI is not associated with employers' opinions. Therefore, we do not find evidence for either the positive association predicted by the optimists or the negative one suggested by pessimists (H2). Still, this finding casts doubt on a critical mechanism that could account for the "climb to the top" dynamic between FDI and labor regulations observed by optimistic accounts of globalization. Specifically, if employers in foreign-invested firms were bringing "best practices" of labor rights that align with the prescriptions of regulation, these managers should be less likely to view regulation as an obstacle compared to employers of domestically owned firms.

To probe the relationship between FDI and managers' opinions further, we separate foreign-owned firms into host "market oriented" and "export oriented" categories (Pandya 2010). Pessimistic theories tend to emphasize export oriented foreign-owned firms, such as a Korean-owned garment producer located in Bangladesh that sells its output in Europe. These firms seek locations where production costs are low. By contrast, optimistic theories tend to emphasize foreign-owned firms that are oriented toward host markets, such as a German-owned auto factory in Brazil that sells its cars to Brazilians. These firms seek locations where they find favorable demand and not (only) low costs of production. To test whether employers in these different types of firms hold different opinions toward labor regulation, we create dummy variables that separate establishments into four groups: foreign-invested establishments that export (*FDI Exporters*), foreign-invested establishments that sell domestically (*FDI Domestic Sales*), domestically-owned establishments that export (*Domestic Owned Exporter*), and domestically-owned firms that sell domestically (the omitted category). The results (Model 9) show that employers who sell domestically have similar opinions independent of whether they are foreign or domestically owned. By contrast, the coefficients on all exporters, independent of ownership structure, are positive and statistically significant. Thus, even if we focus our attention on host market oriented firms, we do not find the relationships regarding employers' views predicted by the optimists.

We now turn to measures of competition that rely on domestic differences in the contexts in which firms operate. We find evidence that employers in formal firms who compete with informal ones are more likely to perceive labor

Table 1 Negative opinion of labor regulation

	M1	M2	M3	M4	M5	M6	M7	M8	M9
Skilled worker	-0.232***					-0.210***	-0.211***	-0.177***	-0.207***
	(0.03)					(0.03)	(0.03)	(0.03)	(0.0347)
Export		0.233***				0.238***	0.220***	0.181***	
		(0.04)				(0.04)	(0.04)	(0.03)	
FDI			0.067[1]**			0.0247	0.0191	0.0297	
			(0.03)			(0.03)	(0.03)	(0.03)	
Non-local product				0.116***		0.0827***	0.0783***	0.0470**	0.0610**
				(0.02)		(0.02)	(0.02)	(0.02)	(0.0291)
Competition from informal sector					0.189***	0.216***	0.213***	0.0947***	0.214***
					(0.02)	(0.02)	(0.02)	(0.02)	(0.0314)
Establishment size							0.0367**	0.0351**	0.0283
							(0.02)	(0.02)	(0.0237)
Permanent							-0.233***	-0.110**	-0.232***
							(0.06)	(0.05)	(0.0583)
Labor intensity							0.00885	0.0488	0.0257
							(0.04)	(0.04)	(0.0428)
Average obstacles								0.651***	
								(0.02)	
FDI exporter									0.211***
									(0.0340)
FDI domestic sales									-0.0170
									(0.0444)
Domestic owned Exporter									0.190***
									(0.0242)
Constant	0.818***	0.636***	0.661***	0.625***	0.595***	0.654***	0.869***	0.366***	0.821***
	(0.05)	(0.04)	(0.05)	(0.05)	(0.04)	(0.05)	(0.08)	(0.07)	(0.0668)
R-squared	0.255	0.255	0.252	0.254	0.257	0.265	0.267	0.391	0.269
Observations	19,282	19,282	19,282	19,282	19,282	19,282	19,282	19,282	19,282

***$P < 0.01$; **$P < 0.05$; *$P < 0.1$. Dependent variable is *Obstacle*. Ordinary least squares models with country, sector, and year dummies included in all models. Robust standard errors clustered at city in parentheses. FDI, foreign direct investment.

regulation as an obstacle (H3). This effect size, 0.21, is 18 percent of the mean of the dependent variable. The magnitude is similar to that of moving from not exporting at all to exporting all production, indicating that uneven playing fields are important determinants of employers' views in developing countries. In addition, employers whose establishments sell in national markets are more likely to find labor regulation an obstacle than those that sell exclusively in their own municipality. While the effect size is small (only six percent of the mean of the dependent variable), this result provides further support for our finding that competitive pressure underlies negative opinions of labor regulation (H3). In the Appendix (Table A7) we use the number of competitors as an alternative measure of the intensity of competition and find similar results.

