

Reinforcing the State: Transnational and State Labor Regulation in Indonesia¹

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Research on global programs to regulate labor standards has emphasized interactions between transnational and state regulatory institutions. If transnational initiatives can make state institutions more relevant, global efforts have the potential to reinforce, rather than displace, state labor regulation. Through a study of the Indonesia-based program of a leading initiative to improve working conditions in the garment industry, Better Work, this paper identifies the conditions under which transnational regulations reinforce domestic ones. Drawing on two case studies comparing regulations governing fixed-term contracts and minimum wage renegotiations in four Indonesian districts, we find that reinforcement is likely when two conditions jointly occur: unions mobilize to activate state institutions, and transnational regulators have support to resolve ambiguities in formal rules in ways that require firms to engage with constraining institutions. We further test the relationship between these conditions and reinforcement through a quantitative analysis of factory participation in state supervised wage renegotiations. Our findings reveal opportunities and constraints to designing global programs that can both improve factory-level standards and support the functioning of state labor market institutions.

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Transnational regulatory initiatives created by non-state actors have proliferated throughout the world, but these initiatives alone are insufficient to improve labor standards in the long run. Meaningful change will require understanding how these global efforts can reinforce, rather than weaken, existing state institutions. Scholars have uncovered instances of positive interactions between the global and the local, but there have been few attempts to explain variation in how transnational initiatives interact with state regulation. As a result, we lack essential knowledge necessary to design transnational initiatives that support local institutions, as well as an understanding of when positive interactions might, or might not, be possible.

Through a study of the Indonesia-based program of a leading initiative in the garment industry, Better Work, this paper seeks to identify the conditions under which transnational initiatives reinforce domestic institutions. Our analysis draws on puzzling variation: Better Work Indonesia (BWI) sometimes reinforces state institutions, such as by pushing factories to participate in state supervised wage renegotiations, but in other instances it has little impact on how factories interact with the state. To account for this variation, we turn to the ways in which BWI is embedded in domestic politics, focusing on two factors: worker mobilization and support from key stakeholders for authoritative interpretations of rules that require factories to engage with constraining state institutions.

Beyond the critical question of how to improve the functioning of labor regulation in global supply chains, our analysis explores regulatory interactions in contexts of institutional weakness. Theories of institutional change suggest that layering—the adoption of new rules alongside existing ones (e.g. private pensions Pierson 1994)—in advanced industrial countries can either draw support away from the status quo or amplify actors’ interests in maintaining the original institution. Likewise, transnational supply chain initiatives are layered over state rules.

Yet, we should not presume that layering plays out in the same way in countries with weak institutions. In such contexts, the critical question is not how two strong institutions compete for dominance, but whether layering can make weak institutions more relevant. By developing hypotheses for how and why institutional interactions can help turn formal state rules into constraints that actually structure actors' behavior, we can understand institutional interactions in a much broader set of cases.

Indonesia is an ideal context for this research. First, Indonesia is an important site of global garment production. Though not on a rapid growth trajectory, Indonesia ranks among the top fifteen global clothing exporters, with \$7.7 billion in 2013.² The presence of garment factories that supply global brands has attracted transnational initiatives, including BWI, to regulate the industry. Second, Indonesian labor politics are highly dynamic. While unions remain fragmented and weak by international standards (union density is 4-5%), they have gained political power through massive protests and won reforms that have made Indonesian labor laws among the strongest in the region (Caraway 2006; Ford 2009; Juliawan 2011; Aspinall 2013; Caraway and Ford 2014). Despite these gains, enforcement is weak, and employers routinely violate laws regarding workplace contracts and wages.

The combination of these developments—dynamic labor politics and transnational initiatives—provides an opportunity to examine their interaction. A third feature of Indonesia—decentralization—makes this context particularly compelling. Much contestation over labor market institutions takes place at the district (local) level. District governments control the local offices of the Ministry of Manpower and Transmigration that are involved in setting minimum wages and enforcing labor laws. BWI has the potential to reinforce these local-level institutions

² World Trade Organization.

in each district where it operates, thus creating variation in the outcome of interest.

Decentralization also provides a methodological advantage by bringing into sharp relief differences within national states. Much of the literature on regulatory interactions treats states as unitary—positing that transnational initiatives either have positive or negative interactions with the state as a whole—yet all states are internally heterogeneous when it comes to regulatory enforcement. Decentralization in Indonesia amplifies internal differences, allowing us to uncover not only the conditions under which reinforcement obtains but also which parts of the state are reinforced.

Regulatory Interactions

Regulatory institutions shape labor markets and working conditions by serving two key functions. First, they block abusive practices, such as forced overtime. Second, they serve as structures in which struggles between labor and management occur, moving contestation out of informal and individualized arenas. Rather than prescribing specific outcomes, this second category of process institutions conditions the power of labor and management to influence outcomes like wages and workplace standards. Yet, in many developing countries institutions are “weak” and often fail to structure behavior (Levitsky and Murillo 2013). In such contexts, informal practices tend to prevail: firms either defect from state institutions altogether, or corrupt the process so that formal rules do not constrain behavior. Moreover, there are often substantial ambiguities as to what the rules of the game actually are.

Labor markets in global production systems are regulated by both states and transnational initiatives. Transnational initiatives include “private” programs, such as the Fair Labor Association, and hybrid ones that involve firms, non-governmental organizations, and

international organizations. Better Work is a particular hybrid form that includes buyers and international organizations, as well as national employer associations, unions, and governments. First established in Cambodia as an ILO initiative to monitor labor rights for the U.S.-Cambodia Textile Agreement, Better Work has since spread to seven other countries (Rossi, Luinstra, and Pickles 2014). Unlike states, transnational initiatives derive their power in large part from companies and non-governmental organizations. Yet just as state regulatory institutions are weak, so too do transnational regulations fail to consistently structure the behavior of employers. Research has repeatedly shown that domestic political and social context greatly influences their performance (Locke 2013).

A central question has thus become how transnational initiatives interact with state institutions, and in particular whether layering the two types of regulation can contribute to change (Vogel 2008; Eberlein et al. 2014; Büthe 2010; Berliner et al. 2015). Layering can lead to negative interactions if the new institution “siphon[s] off the support of key constituencies” of the old one (Streeck and Thelen 2005: 23). Indeed, critics have argued that states could effectively cede power to transnational initiatives, causing actors to stop investing in state regulation (Esbenshade 2004; Seidman 2007). By contrast, layering can also result in positive interactions, where the presence of one institution makes the other more consequential, encouraging actors to invest political capital in supporting it (Hall 2001). Reinforcement is a strong positive interaction whereby transnational regulators push actors into domestic institutions that effectively constrain behavior.

Reinforcement is particularly important because it makes state institutions more relevant and likely to shape actors’ behavior and expectations. For instance, institutions that structure wage bargaining may remain weak because firms do not see it in their interest to participate in

tripartite negotiations; instead employers might simply ignore legally-mandated wages or informally negotiate with workers. By contrast, if transnational regulators make participation in the interest of employers, for example by requiring them to use state dispute resolution processes, state institutions become more relevant. In this way, the presence of transnational regulators creates incentives to invest in state institutions, rather than avenues to defect.

