

Informal Economy Workers and Preference for Foreign Direct Investment: Evidence from India

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Abstract

Are citizens in the developing world convinced about the benefits of globalization? By leveraging their comparative advantage in low labor costs, economists predict poor citizens will be better off with open markets. Yet, surprisingly little rigorous research exists on if and how workers in developing countries actually experience the benefits of increasing trade and foreign direct investment (FDI), particularly in era of rapidly expanding global supply chains. To answer this question, we focus on the largest cluster of laborers in developing countries, informal workers, and develop hypotheses about the effects of FDI on their mobility prospects to the formal sector. Using observational and experimental data, we find that both formal and informal workers in India support foreign investment, particularly when it is an American firm. However, the latter are deeply skeptical that the benefits of FDI will ever trickle down to themselves or their future generations. India's much smaller population of formal workers, by contrast, are confident that they have privileged access to coveted jobs associated with US firms – regardless of their skill level- and inter-generational social mobility prospects will improve. Our findings provide new insights on (macro and micro-level) factors contributing to rising inequality, and call for caution amongst scholars, policymakers, the international business community, and all those who anticipate that globalization is unconditionally lifting all boats.

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1 Introduction

Are citizens in the developing world convinced about the benefits of globalization? Economists predict that the majority of workers in labor-abundant nations should experience ample economic gains with the opening of their markets. By leveraging comparative advantage in labor costs, poor citizens can reap the advantages of job growth, access to capital, and cheaper goods. Indeed, international organizations such as the World Bank and the United Nations applaud the remarkable decreases in absolute poverty and impressive growth rates that have occurred in developing nations that have embraced liberalization. These gains have added fuel to the globalization backlash in rich countries; the current mantra is that blue-collar workers in rich countries are losing to low-cost workers in poor countries who are winning. Yet, surprisingly, there is little rigorous research on the how citizens of developing countries actually experience the benefits of rapidly expanding trade and foreign direct investment (FDI), particularly amongst low-wage workers.

This issue is particularly critical in the broader literature on globalization. The puzzle, given all that we know about the distributional effects of trade (e.g, Baker 2003, Rudra 2008, Rudra and Bastiaens 2018, Hicks, Milner and Tingley 2014, Osgood et al 2017), is that the politics of FDI has escaped rigorous scrutiny in developing countries. Many economists consider FDI to be more economically important than trade; not only does it have more long-lasting effects but it serves as a significant catalyst for trade through the proliferation of global value chains (GVCs). The increasing presence of large, productive foreign firms and their affiliates, alongside the enormous export opportunities that have accompanied the spread of GVCs to low-wage economies since the 1990s (Baldwin 2018), have changed the politics of FDI in poor nations.

Most tellingly, following decades of protectionism, many in LDCs now

view foreign investment as massive employment generators and “saviors of development” (Rodrik 1999:37). Nationally representative surveys report that a large percentage of LDC citizens (51%) have favorable views of foreign investment (Pew Research 2014), as would be expected on basis of economic theory. Yet it has largely gone unnoticed that a substantial percentage (42%) of respondents in poor nations also view foreign companies as ‘bad’ for their country. It is stylized fact in political economy that economic policies have distributional consequences, and FDI is no exception. Scholars have failed to explain why FDI support varies amongst different groups in developing nations and, particularly, how large marginalized populations view the anticipated costs and benefits.

To answer this question, we focus on the most extensive societal cleavage driving labor market participation in developing countries: formal versus informal workers. Informal sector workers form a critical component of LDC labor markets. In poor countries, such as India, informal workers constitute up to 90 percent of the workforce. These workers are ‘outsiders’; they operate outside government regulation, and are subject to poor remuneration, abysmal working conditions, and no job security or social protections of any kind. Informal workers in developing economies are also ‘low status’ groups- they have long been stigmatized and discriminated against in local labor markets due to overlapping social factors such as caste, ethnicity, gender, religion and ‘slum dweller’ stigmas (Mosse 2018, Das 2013, UN Habitat 2003). Coveted formal sector jobs, in contrast, are the privilege of a much smaller population of (high status) labor market ‘insiders’, and provide core labor protections such as safe working conditions, collective bargaining rights, and regulations against arbitrary dismissal. Their high social status- defined by factors such as gender and ethnicity -has also long provided privileged access to formal sector jobs. We an-

alyze if and why FDI support varies alongside this key informal-formal labor cleavage in developing economies. The advantage of focusing on FDI is that it is a relatively new phenomenon in LDCs that is highly visible to ordinary citizens- including the uneducated poor- through a proliferation of productive multinational companies (MNCs), large firms, and coveted Western brands.