Finally, we turn to skills. The coefficient on the percentage of skilled workers employed by an establishment is negative and statistically significant (H4). The difference between having no skilled workers or all skilled workers is associated with a similar magnitude of effect as exporting, but in the opposite direction – the coefficient is -0.21, equal to 18 percent of the mean of the dependent variable. This finding suggests that optimistic theories of globalization are correct to presume that employers whose establishments employ skilled workers are less likely to have a negative opinion of labor regulation, even in developing countries.

Turning to the control variables, we find that employers in larger establishments are more likely to see labor regulations as an obstacle, which is congruent with the idea that bigger firms attract the attention of regulators and face more pressure to comply. Employers that hire more workers through permanent contracts are less likely to perceive regulation as an obstacle, which is also consistent with the view that establishments adopting human resource practices that emphasize retaining workers rather than reducing labor costs are less likely to view labor law negatively. Somewhat surprisingly, labor intensity of production is not positively associated with viewing labor regulation as an obstacle. This finding contradicts the conventional view that establishments with the greatest labor costs are more likely to have a negative opinion of labor regulation.[21] Finally, in Model 8, we include the *Average Obstacles* variable, which measures general negativity and is highly correlated with our dependent variable. Reassuringly, the coefficients on our key explanatory variables remain substantively unchanged. This suggests that we are uncovering relationships specific to employers' opinions of labor regulation, rather than employers' overall propensity to complain.

4.2. Robustness checks

One advantage of our dataset is that it allows us to focus on within-country differences among establishments and avoid using roughly measured country-level indicators of regulatory, political, and economic conditions that underpin much of the literature.[22] However, conditions within countries can vary across a number of dimensions that could potentially confound our analyses. To further control for this variation, we introduce OLS models with additional fixed effects in Table 2.[23] First, cities and regions vary tremendously within countries. Some regions may have more skilled or unskilled laborers, others might host more active or diligent regulatory enforcement agencies, and labor laws (such as minimum wage) can vary by region as well. Therefore, in Model 10, we include fixed-effects for each of the 331 towns/cities in which establishments are located. Second, while in previous models we include country and industry dummies, in Models 11 and 12, we report the results of saturated models that include a dummy variable for each industry-country combination and industry-town/city combination. In these models, we control for confounding factors arising from different sectors in different locations having varying underlying characteristics. Finally, Model 13 includes a dummy variable for the main product of the establishment, coded using over 250 product categories (International Standard Industrial Classification (ISIC) 4 digits). This variable provides an even more fine-grained distinction across establishments than the 11 industry codes we used before; in many instances, product codes distinguish establishments that produce finished goods from those that produce intermediate products within the same broad industry, which is important because an establishment that sells finished goods might face different competitive pressures than an establishment that sells intermediate products. For example, this variable allows us to distinguish establishments that manufacture car parts from those that assemble cars.[24] Across all these models, we find that the coefficients of all key variables remain statistically significant and in the expected direction.

As an additional robustness check, we construct an alternative measure of employers' views of labor regulation based on a separate survey question. When administering the survey, enumerators asked employers to consider 15 "elements of the business environment" and to select the one that "currently represents the biggest obstacle faced