Under what conditions do transnational regulators reinforce state institutions? Here the literature has less to say—scholars have focused more on characterizing interactions than on explaining why they occur; and when they do explain interactions, the focus is more on the standards aspects of institutions than the processes (exceptions are Bartley 2011; Locke, Rissing, and Pal 2012). To preview our analysis, we argue that two conditions make reinforcement likely. The first is worker mobilization targeting the state, which creates public contestation over the rules and pushes the state to take pro-worker actions, such as stricter enforcement or support for higher wages. Mobilization affects transnational regulators indirectly: unions pressure government regulators to activate state institutions, creating public conflicts that then must be addressed by transnational regulators in factories. By contrast, without mobilization, transnational regulators attempt to resolve violations without engaging in the state in a meaningful way. Quite simply, managers are told to adopt (or cease) a particular practice without dialogue with state actors, meaning that state institutions remain marginal; for example, instructing factories to reduce the proportion of contract workers that they employ without consulting state guidelines on contracting. Even when transnational regulators require factories to interact with state regulators—for example, to verify an employment contract—such encounters tend to be superficial without political pressure to make institutions constrain

employer behavior. Without worker mobilization, transnational regulators have minimal impact on the relevance of state institutions.

While mobilization is central, alone it is insufficient to drive reinforcement. When rules are contested and institutions weak, actors try to exploit vagaries in the way rules are applied, offering interpretations that align with their interests. At times there may be genuine confusion about how the rules apply, but even when rules appear to be clear, actors can strategically generate competing views in order to advance their interests. Such strategies are especially viable in contexts where enforcement is highly uneven. In our case, workers can mobilize and gain legal victories, but if transnational regulators simply adopt pro-employer interpretations that allow factories to maintain the status quo, reinforcement will not occur. While the particular stakeholders of transnational initiatives vary, reinforcement requires that transnational regulators have authoritative support from their governing bodies to interpret contested rules in a way that forces firms into constraining state structures, instead of allowing them to remain disengaged.

By emphasizing interpretation, we do not claim that conflict over labor institutions or non-adherence to the law is only a matter of differing, legitimate legal interpretation. Factories do knowingly violate laws. Instead, our point is that when contestation occurs, generally due to worker mobilization, political conflict often takes the form of workers and employers (and their respective allies in government) pushing different interpretations about how to apply rules on the books. Transnational regulators, including BWI, must decide how to interpret the local rules that they apply to their factories, which in turn impacts the potential for reinforcement. Thus, instead of focusing on whether or not the compliance criteria of transnational initiatives align with national laws, we instead highlight the way actors exploit institutional weaknesses to advance their interests, how transnational actors are forced to choose sides among these divergent

interests, and the problems that occur when interpretations that force firms into constraining institutions cannot be obtained.

In sum, transnational initiatives will likely reinforce state institutions when two conditions jointly occur: mobilization from below to activate institutions and support for interpretations of rules that go against the status quo of institutional weakness and force employers to engage with constraining institutions. We make two contributions with this argument. First, we advance the literature on transnational regulation by moving beyond describing interactions to accounting for variance, which is crucial to designing transnational initiatives that can promote longer-term improvements in labor conditions. We do this by situating transnational regulation firmly in the local politics of the places where it operates, including accounting for worker agency. Second, scholars of advanced industrial economies have theorized that layering can drive institutional change, but these theories have not been widely used to analyze developing countries. Our argument extends this work by highlighting the critical role of activation and interpretation in weak institutional contexts. Ultimately, this contribution points both to how transnational regulation is influenced by local labor politics, and how it might help strengthen states' capacity to regulate labor markets around the world.

Better Work Indonesia

The basic architecture of BWI is similar to that of many transnational initiatives. Indonesian factories opt into BWI's regulatory program to appease global buyers. Since its introduction in 2011, BWI has enrolled over 130 garment factories that employ approximately 200,000 workers (one third of all garment workers). Once factories join BWI, they are subject to compliance "assessments" and are provided with monthly "advisory" services by BWI staff

called “Enterprise Advisors” (EAs), which aim to improve factory compliance and competitiveness. BWI reports the results of assessments and advisory sessions to buyers, who then put pressure on factories to improve conditions. Thus, BWI derives its power from the buyers that support it, and exercises that power directly in factories.

Going beyond this standard factory-level architecture, BWI inherited a unique tripartite governance system from the ILO. While all transnational regulatory structures are subject to political forces, these pressures tend to come primarily from global brands and labor groups. By contrast, BWI is nationally embedded through its Project Advisory Committee (PAC) that includes the Ministry of Manpower and Transmigration (MOMT), employers, and unions. Of all its domestic stakeholders, the one most directly involved in BWI’s day-to-day operations is the MOMT in Jakarta. When BWI was first established, MOMT officials were worried that the program would cause labor unrest (G35), or “*overlap with the duties of the labor inspectors*” and displace the state (G3). BWI made an explicit effort to align its compliance assessment tool with Indonesian laws; BWI staff noted they did not “*want to be seen like we are against the government or we have a different interpretation*” (BW5). To coordinate, BWI and the MOMT set up an “Ad Hoc Committee” made up of staff from both organizations, which evolved into a permanent body that determines which interpretation of Indonesian labor law should guide BWI. As a result, it has de facto jurisdiction over the content of BWI’s compliance assessment criteria, which combine ILO conventions and domestic labor law. The committee meets frequently to examine problematic instances of non-compliance and clarify legal ambiguities that BWI encounters during factory visits.

Through this relationship, BWI extends the MOMT’s power to influence regulatory compliance in garment factories. To illustrate with a minor issue, Indonesian factories sometimes

try to swap a holiday that falls in the middle of the work week with another working day closer to a weekend; when BWI encountered this practice, EAs were uncertain about its' legality. BWI consulted the Ad Hoc Committee, which declared "swap days" illegal. BWI told factories and buyers that the practice would be coded as non-compliance (BW3, BW4, BW12), then proceeded to monitor the rule, as interpreted by the MOMT, in its factories.

Although such interactions are positive, they do not constitute reinforcement. By applying state regulations in its factories, BWI directly contributes to compliance, but it does so without actually making factories meaningfully engage with the weakest part of Indonesia's regulatory system: the local-level institutions that structure everyday labor relations. Because of decentralization, local labor market institutions including inspection, dispute settlement and wage bargaining are overseen by district Manpower offices (*Dinas Tenaga Kerja dan Transmigrasi*, or "Dinas" for short). The Dinas report to district-level politicians, not the central MOMT. As a result, when BWI brings information about local institutional failures to the MOMT, decentralization prevents central state officials from intervening to correct them. While this particular feature of Indonesia amplifies the influence of local politics, all central governments have difficulty controlling local officials who may choose not to implement regulations, and even within centralized bureaucracies, local officials have considerable discretion (Kuruvilla, Lee, and Gallagher 2011).

Therefore, to understand reinforcement, we need to analyze how BWI might push factories to interact with state institutions in a way that actually forces them to follow the rules. First, as alluded to above, BWI can tie threats of penalties or rewards not only to meeting specific standards, but to actually follow the processes prescribed by the state. Second, BWI can diffuse information about legal processes so that factory managers and unions have knowledge

about the formal rules of the game. Third, BWI officials can coach managers through the process of engaging state institutions, serving as a broker for factories and reducing information costs for factories sorting out complex and shifting policies, especially when local officials are unreliable. The first mechanism corresponds to factories defecting from institutions out of pure interest, not because of genuine ambiguity in institutional processes. The second and third mechanisms correspond to instances of unresolved ambiguities in rules, due either to actors self-servingly amplifying conflicting interpretations to advance their interests or to genuine legal fuzziness.