Based on Hirschman and Rothschild's (1973) seminal work, we anticipate that exposure to foreign companies in LDCs, after decades of economic stagnation, increases workers' prospects of upward mobility. The key analytical concern is whether informal or formal workers (or both) are experiencing economic optimism in response to FDI. Generally, these are two very distinct groups with very discrete (and durable) labor market options and political preferences (Portes and Hoffman 2003, Banerjee and Duflo 2011, Schneider and Soskice 2009).¹ High regulatory and social barriers, as well as a dearth of opportunities have shut out informal workers from formality for decades. In this context, our base premise is that the experience of FDI is likely to vary according to which group the subject belongs.

Drawing insights from existing research across different fields in the social sciences, we develop two diametrically opposed expectations about FDI support and its impacts on prospects of worker mobility: the 'formal worker mobility' and the 'informal worker mobility' hypothesis. The outcome is determined by the extent to which each group anticipates FDI-induced productivity and merit shocks significantly benefit them by providing new mobility opportunities. According to research in economics, FDI creates a 'productivity shock', or the rise of 'good jobs' in LDCs, either through employment generated within foreign firms, or spill-over effects and linkages to local firms. At the same time, scholarly work in industrial relations establishes a link between

¹See Baker and Velasco-Guachall 2018 for an exception. They find that informal and formal workers in Latin America may share political preferences in select areas such as social welfare policies

the presence of foreign firms and 'merit shocks' . Country of origin matters, and citizens in LDCs tend to specifically associate US firms with a greater role for merit and ability- over and above ethnicity, political connections, and other social factors- in hiring and promotion decisions.

The formal worker mobility hypothesis predicts this high status group demonstrates the greatest support for FDI because they expect foreign firms to improve their families' mobility. As 'insiders', they are more likely to have privileged access to any increases in formal sector jobs that result from FDI (productivity shock). This is because firms generally prefer labor market insiders who are less costly to search, hire and train (Lindbeck and Snower 2001). Formal sector workers may also rationally anticipate that FDI-meritocracy shock will work in their favor. It is common for high status individuals - who historically tend to face less labor market discrimination- to believe that their hard work and effort have helped them achieve labor market success (i.e., formal sector jobs) (Jaime-Castillo and Marques-Perales 2014, Knowles and Lowery 2012, Kleugel and Smith 1986). Altogether, FDI creates the perception that new and better jobs are available for formal workers and increases their economic optimism.

In direct contrast, the 'informal worker mobility' hypothesis predicts that FDI has a larger impact upon long disadvantaged workers who can now anticipate unique mobility opportunities. As FDI increases the supply of firms offering formal jobs (productivity shock), new firms may be more likely to hire outsiders at a market-clearing wage. To have access to any increases in coveted formal sector jobs, however, informal workers must perceive that the FDI-merit shock is providing a pathway for them to overcome decades of labor market discrimination. As informal workers associate the presence of foreign firms- US firms in particular- with productivity and merit shocks that benefit

them in ways that local firms have not, FDI will be associated with new labor market opportunities for them, or more realistically, their offspring, and a pathway to higher economic success.

We arbitrate between these two hypotheses using a unique survey experiment of 1,800 informal and formal workers across two regions in India with different levels of exposure to FDI. As in many developing countries, FDI in India has been increasing, and foreign firms such as United States, United Kingdom and Japan have been amongst the top investors. We are the first to survey both formal and informal workers to get a sense of the distributional effects of investment from developed countries, and to assess whether informal workers have attitudes distinct from their formal sector counterparts. Both the survey and survey experiment results enable us to discern support for FDI and the mechanisms that are driving their views. Our analysis is also unique in that we disentangle LDC workers perspectives on FDI in comparison to domestic investment. In a developing country setting where capital is scarce, it is especially critical to assess whether sentiments towards foreign investment is distinct from higher demand for capital in general.