Table 2 Saturated, city, and product fixed-effects models

Independent Variables	*M10*	*M11*	*M12*	*M13*
Skilled worker	-0.198***	-0.206***	-0.195***	-0.208***
	(0.0358)	(0.0336)	(0.0388)	(0.033)
Export	0.236***	0.201***	0.229***	0.224***
	(0.0351)	(0.0368)	(0.0392)	(0.0367)
FDI	0.0122	0.0207	0.0112	0.0192
	(0.0302)	(0.0312)	(0.0327)	(0.0298)
Non-local product	0.0806***	0.0757***	0.0723***	0.0834***
	(0.0191)	(0.0216)	(0.0207)	(0.0203)
Competition from informal sector	0.203***	0.213***	0.206***	0.211***
	(0.0211)	(0.0223)	(0.0217)	(0.0233)
Establishment size	0.0311*	0.0335*	0.0280	0.0396**
	(0.0174)	(0.0176)	(0.0187)	(0.0187)
Permanent	-0.246***	-0.233***	-0.276***	-0.261***
	(0.0496)	(0.0548)	(0.0541)	(0.0571)
Labor intensity	0.0281	0.00997	0.0373	-0.00907
	(0.0391)	(0.0415)	(0.0438)	(0.0396)
Constant	1.121***	0.592*	1.097***	2.796***
	(0.0737)	(0.341)	(0.174)	(0.105)
Country dummies	N	N	N	Y
City dummies	Y	N	N	N
Industry dummies	Y	N	N	N
Product dummies	N	N	N	Y
Country x Industry	N	Y	N	N
City x Industry	N	N	Y	N
Observations	19,282	19,282	19,282	19,811
R-squared	0.298	0.293	0.362	0.271

***$P < 0.01$; **$P < 0.05$; *$P < 0.1$. Dependent variable *Obstacle*. Robust standard errors clustered at city level in parentheses. Year dummies included in all models. FDI, foreign direct investment.

by this establishment." Using the responses to this question, we create a dichotomous variable (*Labor Most*) that equals one if the manager indicates that "labor regulation" is the biggest obstacle affecting the operation of his or her establishment.[25] This question is advantageous because it captures the relative importance of labor regulation compared to other potential obstacles, such as corruption, trade regulations, and taxes.[26] Only 4.5 percent of managers in our sample view labor regulation as their most serious obstacle. When the event rate is low, the conventional maximum likelihood method is vulnerable to small sample bias; therefore, we run standard OLS regressions, with fixed effects for country, industry, and year.[27] Table 3 reports the results of these analyses. First, with one exception, these parsimonious analyses reveal the same associations between all of our explanatory variables of interest and *Labor Most* as those in Table 1, thus providing additional support for the findings discussed above. The one exception concerns informal competition, as it has a statistically significant coefficient in the opposite direction as the analysis above. We attribute this reversal to the fact that employers could choose "Practices of competitors in the informal sector" as the most serious obstacle that they face. This option is directly related to competition with informal firms; reasonably, managers who reported competing with the informal sector chose this response at very high rates, thereby reducing the likelihood that they place labor regulation at the top of the list.[28] When we add the controls in Model 19, only the variables that have the strongest association with *Obstacles* in the analyses in Tables 1, 2, and 3 – *Skilled Worker* and *Export* – remain statistically significant. The coefficients show that there is a 1.6 percent drop in the probability of an employer reporting that labor regulations are the most important obstacle if they employ skilled workers, and a 2.9 percent increase if they export. These effect sizes are substantial given the small baseline proportion (4.5 percent) of employers reporting that labor regulations are the biggest obstacle they face. While these results do not confirm all of our previous findings, they lend further credence

Table 3 Likelihood of selecting labor regulation as most important obstacle

Independent Variables	M14	M15	M16	M17	M18	M19
Skilled worker	-0.0173***					-0.0159***
	(0.01)					(0.01)
Export		0.0356***				0.0290***
		(0.01)				(0.01)
FDI			0.0142**			0.003
			(0.01)			(0.005)
Non-local product				0.0103**		0.003
				(0.00)		(0.003)
Competition from informal sector					-0.00674**	-0.003
					(0.00)	(0.003)
Establishment size						0.00695**
						(0.004)
(1000 people)						
Permanent						-0.004
						(0.01)
Labor intensity						0.003
						(0.06)
Constant	0.0803***	0.0642***	0.0675***	0.0652***	0.0717***	0.0775***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
N	19,282	19,282	19,282	19,282	19,282	19,282
R-squared	0.057	0.059	0.057	0.057	0.057	0.06