Research Methods

This paper takes a mixed-method approach. It uses case studies to trace the processes by which BWI influenced factories' actions, and statistically analyzes the association between BWI participation and factory behavior. Our comparative design allows us to observe variation while holding constant national-level variables, such as the content of the laws. The analysis uses data collected during fieldwork conducted in May through July 2014 and April 2015. Data sources include interviews with 189 factory managers, government officials, union leaders, BWI staff, and buyers, as well as BWI's factory assessments and government records (Table 1).³ We also construct a factory-level dataset that allows us to undertake the first (to our knowledge) quantitative analysis of the relationship between a transnational initiative and engagement with state institutions. While the dataset includes all districts with more than one enrolled BWI factory, our case studies focus on four districts. To select these districts, we listed all 14 districts containing BWI factories, and eliminated those with fewer than six BWI factories. We then

³ Interview dates and titles of interviewees are available upon request. Prefixes indicate the interviewee's position: BU – buyer; BW – BWI; E – employers' association; F – factory manager; G – government official; U – union.

stratified the remaining districts by levels of labor mobilization, our key district-level explanatory variable. There were four districts—Bogor (*kabupaten*), Bogor (*kota*), Jakarta, and Tangerang (*kabupaten*)—with comparatively strong unions, as evidenced by substantial mobilization around minimum wages. We eliminated Tangerang, where the number of BWI factories was declining, and selected Bogor (*kabupaten*), which had more BWI factories than Bogor (*kota*), and Jakarta.⁴ We also selected Semarang (*kabupaten*), a new garment-producing district with weak unions, to contrast with established industrial districts. This left us with three districts in the middle of the distribution—Bandung, Sukabumi, and Subang—out of which we selected Subang because it had exhibited the strongest union mobilization.

[TABLE 1]

To focus our analysis, we study fixed-term contracting and wage setting, two institutions that have recently become highly salient and contested in some parts of Indonesia. As we will show in the following sections, fixed-term contracts present a negative case: BWI is *not* reinforcing the state. Union mobilization in one district, Subang, activated state institutions and created the opportunity for reinforcement, but MOMT did not provide BWI with an authoritative interpretation that forced factories into the constraining institutions, resulting in an absence of reinforcement. The case of fixed-term contracts shows that mobilization alone is not sufficient for reinforcement. The second case, supervised minimum wage renegotiations, is a positive one: BWI *is* reinforcing the institution, although only in districts with strong union mobilization. In this case, the MOMT provided an interpretation of the rules requiring factories to engage in the state structured process of renegotiation, which allowed BWI to take reinforcing actions. This

⁴ DKI Jakarta is a province, not a district, but it has jurisdiction over labor inspection and minimum wages, therefore we treat it as a “district” in our analyses.

case demonstrates that when the two conditions jointly occur, the outcome is reinforcement. Thus, combining both dimensions of variation—institutions and districts—we demonstrate that reinforcement only occurs in *districts* where mobilization occurs, and for *rules* on which MOMT provides an authoritative interpretation that forces factories to engage in constraining institutions.

Approvals of Fixed-Term Contracts

Employment contracts are contentious in Indonesia. The Manpower Act (No. 13/2003) allows companies to use two types of employment contracts: permanent and non-permanent. Employers may hire non-permanent workers for up to three years (a two-year contract with a one-year renewal). Factories use these fixed-term contracts for flexibility in hiring and firing, to avoid severance pay, and as a union avoidance tactic. Although unions won new legal restrictions on precarious forms of employment in 2012, fixed-term contracts are still widely used and adherence to the legal limitations on their use is weak. BWI compliance data reveals that among the 109 factories assessed in 2013, the median factory had 47% of workers on fixed-term contracts, and that 81% of factories had contract violations of some kind.

The law restricts fixed-term contracts to specific types of positions, such as “seasonal” or “temporary” work. To control their use, factories are required to register every new contract and to regularly submit the entire list of employment contracts to district labor offices for approval. Critically, the law does not specify whether workers in globalized industries subject to volatile demand are “seasonal,” allowing local regulators, buyers, employers and unions to promote different interpretations. Some unions have claimed that garment work is continuous, so “*all have to be permanent workers*” (U12; also U15, U21). Most managers argue for minimal restrictions on contract use, pointing to the seasonality of fashion (F36, F25). Buyers have

varied views, with some unilaterally prohibiting fixed-term contracts to minimize risk, and others allowing them (BU1, BU2, BU5, BU6).

In principle, the contract registration procedure is a process institution that allows regulators to ensure that contracts are legally compliant. In practice, local officials exercise little oversight. In Jakarta, Bogor, and Semarang, district manpower offices allowed factories to “*manipulate the regulation,*” in the words of one manager, by endlessly renewing temporary contracts (F7). Regulators acknowledged abuses, yet they routinely approved contracts without consideration of legal eligibility (U16, G10, G12, G15, G18, G38). Even when the regulators identified violations like serial renewal, they rarely enforced the rules (G20).⁵ Factory managers widely reported that the “*only challenge*” for getting approvals was “*illegal*” payments from US \$70 to \$140 per 100 fixed-term contracts (F2, F34, F36, F71, F73, F74). Recognizing that the process was corrupt, some brands stopped requiring contract registration (BU5). Naturally, unions saw weak enforcement as problematic, but it was not the central focus of mobilization in Jakarta, Bogor, or Semarang, and the status quo prevailed (U15, U32).

In the newly industrialized district of Subang, however, focused union mobilization succeeded in pushing local officials to tighten their regulation of contract use, thus triggering public contestation over fixed-term contracting. The case began with small plant-level FSPMI⁶ unions in two garment factories enrolled in BWI, which workers had formed in 2013 because of FSPMI’s reputation for militancy. Management in one of the factories responded aggressively, terminating the FSPMI members, nearly all of whom were fixed-term contract workers (F7, U21, U22, U23). FSPMI’s district branch brought the issue to local labor officials, arguing that the

⁵ There are no legal penalties for violations of contract rules, leaving unions reliant on courts or political pressure (Caraway 2010).

⁶ FSPMI is the metalworkers’ union, but it also organizes garment factories.

factories were abusing fixed-term contracts, and demanding that the contracts be converted. These officials initiated an investigation, finding the factories in violation of multiple contract rules (G31). Regulators instructed one of the factories to convert the workers to permanent contracts, but the factory refused, and union members went on strike. The Dinas then forwarded the case to the provincial industrial relations court of West Java. FSPMI did not stop pursuing its case after formal institutional mechanisms had failed. In early 2014, union members began to pressure local officials to ban fixed-term contract use in the garment industry by adopting a stricter legal interpretation. Union leaders and regulators held a series of backroom meetings and, going beyond the specific cases of the two factories, unions seized on the ambiguity of the law to argue that garment production is “continuous” work, and should not qualify for fixed-term contract employment at all (U22, G30). The push came at a moment of political opening: local protests over minimum wage in 2013 had been a show of force for the unions, and the newly appointed head of the Dinas was more sensitive to union demands than his predecessor (U12, G30).