Our findings lend strong support to the formal sector mobility hypothesis. Members of this high status insider group demonstrate the greatest support for the presence of foreign firms because of the anticipated intergenerational mobility opportunities. Our findings confirm that formal sector workers perceive that their families will do even better as foreign firms increase jobs , and improve the distribution of opportunities in society. This group anticipates that they are well positioned to reap the productivity and merit benefits of FDI, even after controlling for skill and income. American-based firms are particularly valued for the increase in ‘good jobs’ and emphasis on merit and hard work.

Our findings thus reveal that informal workers are less likely to view that FDI induced productivity and merit shocks will offset the historical persistence of labor market barriers to formality. The gap in terms of their skills, status, and social network access for informal workers may be a bridge too far to cross with increasing prevalence of FDI in the economy. Informal workers are deeply pessimistic that FDI and the diffusion of merit-based hiring will help them overcome discrimination and lack of social connections, even into the future generation. Marginalized workers ultimately do not share the optimism of formal worker respondents and anticipate economic benefits from FDI.

These findings are a call for caution amongst scholars, policymakers, the business community and all those who anticipate that globalization is lifting all boats, and assume support for globalization rests on strong political foundations in LDCs. As scholars and policymakers puzzle over the sources of widening inequality in liberalizing nations, our analysis emphasizes assigning greater attention to informal-formal sector cleavages. More specifically, scholars in international political economy (IPE) would do well to consider a different type of worker (i.e., informal) and the role of self-interest, or more specifically, social mobility factors affecting the politics of FDI in developing economies. Development scholars should also reconsider overemphasizing the positive benefits of globalization for the poor, and focusing on investing in education alone to achieve better outcomes. Our findings suggest skill development may be a necessary but not sufficient to reduce the often yawning gap in wages, living conditions, and work standards between informal and formal workers.

2 Existing research

A large body of research in development economics maintains that globalization is helping the world's most disadvantaged populations. According to international economic theories, globalization should produce benefits for the poor in countries that have a comparative advantage in labor—a description that includes most LDCs. This model is often applied to FDI because firms often invest abroad to acquire resources unavailable in the home country, such as low-cost labor (Yeaple 2003, TeVelde & Morrissey 2004, Bellak et al. 2008). The poor's lives directly improve because of increased labor demand (Waldkirch and Nunnenkamp 2009, improved labor rights (Mosley 2015), and indirectly, through forward and backward linkages with subcontracting firm (arm's length or affiliated) (Hollwig 2017), and improved economic growth (Yao 2006, Balasubramayam et al 1999, for summary see Magombeyi and Odhiambo, 2017) . Incomes of less educated workers are expected to increase even if the gains are unevenly distributed towards skilled labor (Figini and Gorg 2006, Jensen and Rosas 2007, Lopez and Noria 2015).

However, getting a real sense of improvements in the livelihood of the poor is complicated. Development scholars such as Amartya Sen (2000) have long argued that standard economic measures, such as wages and income, can improve without having any meaningful impact on the quality of life of the poor. A better approach to analyzing the distributional effects of globalization, according to this view, would be to incorporate the perspective and experience of those directly affected, particularly the poor (e.g. Narayan et al 2000).

Research in IPE approximates this approach by turning to survey evidence to assess views on globalization. This research, however, tends to focus on developed economies and overlooks how the most internationally disadvantaged populations view the pros and cons of globalization. In general, it appears that

citizens of rich nations are leery of FDI and its benefits for two distinct reasons. First, several scholars find that sociotropic concerns drive FDI support. This occurs when individuals view FDI as having bad effects on the country or local community. The reasons for this vary. It may be because individuals perceive foreign firms pose unfair competition (Jensen and Lindstadt 2013, Chilton et al, Tingley et al, Li et al 2019), or threaten national security (Li et al 2019, Tingley et al 2015, Li and Zeng 2017) or they perceive FDI has a perceived negative impact on the domestic economy more broadly (Jensen and Lindstadt 2015, Li et al 2019). While the overwhelming majority of these studies have been conducted primarily in the United States, a select few have focused on China.

The alternative explanation for low FDI support is that workers believe they will lose economically from FDI (self-interest). Here again, existing studies suggest that workers in rich economies may be more likely to view that they will experience economic losses from FDI, and expect that their counterparts in low-wage economies will gain. Scheve and Slaughter (2004), for example, show FDI leads to labor market insecurities, and Owen (2013) demonstrates that unions resist foreign investment in their sector.