***$P < 0.01$; **$P < 0.05$; *$P < 0.1$. Ordinary least squares regressions, with *Labor Most* as dependent variable. Country, year, and industry fixed effects are included in all analyses. Robust standard errors clustered at the city level in parentheses. FDI, foreign direct investment.

to our conclusions by showing the relationship between two theoretically important variables and a distinct and demanding measure of employers' opinions.[29]

5. Conclusion

Labor regulations have tremendous social, economic, and political implications. They set floors on health and safety, influence the quality of the work environment, restrict the types of legitimate employment contracts that can be used, and prescribe legal rights and duties for employers and workers that condition their power in the marketplace (Freeman 2009). Beyond these economic and social consequences, labor regulations also influence political outcomes; collective labor rights affect the power of organized labor and workers who are denied labor protection are less likely to vote or pay taxes (Ronconi & Zarazaga 2015).

Given these far-reaching consequences, scholars have sought to understand why countries adopt different labor laws, devote varying resources to enforcing them, and host firms that provide different labor conditions for their workers (Caraway 2004; Murillo 2005; Anner 2008; Schrank 2009; Kuruvilla *et al.* 2011; Berliner *et al.* 2015). Studies of labor politics acknowledge, either explicitly or implicitly, that employers play a crucial role in shaping the regulations that developing countries adopt and enforce. Because of the centrality of employers, theories of globalization and labor politics often hinge on the ways economic variables translate into opposition to labor regulations. Yet the predictions of dominant theories of the opinions of employers have not been examined.

Our article provides and empirically tests an account of variation of employers' views of labor regulation. We find evidence consistent with the firm-level mechanisms of theories that argue that labor protections are incompatible with globalization as well as some, but not all, of the firm-level mechanisms of those who argue that trade and foreign investment can push labor standards up. The association between exporting and employers being more negative toward labor regulation conforms to the way pessimists deduce the political views of employers. Politicians and regulators in

jurisdictions where many firms export are more likely to face employers who have a negative opinion of labor laws, thereby making it more challenging for them to adopt and enforce protective regulations. Thus, we show evidence congruent with the microfoundations of theories relating trade to the erosion of labor regulations through the actions of employers. This result has direct implications for our understanding of the ways in which trade openness may influence labor policy. While trade may diffuse better labor practices and exporters might offer higher wages and be more productive than non-exporters, our analysis shows that exporters nevertheless hold more negative opinions regarding labor regulation. This suggests that the competitive pressures unleashed by exposure to foreign trade may create political obstacles to adopting and enforcing labor regulation.

Our findings with regard to FDI do not show that employers in foreign-invested firms have a more positive opinion toward labor regulation, as predicted in the optimistic literature. Overall, we uncover little evidence congruent with the argument that foreign-invested firms are likely to offer political support for stronger worker protections. Although we do not challenge the core findings of country-level studies that link FDI to more protective labor regulations, the contrast between our finding on FDI and optimistic accounts of globalization raises important and unresolved questions about the mechanisms underlying these theories. If managers in establishments receiving FDI do not support labor regulation any more than domestically-owned establishments do, what is driving the "climb to the top" dynamic? Future research will have to discover alternative mechanisms to account for the relationships between FDI and labor regulations.

Although we cast doubt on the firm-level pathways proposed by globalization optimists, we find support for the mechanisms that both pessimists and optimists assume underlie variation in employers' views toward labor regulation. Our results show that employers facing more competitive pressure because they sell in national markets or compete against informal firms are indeed more likely to hold a negative view of labor regulations. Both findings support the view highlighted by the pessimists that competition fuels negative opinions of regulation. We also find that firms that employ a higher portion of skilled workers are less likely to object to labor regulation. This finding is congruent with research on advanced industrial countries showing that firms' positions toward labor policy depend on their production systems, especially their reliance on skilled workers. The finding suggests that, in developing countries, efforts to upgrade firms' production systems, so that they utilize more skilled labor, may have both political and economic effects, as these employers have more positive opinions toward labor regulations.