Overriding employers’ objections, regulators adopted the unions’ strict interpretation that garment factories could not use short-term contracts in core production positions. The Dinas sought legal clarification from the MOMT, then disseminated the favorable reply to union leaders (U21, F34) and issued a letter declaring that all fixed-term contracts must be re-registered, and that employers should either convert workers to permanent status or pay severance (G31, BW12, BW15). A local official justified the position, arguing that garment work was clearly continuous: “*The workers don’t suddenly switch to producing [a new product]*” (G31). The Dinas stopped registering fixed-term contracts altogether. Regulators were subject to intense pressure from both sides: employers prepared a counterattack, appointing a former head of the

Dinas as the new head of the local employers' association (E9, U12). After the standoff, regulators ceded to pressure and began registering contracts again. By June 2014, most factories were again able to register contract workers under the condition that they could demonstrate that the work was seasonal (for example, the extension of a certain style or addition of sewing lines to fill temporary increases in orders) (G17, G31, BW15, F39, F42, F55, F56, F57). FSPMI, however, continued to pressure the Dinas, and the original two factories remained unable to register any fixed-term contracts. Naturally, employers pushed back; one manager told the district mayor's deputy that "*if this continues, the factories will leave*" (F55). Still, the union successfully pushed front-line officials to enforce the strict interpretation in these two plants. While the case remained in court and unresolved as of April 2015, the stricter application of the rule had been in place for well over a year.

How did BWI respond to widespread violations of Indonesia's contract regulations? BWI took modest actions to prevent the worst abuses of fixed-term contracts, but did not take strong actions to reinforce the weak domestic institution. Most basically, BWI required factories to register contracts as stipulated by law; but, as noted above, registering contracts without seeking strict enforcement tended to fuel corruption without substantially reducing abuse (F74, BU5, E1). Requiring factories to register their contracts did not constrain the types of contracts they could use (in three out of the four districts). In the absence of institutional activation by unions, BWI's steps to promote engagement with the state had little substance. BWI encouraged factories to create a plan to gradually reduce the use of fixed-term contracts, attempting to secure compliance without making state institutions more relevant (BW12).

While in other districts such practices could continue without controversy, the union victories in Subang complicated matters, while also creating an opportunity. FSPMI's

mobilization put pressure on local regulators, bringing in the state and building momentum towards change. If BWI had pushed factories into local institutions, it is likely that they would have constrained behavior, given the very public position that local officials had taken. Instead, BWI did not use its factory assessment procedures in Subang to reinforce the unions' local policy victory. After a year and a half of conflicts over contracts, a local official stated that BWI should "*help with enforcement*" but had not done so (G31). Local union leaders had hoped that BWI would support their victories, but were also disappointed (U22). The factories continued to abuse the contract system, and lived in legal limbo, with the cases pending in court. BWI staff described the issue as out of their hands (BW12).

Why did BWI not reinforce the efforts of local regulators to strengthen oversight of fixed-term contract use? In the districts without substantial union mobilization, BWI could encourage factories to get contracts registered, but that was not particularly effective because without public contestation, engagement with the state was reduced to corruption. In Subang, contestation did create an opportunity for meaningful state oversight, especially in the two offending BWI factories. Process tracing, however, reveals that the key barrier was the MOMT's interpretation of the contracting rule. When BWI brought the Subang case to the MOMT, central officials stated that the local government's interpretation of the law was incorrect, but the MOMT did not provide a clear alternative interpretation (BW4, BW14). By giving BWI a vague interpretation of the rules that could not justify a larger intervention, the MOMT prevented BWI from pushing factories into the local regulatory system where unions had activated institutions. When two parts of the state conflicted, BWI could not stay neutral. The MOMT used the ambiguity to support the status quo but avoid publicly taking a pro-industry stance, and BWI had little choice but to follow its principal over the local officials. The

counterfactual implied by this analysis—that if the MOMT had taken a different position that was both authoritative and required officials to constrain factory behavior, reinforcement would have occurred—is examined in the next case study.

Minimum Wage Renegotiations

BWI's role in minimum wage renegotiations offers a counterpoint to the contract issue. The Manpower Act devolved responsibility for setting minimum wage to the districts and provinces. The law created tripartite wage councils at both levels, consisting of local government officials, unions, and employer representatives. The councils conduct an annual “basic needs” survey based on a basket of goods to determine the local living wage, and make a recommendation to the district mayor or regent. The mayor determines the final wage and presents it to the provincial governor, who generally accepts the local recommendation.⁷

In districts facing large wage increases, however, many garment factories do not pay the full minimum wage. Indonesian law allows factories in labor-intensive industries to pay below the minimum wage if they go through a supervised renegotiation with their workers. Renegotiations soften the blow of wage hikes by allowing for gradual increases over the course of a year. To receive state approval to renegotiate wages, factories must obtain approval from at least half of their workers (or unions that represent half of workers) and submit to a financial audit conducted by the provincial labor administration. This information goes to the provincial minimum wage council, where unions and employers debate the merits and make a recommendation to the governor, who then approves or rejects the results of the renegotiation. This process is intended to provide flexibility while also stopping employers from unilaterally

⁷ The procedure differs somewhat in Jakarta.

imposing lower wages. It also requires that companies pay at least the previous year's minimum wage, ensuring that all factories raise their wages every year. This regulation is controversial; many union leaders opposed the idea of any factory paying below minimum wage (although if there has to be renegotiation, union leaders argue that it should be done legally and without intimidation) (U32, U36). Some buyers believe that renegotiations posed a reputational risk and did not accept them, while others allow factories to go through the renegotiation process, and still others only want evidence that factories had some sort of agreement with workers (even if the agreement was illegal) (BU1, BU2, BU6).

In some districts, unions did not mobilize enough to force higher wages, and rules governing renegotiation were not activated. In Semarang, for example, there were demonstrations around minimum wage, but these were relatively small (U8). As a result, local minimum wages remained low, and, for many years, below the local living wage.⁸ Without pressure from steep increases, factories in Semarang did not go through the renegotiation process (G10); none of the five BWI factories we interviewed had gone through renegotiation. In this context, there was no pressure put on state institutions, and BWI did not undertake broad actions to incentivize or instruct factories on how to undertake wage renegotiation. Quite simply, the lack of mobilization gave BWI few opportunities to push factories to engage with institutions governing wages (BW14, BW16).

Around Jakarta, however, minimum wages emerged as a focal point for labor mobilization, resulting in dramatic increases. Mobilization around minimum wage was not new in democratic Indonesia, but its growing intensity allowed unions to score major victories in

⁸ All minimum wage figures in this section are from provincial or district labor office websites or sources. West Java data is from *Evaluation Determination of Minimum Wage for Districts/Cities in West Java, 2014*, courtesy of West Java Manpower Office.

2012 and 2013. After a series of massive strikes and demonstrations, Jakarta and neighboring districts experienced large nominal year-on-year wage increases. In Jakarta minimum wages increased by 47% to 2.2 million IDR (US \$227), in Bogor by 57% to 2 million IDR (US \$207), and in Subang by 57% to 1.58 million IDR (US \$164) (Figure 1).⁹ From garment factories' perspectives, these wage shocks posed a severe problem because they occurred unexpectedly, after prices had already been negotiated with buyers (F13, F43, F44). Some firms began scaling down their Jakarta-area factories, seeking lower-wage locations; but these moves took time, and firms needed short-term responses (F37, F38). Regulations required factories in this situation to formally renegotiate wages with workers, which some did: for example, after the 2013 wage hike, 108 companies in Bogor renegotiated.