Research focused on developing economies is sparse, and the findings are mixed. Both Li and Zeng's (2017) and Kaya and Walker (2012) observe that low-skilled labor views FDI less favorably. Li and Zeng (2017) surmise- but do not test- the possibility that low-skilled workers view labor-intensive FDI as a competitive threat and may be concerned that they will lose their jobs if their factories are forced to close. Pandya (2010), on the other hand, surveys 18 Latin American countries and determines that workers at all skill levels generally support FDI, though higher skilled workers have stronger preferences for FDI in anticipation of higher jobs and wages. Owen (2018) similarly suggests that

voters overall are receptive to FDI because labor market winners are greater than the losers.

Overall, this body of work on FDI as a whole is in a nascent stage, particularly in comparison to the trade preferences literature. First, most of the developing country studies are observational, and unable to draw causal inferences about self-interest, or sociotropic preferences in relation to FDI preferences. Second, scholars focus on skill levels as the key demographic trait that differentiates workers and impacts their globalization preferences, and the findings are decidedly mixed. Research neglects whether alternative, or more significant, social cleavages in developing countries affects preferences towards foreign economic policies; many workers in developing countries remain outside the formal market, independent of skill level. Large populations of workers in developing economies have faced tremendous challenges accessing formal sector jobs. A key question may well be whether informal workers deem their situation worsens or improves in the presence of foreign firms.

3 Combining Development Economics and IPE: The Perceived Benefits of Globalization

Social science has produced limited understanding of the effects of FDI on the livelihoods and economic prospects of workers operating in deeply segmented labor markets. We take such self-interest concerns as our starting point- in contrast to the focus on sociotropic motives driving globalization preferences in rich countries (Mansfield and Mutz 2009)- since so many LDC citizens are struggling to escape abject poverty and meet basic survival needs. Inter-generational social mobility is a critical component of self-interest; a large body of research finds that individuals beliefs about whether they, or their children, will make

it to higher rungs of the social ladder can impact economic policy support (Piketty 1995, Benabou and Ok 2001, Alesina and Guiliano 2011, Alesina et al 2017, Gaviria and Braido 2007).

Much FDI research points to the positive benefits of foreign investment for the mass public in developing countries and anticipates their favorability towards FDI. Grounded in Hirschman's early work in development economics, the presence of foreign companies in developing countries is likely a critical catalyst for improving the social mobility prospects of LDC citizens. Following decades of 'development disasters', individuals draw optimism about their own economic futures when they perceive the economic situations of others (similar to them) begin to improve (Hirschman 1973). However, a significant and visible change to the economic status quo, or 'equilibrium shock', must first occur for citizens to be aware that social mobility prospects now have the potential to change (Esping Andersen 2014).

Linardi and Rudra (forthcoming) find that the presence of foreign companies in developing economies represents this type of shock. Multinationals (MNCs) are highly visible to the broader public in poor nations; they represent large, prominent superstar firms (with high levels of output, technological innovation, product quality, wages, and employment) that stand in stark contrast to the large numbers of less-efficient domestic firms that dominate the economic landscape of LDCs. Added to this, information about FDI is widespread. Citizens of LDCs have been subject to extensive elite cuing and media reports that FDI is critical for growth and a key solution to poverty(Linardi and Rudra forthcoming). This is in great contrast to the protectionist era when foreign firms were viewed as bad for development.

What precisely drives this optimism associated with FDI? Insights from literature in economics and business management on the distributional impacts

of (either greenfield or cross-border mergers and acquisitions) FDI provide two clear avenues driving the mass public's anticipation of greater social mobility: productivity and merit shocks. In economics, research indicates that FDI-induced productivity shock increases job opportunities either within foreign firms or in local industries. Since only the most productive firms engage in FDI (Helpman, Melitz, and Yeaple 2004), wages (Hijzen et al 2013, Das 2002), technological progress (Fosfuri et al 2001) and aggregate productivity (Rodrigue 2014, Alfaro and Chen 2018,) subsequently improve in host countries. Most scholars find that employment opportunities in both skilled and low-skilled sectors increase in LDCs as a result, either directly (in the foreign firm) or indirectly (in domestic firms) through subcontracting, backward and forward linkages, and knowledge and technology spillovers (Mickiewicz et al 2000, Vocalores 2011, Waldkirch and Nunnenkamp 2009, Shepherd 2013, WIR 2013).