One strength of our empirical analysis is the combination of employer-level observations with wide coverage of the data that allows us to dialogue with the cross-national literature theorizing the average effect of globalization on labor politics. However, the cross-sectional nature of our data prevents us from tracing the processes that lead employers to shift their views about labor regulations, and our focus on the average relationship clearly masks substantial heterogeneity across countries and industries. Future studies will be needed to determine whether, for example, changes in trade openness or shifts in supply chains that result in upskilling factories induce employers to shift their preferences. As these relationships are likely to depend on institutional configurations that change from country to country and sector to sector, studies focused on particular sectors and countries will be necessary. Moreover, by investigating employers' declared views of their firms' interests, we leave open the question of how employers' opinions affect labor law, enforcement, and working conditions on the ground. Given the state of the literature, we have good reason to believe that politicians often act to adjust regulation in ways that meet the interests of firms, but more research is needed to understand the conditions under which politicians are more or less likely to do so. Future research will also have to link employers' opinions to their actual behaviors to construct a complete account of the role of firms in labor politics. This paper provides a necessary, but until now overlooked, first step; only by gaining an understanding of which employers perceive labor regulations as congruent or incongruent with their interests can we discover how they form preferences, and how and when their preferences become policy.

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Notes

1 Similarly, developing country employers may object to labor regulations not because of the burdens of compliance but because regulations render them vulnerable to harassment by corrupt officials.
2 Two papers have argued that the effects of trade on labor rights are contingent on trading partners (Greenhill *et al.* 2009; Adolph *et al.* 2017). Because of data limitations, we can only test the hypotheses implied by these theories on a subsample of employers from Latin America in 2006. Our analysis, reported in Table A9 of the Appendix, shows results congruent with our main findings.
3 They also argue, however, that once investments are made, governments may have incentives to improve enforcement. Note also that this theory focuses on the decisions of investors, rather than managers in the host countries. It may be that investors seek countries with weaker labor laws but that managers in the host-country are supportive of regulatory policies.
4 Pessimists also point out that foreign firms rarely diffuse production practices that entail the use of more skilled workers, as is sometimes suggested by optimistic theories of globalization. For example, foreign-owned firms in Lesotho's garment industry did not adopt production systems that require worker training beyond the lowest level of skills (Lall 2005).
5 These theories also suggest that managers in "home countries" (i.e. those where capital originates) may also have more positive views toward labor regulation, but we do not empirically examine these actors and instead focus on the host-country employers.
6 There are other possible exceptions. First, a firm that can benefit from economies of scale may be more productive when selling in a larger market than in a smaller one. In these instances, a firm that sells in a national market might face less competition than a firm that sells the exact same product in a smaller local market. Second, competition from a jurisdiction with high standards can lead to a "California Effect," in which some firms prefer stronger regulations (Vogel 1995). Although this theory has been extended to labor regulations in international trade (Greenhill *et al.* 2009), the original argument refers to product standards and requires firms to seek to enter a wealthy political jurisdiction that promotes strict standards. Thus, labor politics in the domestic markets of developing countries is squarely outside the scope conditions for this theory.
7 Schneider (2013, p.106) has questioned whether labor regulation allows skilled workers and firms to coordinate in Latin America.
8 ES are just beginning to be used by political scientists. For another application of these data, see Berliner & Prakash 2014. The data have been used by economists, such as La Porta and Shleifer (2014), who combine it with surveys of informal firms.
9 ES select establishments in regions that contain the majority of economic activity. The sampling procedure is as follows: first, enumerators identify all formal enterprises that have five or more employees, make independent financial decisions, have their own management, and control their payroll. Next, enumerators group all eligible firms into homogenous strata according to firm size, sector, and location. Finally, they randomly select enterprises from within each stratum. In most countries, most firms are of small and medium size but the large firms employ the majority of the people. To compensate for this difference, ES oversample large firms. When establishments refuse to participate or go out of business after they are selected, they are replaced with randomly selected substitutes from the same stratum.
10 Establishment-level managers are appropriate respondents because they are attuned to the challenges of compliance. However, the views of managers within firms can be heterogeneous, and there may be differences between the owners and managers. Such heterogeneity could result in firms sending contradictory signals to governments regarding regulation, and we may expect differences to be particularly pronounced for foreign-owned firms. We do not test predictions concerning the views of investors. Unpacking the diversity of opinions between owners and managers, as well as within establishments, is beyond the scope of this article (see Gray & Silbey 2014).
11 ES data are available over a number of years with repeated surveys for some countries, but there is no record of whether a firm was surveyed more than once as part of a specific country panel. As a result, the dataset is not a firm-level panel, but rather a repeated cross-section. To convert the repeated cross-section into a simple cross-section, we chose the focal year or the most recent survey wave conducted in that country immediately before or immediately after the focal year.
12 As the differences between foreign firms and local firms/exporters and non-exporters is often treated more as a matter of kind than degree, we also created dummy variables for FDI and export with distinct cutoffs (> 0 percent, > 50 percent). The results of all the analyses are substantively unchanged.
13 Unskilled production workers are those who do not have "special training, education, or skill to perform their job."
14 Labor cost includes wages, salaries, bonuses, etc., paid in the previous fiscal year. Total production cost is the sum of costs of labor, electricity, communication, rent, raw materials and intermediate goods used in production, fuel, transportation, water, finished goods/materials bought to resell, machinery rental, and other costs of production. World Bank's Enterprise Survey: Understanding the Questionnaire, Washington DC 2007. p. 24.
15 See the citations within Mosley & Uno 2007, p. 941. See also Murillo 2005.
16 Permanent workers are "paid employees that are contracted for a term of one or more fiscal years and/or have a guaranteed renewal of their employment contract and that work up to 8 or more hours per day."
17 The sectors are: food, textiles, garments, chemicals, plastic and rubber, non-metallic mineral products, basic metals, fabricated metal products, machinery and equipment, electronics, and other manufacturing. World Bank's Enterprise Survey: Understanding the Questionnaire, Washington DC 2007. p. 7.
18 In the Appendix we include analyses of multilevel models that include country-level covariates to check whether the establishment-level variation is substantively important when compared to cross-country variation. The results are congruent with the fixed-effects models.
19 The results are substantively similar with clustering at the country level. They are also similar when using an ordered logit model, but we choose not to present these results because the parallel regression assumption is violated. A Brant test for proportionality of odds yields chi-2 of 807.56, $P < 0.01$ for a modified version of Model 6 (without country fixed effects).