FIGURE 1 HERE

As with fixed-term contracts, however, many factories either violated the rules around minimum wages overtly or selected interpretations that suited their interests. Instead of going through the formal process, factory managers opted for informal negotiations, which were allowed by local officials, posed fewer constraints, and resulted in lower wages. For instance, one buyer observed that suppliers go “*under the table*” to get agreements “*to make it easy*” and avoid the “*very strict*” formal renegotiation process (BU2; also BU1, F36). District labor officials often condoned these illegal agreements, either to extract bribes or to avoid the risk of strict enforcement antagonizing footloose factories. In Bogor, an inspector noted that “*we should enforce the law, but we also understand that the vision of the district is to attract investors.*” (G40). In some cases, BWI officials found that factories had acquired letters “*approving*” illegal agreements from the local labor office or industrial relations courts (BW10) and “*pretend[ed]*”

⁹ Exchange rates calculated for January of that calendar year.

that these documents were acceptable (BW13). In Jakarta, a factory manager said that “*Some buyers don’t mind as long as you have a paper from the North Jakarta Dinas*” (F74). BWI staff observed that illegitimate approvals of informal agreements “*become[] like a weapon from the factory*” to justify wage levels to buyers, who demanded compliance with wage laws but did not understand the intricacies of legal requirements (BW12). While many informal agreements were blatantly illegal, others skirted the edge of legality. As factories shopped for favorable forums, they caused jurisdictional battles among parts of the state over who had the authority to allow factories to renegotiate minimum wages. Overall, the number of factories paying below the minimum wages far outstripped the number that went through formal renegotiation.¹⁰

How did BWI respond to pressures put on minimum wage regulations? The problem of wage renegotiation mirrored that of fixed-term contracts, in which factories defected from state-overseen processes with tacit approval from local regulators, and different actors put forward competing interpretations of the rules to serve their interests. Given BWI’s governance structure, its staff once again turned to the MOMT to clarify the legal requirements (BW12). Unlike with fixed-term contracts, however, the Ministry gave BWI clear affirmative guidance that wage renegotiations should be conducted through the constraining formal process, with an audit and approval from the provincial governor. Informal renegotiations, or renegotiations approved by district officials, were illegal. Coming to this interpretation was not simple. There were various challenges to the details of wage renegotiation. For example, in 2014, DKI Jakarta adopted a decree that changed minimum wages midway through the year, making it impossible for factories to go through the formal legal process of renegotiation; according to a BWI official,

¹⁰ Industrial Manufacturing Survey data from 2012 shows that 19% of apparel factories in Jakarta, West Java and Banten districts with BWI factories self-reported average salaries for production workers below minimum wage—well over the percentage that went through formal renegotiations in that year. Detailed calculations available on request.

“the factories were at the mercy of a system that didn’t work” (BW8). In light of this abnormal policy change, the factories went to the industrial relations court and obtained a letter stating that they did not have to pay the full wage. This action set off a jurisdictional conflict between the industrial relations court and the MOMT that took weeks to resolve, suggesting that there were indeed genuine differences in interpretation that were being used strategically (not only knowing violations of law). Eventually, the MOMT won and set out guidelines that required formal renegotiation. This support gave BWI the authority to contradict other officials who had endorsed factories’ practices.

Specifically, BWI’s response to the institutional breakdown took three forms—incentives, information, and coaching factories. First, BWI created incentives for factories to follow the rules through its standard assessment procedure. Unlike some private auditors and brands, BWI did not accept factories’ questionable approvals; instead, it marked them as non-compliant and reported the findings to buyers. Multiple factory managers said that they went through the supervised wage renegotiation process in order to remain compliant for BWI audits (F36; F43).

Second, BWI brought reports of labor law violations to the MOMT from its on-the-ground knowledge of happenings in factories, and it channeled the MOMT’s authoritative legal interpretations back down to buyers, factories, and local governments. One MOMT official said BWI was a *“bridge”* between the central government and the factories, and that *“In any matters where communication can be done clearly and quickly, that is good”* (G2). In Indonesia’s decentralized system, BWI was a force multiplier, extending the MOMT’s reach. With competing applications of the rules clarified multiple times by the MOMT, BWI circulated four detailed *“Legal Updates”* to factory managers and buyers, explaining the minimum wage setting and renegotiation processes and detailing how BWI evaluates minimum wage compliance in its

assessment. BWI also spread information by organizing a “refresher” training with officials in offending districts, including Jakarta and Bogor, to “*tell them what was wrong*” (BW4). Though BWI did not have the authority to directly intervene with local governments, it did facilitate information flow between central and local labor administrators, and between the MOMT and factories, about the correct legal process.

Third, BWI coached factories through the process and received complaints from unions when managers attempted to use intimidation to renegotiate wages. An example from one Korean-owned factory in North Jakarta illustrates BWI’s actions. In 2014, Jakarta’s minimum wage increased to 2.4 million IDR (US \$199) per month. Managers in this factory received guidance from the Korean Garment Association to pay 2.18 million IDR (US \$181) a month. The managers went to their union and “*explained*” that “*we cannot survive because there are many expense[s]*” (F10). The management-controlled union was “*silent*” and readily agreed to the proposed wage level (F8). This is exactly how informal institutions can exacerbate worker-manager power imbalances: without a strong union, the absence of outside oversight makes negotiation completely lopsided. The negotiation could have ended here, but BWI deemed the informal agreement unacceptable and told the factory to get the full approval from the governor (BW13). Provincial officials audited the factory’s profits and production, and interviewed workers to see if they had been pressured to accept the lower minimum wage. After reviewing the evidence, the provincial labor office required a higher wage than the factory had proposed. The factory then offered to pay 2.3 million IDR (US \$191, 5.5% more than the initial proposal), which workers and the governor approved.

In sum, union mobilization in some districts created the opportunity for reinforcement. The process began with union mobilization driving up wages. Factories then exploited weakness

in local institutions and sought to avoid negotiating with workers in state structures that disadvantaged their interests. BWI had the opportunity to push factories into these activated institutions, but it faced conflicting views of what the process should be. When BWI found factories circumventing constraining institutions with local government support, BWI repeatedly asked the MOMT for its view of local authorities authorizing informal agreements. Unlike for fixed-term contracts, MOMT exercised power by offering an interpretation that went against the status quo and mandated that factories must engage with the constraining formal renegotiation process, clearing the way for BWI to take actions that made the institution more relevant. If the MOMT had not supported an interpretation that contradicted the actions of defecting factories, it is unlikely that BWI would have been able to take the actions that it did. The state institutions that BWI pushed factories into had been politicized by union contestation, creating real constraints on factory behavior and driving wages above what they would have been. This outcome contrasted with fixed-term contracts, where BWI required factories to receive approvals from local offices, despite corruption in the approval process, but failed to press factories to engage when these processes actually became constraining in Subang. The key difference was the absence an authoritative interpretation from MOMT against the status quo of non-enforcement; by contrast, in the case of wage renegotiations, mobilization was coupled with an interpretation from MOMT that bucked the status quo, triggering reinforcement.