Research in business management and industrial relations research emphasize a different FDI-upward mobility channel, which we label as 'merit shocks'. Global surveys demonstrate that solid majorities in developing countries in large parts of Asia and Africa have positive views of the American way of doing business². This is likely because s citizens in developing countries are attracted to US companies- more than other types of foreign firms- not only because they are considered to pay higher wages and be more productive, but also because they are associated with an emphasis on individual achievement, and merit-based promotions and wage mobility (Pudelko 2006, Froese et al 2010). American entertainment television programs in LDCs are cited as the key source for these images of meritocracy (e.g., Boyd 1984). Through the socialization effects of television and Western media, international audiences

²Chapter 4: Global Publics View the United States,<https://www.pewresearch.org/global/2002/12/04/chapter-4-global-publics-view-the-united-states/>

embrace stereotypes of American values of individualism, wherein hard work- rather than factors such as nepotism- is rewarded (Kamalipour 1999, Tan et al 2003, Boyd 1984). Added to this, citizens in developing economies tend to view anything foreign- particularly Western- products and brands – as superior to local ones and associate them with higher status (see Batra et al 2000).

Domestic firms may likewise be affected by these MNC -induced merit shocks to the labor market. MNCs have material incentives to bring ‘best practices’, such as labor rights (Mosley 2010), to their foreign affiliates. Scholars find that diffusion of best practice to local firms also occurs. As MNC practices are seen as competitive, local firms tend to benchmark and adopt similar practices (Kuruville et al 2002). The merit shock then provides labor market opportunities for workers according to their abilities, rather than hiring on the basis of racial, ethnic, or gender stereotypes of being lazy and unreliable.

Nonetheless, it is very unlikely that all citizens anticipate FDI’s positive impacts on their mobility prospects. Only ‘winners’ of FDI will support and anticipate private benefits from the presence of foreign companies. We contend that such expectations will vary depending on worker’s (or their household’s) position in deeply segmented labor markets, and independent of skill levels.³ The critical question is whether formal and informal workers anticipate greater mobility in response to FDI- related productivity and merit shocks. We develop two opposing hypotheses linking FDI with formal and informal workers’ mobility prospects. These hypotheses are grounded in a conception of formal (insiders) and informal (outsiders) workers that have overlapping high and low social status, respectively.

FDI and Prospects of Formal Worker Mobility

The presence of FDI may serve to considerably improve the mobility prospects

³Scholars focus on the extent to which FDI impacts high and low-skill workers. Our concern is that many low-skill workers in the informal sector are faced with different opportunities than low-skill workers in the formal sector

of formal sector workers, and reinforce- rather than mitigate - longstanding insider-outsider cleavages. As insiders, it is reasonable to anticipate FDI- induced productivity shocks will disproportionately improve their economic prospects. Insiders have preserved access to 'good jobs' by maintaining their rent-seeking relationship with the government long past the exhaustion of ISI, receiving generous employment protections, extraordinary social privileges, access to lucrative networks and market power as a result ((see Albrecht, Navarro and Vroman 2009, Lindbeck and Snower 2001, Rueda et al. 2015). Their privileged access to formal sector jobs has, in turn, created clear productivity differentials amongst these two groups (Lindbeck and Snower 2001).⁴ Formal workers tend to be far more productive, and less costly for foreign firms to both recruit and train compared to informal counterparts as a result (Lindbeck and Snower 2002).

As FDI generates new employment opportunities, insiders then have easier access to these jobs, relative to outsiders (informal workers). Formal workers are generally more productive (Gailani and Weinschelbaum 2011, Boeri et al 2005), and foreign firms seek to employ workers with high above average productivity levels (Helpman 2013). Added to this, firms necessarily expend far less resources on screening and training formal workers than their informal sector counterparts for several reasons. First, formal workers tend to have substantially greater soft skills (e..g, customer service, communication, confidence, relationship with people, positive body language) than informal workers, which are increasingly important for success in the formal labor market (Sengupta et al 2019, Deming 2017). Second, it is less costly for foreign firms to recruit formal workers because insiders have access to critical social