In Table A4, we include a generalized ordered logit model that is appropriate for these data. The results are consistent with the OLS models.

20 Table A9 disaggregates establishments by the destination of their exports for a subset of the sample for which data are available. Employers in establishments that export to Europe and the United States are also more likely to view labor regulation as an obstacle compared to firms that do not export.

21 It is congruent with trends in the garment industry in which employers temper their pursuit for low labor costs with a preference for particular types of labor control regime (Anner 2015).

22 In the appendix, we draw on country-level data to use multi-level models to check whether establishment-level differences are important relative to cross-national differences. Our results confirm that they are.

23 We also undertook the same bivariate analyses as in Table 1 with the different combinations of fixed-effects. The results are consistent with the complete models.

24 Unfortunately, the use of ISIC-4 product codes does not solve this matter entirely as they do not split all relevant categories (e.g. computer assembly vs. parts manufacture), and therefore it does not allow us to locate the tier of all establishments in their respective value chains. For the full classification, see: United Nations. International Standard Industrial Classification of All Economic Activities, Rev.3.1. Detailed Structure and Explanatory Notes. [Last accessed 15 Jun 2017] Available from URL: https://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=17.

25 The ES dataset only records the most serious obstacle reported by each respondent. Therefore, we cannot identify respondents who would have selected labor regulations as one of the top three, or top five, or any other combination.

26 The possible answers are: access to finance; access to land; business licensing and permits; corruption; courts; crime, theft, and disorder; customs and trade regulations; electricity; inadequately educated workforce; labor regulations; political instability; practices of competitors in the informal sector; tax administration; tax rates; and transportation of goods, supplies, and inputs.

27 The results are unchanged when using a rare events logit model.

28 Among managers who report competing with the informal sector, 21 percent selected "Practices of competitors in the informal sector" as their greatest obstacle out of the 15 options.

29 These results are robust to the same saturated models reported in Table 2.

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