Quantitative analysis

A key observable implication of our argument is that one set of factories should be more likely than others to participate in supervised wage renegotiation: BWI factories in districts where unions activated institutions by mobilizing and winning large minimum wage increases. To reiterate, the factories that did not formally renegotiate wages likely did not simply agree to

pay higher wages; instead, many defected and choose processes that favored their interests—direct negotiation with workers, corrupt local approval or fiat—resulting in lower pay. To assess the association between participation in BWI and supervised wage renegotiation, we assembled a dataset of 372 factories inside and outside of BWI using the 2014 edition of Indonesia's Industrial Manufacturing Directory of large and medium manufacturing firms,¹¹ adding a variable indicating whether or not surveyed apparel or knitwear factories had provincial government approval for supervised wage renegotiation in 2013 and 2014.

Because BWI tends to enroll larger factories, the Directory sample contains a larger proportion of small establishments than the BWI sample (illustrated in Figure A1, online appendix). To create the best possible counterfactual for BWI factories, we trimmed the sample of non-BWI factories to include only factories with at least 500 employees (though results are similar using the full sample, shown in Table A2). Summary statistics comparing BWI factories included in the Directory and non-BWI factories are presented below.¹² The trimmed sample, including only large factories, counts 171 unique factories, each observed over two years.

Even after removing small non-BWI factories, these data could clearly be subject to selection bias: participation in BWI is voluntary, and all participating factories are exporters that sell to major Western brands. The Directory sample does not allow us to observe whether or not factories export, although we can partially address this issue by controlling for size.¹³ More generally, though, it is not clear exactly what type of bias should result from unobserved differences between BWI and non-BWI factories. On the one hand, if BWI factories are

¹¹ Available on BPS website. We restrict the sample to districts with more than one BWI factory and available renegotiation data.

¹² Table A1 (online appendix) shows similar geographic distribution of BWI and non-BWI factories.

¹³ The 2012 Industrial Manufacturing Survey shows that within BWI districts 78% of garment factories with over 500 employees are exporters.

inherently more likely to comply with the law, they might be predisposed to engage with formal institutions, even absent BWI. On the other hand, though, Better Work factories tend to export to buyers exposed to reputational pressures, some of which required their Indonesian suppliers to forgo renegotiations and just pay minimum wage (F73). In addition, BWI factories are likely to have higher margins because they export and sell to brand name buyers, making them more able to absorb wage increases without needing to renegotiate.

[TABLE 2]

The summary statistics (Table 2) show that supervised renegotiation is more prevalent among BWI factories (42%) than non-BWI factories (29%). Within districts where unions mobilized and won year-on-year wage increases of 30% or more, the difference is even starker: half of BWI factories went through supervised renegotiation, as compared with 28% of non-BWI factories. This result from the Directory sample is congruent with more comprehensive data on supervised wage renegotiation, obtained from provincial officials in West Java: in 2013 in Bogor, eight out of nine BWI factories applied for and received approval for wage renegotiation, and in 2014 three-quarters of BWI factories formally renegotiated wages again. This rate was significantly higher than for Bogor garment factories as a whole (43% in 2013 and 18% in 2014).

To systematically analyze the relationship between BWI membership and participation in supervised wage renegotiation, we undertake a series of regressions, exploiting cross-sectional variation between BWI and non-BWI factories within the same districts.¹⁴ We subset the data into districts that had strong and successful union mobilization resulting in a 30% or greater year-on-year nominal minimum wage increase, and those that did not. Supervised wage

¹⁴ There is little entry into or exit from BWI during this period.

renegotiation is modeled as a function of BWI participation, factory size, year, industry code and district, and standard errors are clustered by factory to account for serial correlation, as each factory appears in the dataset twice (for 2013 and 2014).

[TABLE 3]

The results of OLS (Model 1) and logistic regression models (Model 3) indicate that in districts that experienced wage shocks, BWI participation is associated with a significant, positive increase in the likelihood of supervised renegotiation. Substantively, Model 1 suggests that participation in BWI is associated with a 15% increase in the likelihood of supervised wage renegotiation. Our argument anticipates that BWI should be associated with supervised renegotiation *only* where unions publicly contested wages and won significant wage increases. Results of Models 2 and 4 are consistent with this claim: in the absence of union mobilization, there is no relationship between BWI participation and renegotiations. In sum, the coefficient on BWI is positive and both statistically and substantively significant for districts with wage shocks, and it is small and statistically insignificant in districts that do not experience wage shocks.

Although our statistical analysis cannot alone support causal claims, in combination with the case studies it does provide further evidence of a positive relationship between BWI and factory use of supervised renegotiations. The qualitative evidence illustrates how BWI encourages factories to go through supervised wage renegotiations by disseminating information and incentivizing compliance. The quantitative analysis suggests that these mechanisms may be at work in the larger population of factories, and that this positive association is generalizable within the districts where BWI operates.

Conclusion

Over the past two decades, transnational initiatives have been the central response to the challenge of improving labor standards in globalized industries. But these efforts do not transcend the domestic contexts in which they operate (Bartley 2011). Rather, they layer alongside existing state institutions. If transnational initiatives are going to be more than stopgap measures, they will need to be structured to reinforce state regulatory institutions. Through a study of Better Work Indonesia, we have analyzed the politics of reinforcement. First, we find that for some rules, and in some places, BWI reinforces the state. The finding of positive interaction is largely congruent with studies of other countries that have uncovered complementarities (Amengual 2010; Coslovsky and Locke 2013; Locke, Rissing, and Pal 2012; Distelhorst, Locke, Pal, and Samel 2015), but we go further by showing how a transnational initiative can push factories into state institutions that effectively constrain behavior, thereby making them more relevant.

Second, we show that reinforcement is more likely to occur when mobilization activates state institutions, politicizing the institution, pressuring officials and thereby creating real constraints on employer behavior. The instances of worker mobilization we highlight depart substantially from the type of transnational advocacy networks discussed in earlier literature on global labor standards: unions in Indonesia are directly targeting the state, not the buyers, and BWI is stepping in not to substitute for state failures, but to make domestic processes, activated by union pressure, more relevant. This study brings both worker agency and the state back into the center of analysis.

Third, we find that by itself, pressure by workers is insufficient because there is ample room for actors to advance their interests through different interpretation of the rules.

Transnational regulators must respond to the interests of their key stakeholders in this process.

In the case of BWI, ILO involvement brought the central state and unions into the process, but including the state did not guarantee reinforcement because of the different interests inside the state. Reinforcement only occurred when the MOMT took an authoritative position that clarified the rules of the game in a way that required substantive engagement with local institutions that restrain factories' ability to violate workers' rights.

Taking stock of BWI and its relationship with various state institutions and domestic actors also raises a set of questions that we believe should shape the research agenda going forward. For one, this case reveals the need to disaggregate the state when studying regulatory interactions. When BWI failed to take strong actions on fixed-term contracts in Subang, it was not because of the typical modes of regulatory failure—lack of information about violations, lack of capacity, and so on. Instead, one part of the Indonesian state itself conflicted with another. The Indonesian context, with its strong decentralization and fragmented unions, clearly enabled these conflicts, but even nominally centralized states often do not have internally consistent sets of rules. Yet, there have been few analyses of whether and how transnational actors choose which state institutions to reinforce when there are internal conflicts.

In addition, our analysis reaffirms the need to study processes in addition to labor standards as a key outcome of interest. There is, of course, an imperfect relationship between reinforcing institutions and directly improve working conditions. Supervised wage renegotiations are particularly problematic because the fact they exist is, in some ways, in tension with the very process of setting minimum wages. In essence, BWI was encouraging factories to gain legal exemptions from decisions made in the district wage councils, another arena of contestation. While renegotiations were less costly than paying the full minimum wage, they were more costly

than the informal agreements that were the most realistic counterfactual.¹⁵ Even if BWI encouraging factories to go through formal renegotiations reduced salaries (which is unlikely), participation in state institutions is still important. With more factories engaging in supervised wage renegotiation, and with more attention paid to this regulation, actors are more likely to expect these particular rules and processes to matter, and to invest in either changing or maintaining them. It is beyond the scope of this paper to say whether this will result in a long-term behavioral change, or what the lasting institutional impact of BWI might be, but it is clear that without substantive engagement, state institutions will remain weak. Therefore, we must analyze *both* the outcomes of labor standards *and* the processes that lead to them, because they shape the expectations that ultimately guide future matters of contestation between workers and management.

Beyond issues of labor standards in global supply chains, this analysis shows how theories of institutional change in advanced economies can be fruitfully adapted to the study of institutional strengthening in developing economies. Thelen and her coauthors argue that institutional change is a gradual process that unfolds as actors incrementally shift their behavior in response to new rules, interests, and circumstances. Layering can “set in motion path-altering dynamics,” evidenced through small changes that accumulate over time to result in a fundamental shift (Streeck and Thelen 2005). But while in advanced economies the focus is on layering as a process of gradual replacing one regime with another, we propose that layering a transnational regulatory system on top of a weak domestic one can actually strengthen the original set of rules by changing actors’ incentives and capabilities to comply, and by channeling contestation into the bounds of prescribed processes. In order for layering to be a catalyst for

¹⁵ One possible objection is that BWI is simply “pro-employer.” But BWI’s actions on other issues, including building safety permits, show that it has adopted interpretations resisted by factories.

institutional strengthening, an endogenous process of institutional activation through mobilization is necessary. This finding has implications for policy areas beyond labor regulation: the layering of transnational and state regulatory institutions in areas including environmental regulation and social service provision has long raised concerns about negative impact on state capacity (Eberlein et al. 2014). What we suggest is that positive regulatory interactions are possible if transnational regulators require engagement with state processes; but that for such reinforcement to occur, these processes must impose a real constraint on actors' behavior, an outcome which depends largely on domestic politics.

Can lessons be drawn from the case of BWI to other transnational labor standards initiatives? Better Work is different from purely private initiatives because of its link to the ILO, which ties it closely to national governments. However, our analysis shows that the formal relationship between BWI and the MOMT is *not* the main site of reinforcement—instead, the role of the state is as a governing stakeholder that selects the particular interpretations of the rules of the game that BWI implements in its factories. In this way, BWI is typical, as all transnational regulators have governing stakeholders and are caught among multiple interests—local and national governments, brands, factories, labor organizations—that seek to influence how abstract rules are applied in practice. For example, studies of the FLA find that its corporate control limits broad application of freedom of association provisions (Anner 2012). New initiatives like the Accord on Fire and Building Safety in Bangladesh or the Alliance of Bangladesh Worker Safety vary greatly in the channels they create for actors to advance their own interpretations of the rules. Some have stronger roles for unions, while others emphasize employers' associations and central government officials. Each of these actors assigns different weight to factory engagement with local institutions. When analyzing and designing these

initiatives, we must pay attention not only to how governance structures influence standards, but also to their potential for reinforcement, since these structures determine how inevitable conflicts over the rules of the game are resolved and whether they encourage engagement with the state.

In addition, our findings show that institutional design alone is not decisive, as worker mobilization played a central role in activating institutions in Indonesia. This suggests that transnational initiatives operating in countries with repressive labor relations will likely have few opportunities for reinforcement, no matter the governance structures. As we better understand when and how reinforcement might occur, we can structure transnational initiatives to increase the likelihood that they will strengthen state regulation. Our hope is that this study is a step in that direction.

FIGURES AND TABLES

Table 1: Interviews¹⁶

Category	Number of people interviewed	Number of organizations	Average interview length (minutes)
BWI	18	1	51
MOMT	10	1	58
Local governments	30	5	81
Unions	36	6	87
Factory managers	74	24	53
Buyers	7	6	60
Employers' associations	11	2	72
NGOs	3	3	71
<i>Total</i>	<i>189</i>	<i>48</i>	<i>72</i>

¹⁶ Interviews were conducted in English and Indonesian (through translators). Some individuals were interviewed multiple times or in groups.

Figure 1: Minimum wage (UMK) and living wage (KHL) by district

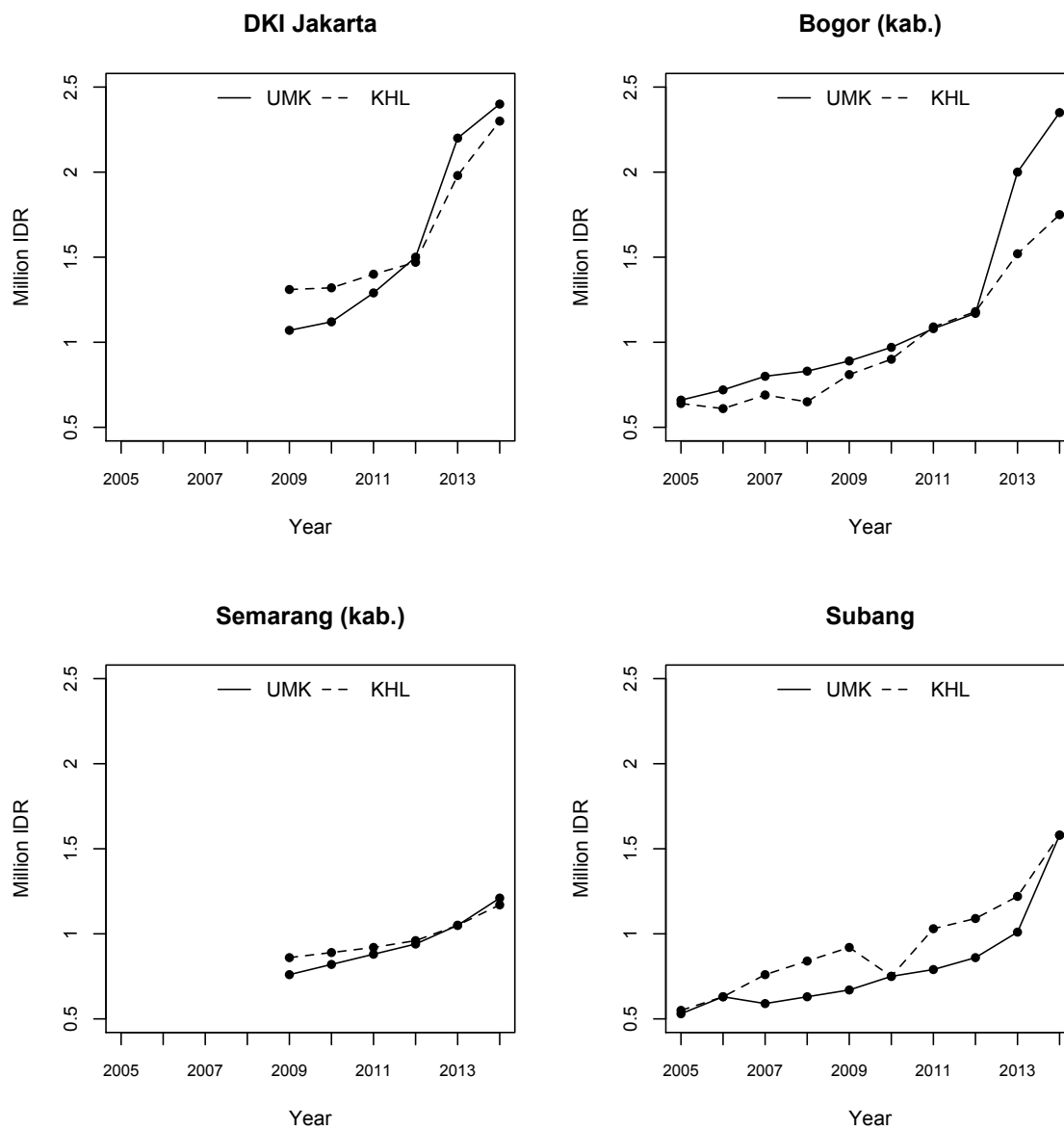


Table 2: Summary statistics on Direktori Industri Manufaktur (2014)

	BWI	Non-BWI (>500 workers)	All non-BWI
Employment size (median)	1492	920	283
# factories (unique)	34*	137	338
% with supervised wage renegotiation	42%	29%	14%
<i>Main product</i>			
% apparel	84%	91%	86%
% knitwear	16%	9%	14%

* Note: Six factories were only in BWI one year. The remaining 28 were in BWI for both years.

**Table 3: Regression results from subsetting analysis of factories with > 500 workers.
Dependent variable is supervised wage renegotiation.**

<i>District subset Model</i>	(1)	(2)	(3)	(4)
	<i>Wage shock OLS</i>	<i>No Wage Shock OLS</i>	<i>Wage shock Logit</i>	<i>No Wage Shock Logit</i>
BWI	0.153** (.07)	-0.0692 (0.103)	1.643** (0.773)	-0.407 (0.618)
Employees (100)	0.00446 (0.00362)	0.00811* -0.0692	0.0429 (0.0311)	0.0471* (0.0262)
Intercept	-0.194** (0.0911)	-0.0692 (0.103)	-19.87*** (1.706)	-17.50*** (1.583)
<i>Industry dummies</i>	Yes	Yes	Yes	Yes
<i>District dummies</i>	Yes	Yes	Yes	Yes
<i>Year dummies</i>	Yes	Yes	Yes	Yes
<i>N =</i>	189	146	159	118
<i>R-squared</i>	0.381	0.202		

Cluster robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Industry dummies for apparel (14111) and knitwear (14301).

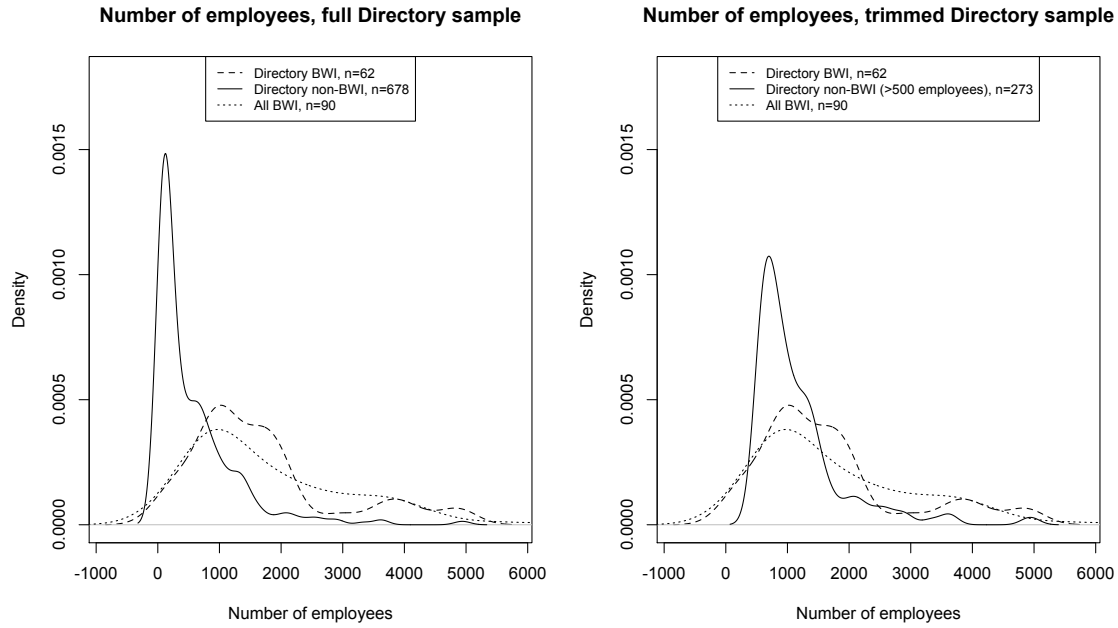
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Online Appendix:

Figure A1: Size distribution of Directory and BWI factories¹⁷



¹⁷ Includes each factory in 2013 and 2014; because the Directory is only available for 2014, establishment size data is the same for each factory for both years.

Table A1: Number of factories by district, BWI and non-BWI garment factories¹⁸

	BWI		Non-BWI (>500 workers)	
	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>
Bandung (kab.)	3	3	19	19
Bandung (kota)	1	2	9	8
Bekasi (kota)	0	0	5	5
Bogor (kab.)	4	5	21	20
Bogor (kota)	0	1	6	5
Jakarta Utara	4	5	24	26
Karawang	3	4	1	1
Subang	1	1	1	1
Sukabumi (kab.)	6	6	11	13
Tangerang (kab.)	4	3	8	9
Tangerang (kota)	3	3	18	18

¹⁸ Semarang is not included because wage renegotiation data is not available.

**Table A2: Regression results from subsetting analysis of all factories.
Dependent variable is supervised wage renegotiation.¹⁹**

<i>District subset Model</i>	(1) <i>Wage shock OLS</i>	(2) <i>No Wage Shock OLS</i>	(3) <i>Wage shock Logit</i>	(4) <i>No Wage Shock Logit</i>
BWI	.174*** (.0832)	-.0150 (.0988)	1.3015** (0.5375)	-0.310 (0.672)
Employees (100)	.0109*** (.00266)	.0130*** (.0035)	0.0815** (0.02386)	0.0978** (0.0320)
Intercept	-.0304** (.0419)	-.278** (.121)	-5.1247 (1.208)	-18.488 (1.501)
<i>Industry dummies</i>	Yes	Yes	Yes	Yes
<i>District dummies</i>	Yes	Yes	Yes	Yes
<i>Year dummies</i>	Yes	Yes	Yes	Yes
<i>N=</i>	421	329	418	236
<i>R-squared=</i>	.283	.2228	0.3162	0.235

¹⁹ In addition to subsetting the data by whether or not a wage shock has occurred, minimum wage shocks could also be operationalized as a variable indicating the absolute or percentage wage increase in each district-year. But the data includes only 13 districts and two years, or a total of only 26 observations to which one of the key independent variables is assigned. Because of this limitation, we present only the subsetting specification