⁴According to insider-outsider theory, insiders are in stronger bargaining positions with firms because (1) hiring costs have already been expended, and costs of dismissal are high; (2) firms understand they are less likely to cooperate with low-wage entrants, which affects the latter's productivity; (3) the income effect improves their supply of effort as high-wage insiders work harder to improve productivity and avoid turnover (Lindbeck and Snower 1986)

networks that play a key role in the dissemination of information, contacts, and access to coveted employment opportunities (Mamgain 2017, Thorat and Newman 2010). The role of social networks to getting access to jobs in urban areas in India, for example, has actually strengthened post-liberalization (Upadhyaya 2007, Murti and Paul 2016). The insider-outsider cleavage is thus reinforced, despite FDI, since hiring generally occurs through quality social networks (even in low-end entry-level jobs) and referrals which, in turn, reduce employer uncertainty about worker productivity (Mamgain 2019). Taken together, formal workers face far fewer constraints than informal workers in accessing FDI-related employment because of their greater access to job information, communication skills and access to social networks. Formal workers may more readily view the presence of productive foreign firms will improve their future social mobility prospects as a result .

The FDI-related merit shock may also serve to reinforce the view that insiders will benefit. This optimism may persist, despite widespread acknowledgement that social connections, bribery and cronyism - rather than meritocracy - have been key to their insider status and labor market mobility, particularly during the protectionist era (Haber 2013 Budhwar and Varma 2011, Desai and Olofsgard 2011). This is because insiders are also high-status groups, who tend to view themselves as well qualified for 'good jobs'. Independent of social connections and bribery, high status groups confront less discrimination in local labor markets due to their social status associated with factors such as family background, place of residence, gender and caste. Receiving higher wages and privileges than low status workers leads to an "outcome bias", or the belief that they are deserving of their status. As is common in 'high status' groups, then, insiders view themselves as hard-working and self-reliant, and downplay the role that social connections play in their success (Marques-Perales

2014, Knowles and Lowery 2012, Jost 2012). Formal workers are thus more likely to believe they have worked harder and are more qualified than low status informal groups and thereby, deserve better outcomes. This view is mutually reinforcing; Weaver (2016) finds that even when paying bribes provide access to coveted formal sector jobs, the actual hires may be of high quality because of their access to wealth and positions enable them to investment in high quality education. Member of this group may thus feel well positioned to take advantage of FDI-related jobs that rank individual ability (i.e., merit) over and above social factors historically valued by local citizens.

Given this overall sense of ability and self-reliance, formal sector groups are likely to associate the presence of foreign firms with a merit shock that enables them to further preserve the status hierarchy and promote higher mobility outcomes for their families. As Scheepers et al (2005:193) find, high status groups express confidence in their abilities, particularly when they see others in their (high status insider) group experiencing mobility. They draw gratification from the improved income situation of others in their group, which increases aspirations for their children and they are likely to overinvest in education and training (Flehtner 2013).

Taken together, the formal worker mobility hypothesis anticipates FDI will improve their social mobility prospects through both productivity and merit shocks. Since formal workers confront less stigma, they have higher qualifications, access to key networks, and thereby well poised to benefit from FDI. Support for foreign investment and the perceived economic benefits to themselves and their families improve as a result.

We thus propose the following 'formal sector mobility' hypothesis

Hypothesis 1a *Formal sector households support foreign investment more than informal sector households.*

Hypothesis 1b *Formal sector households support foreign over domestic investment more than informal sector households.*

Mechanisms:

Hypothesis 2a *Formal workers anticipate greater social mobility prospects in response to the presence of labor-intensive foreign firms.*

Hypothesis 2b *Formal workers associate foreign firms with greater productivity shocks than informal sector workers.*

Hypothesis 2c *Formal workers associate foreign firms with greater merit shocks than informal sector workers.*

FDI and Prospects of Informal Worker Mobility

In direct contrast, informal worker mobility hypothesis posits that informal workers view the presence of foreign investors as unique opportunity for changing their outsider status and promoting intergenerational mobility. This group of marginalized workers has been trapped for decades at the bottom of the social hierarchy- as outsiders and members of low status groups- in former ISI countries, such as India. They are 'outsiders' because LDC governments supported a system of generous labor market policies geared towards formal workers. Indian labor laws, for instance, are one of the most restrictive in the world and have largely remained unchanged since independence in the mid 1940s (Dougherty 2009). These laws are not applicable to the informal sector, reinforcing their disadvantaged economic position and outsider status.

Given their historical experience with local labor markets, informal workers may be more responsive to the FDI-productivity shock and anticipated opportunities for mass employment than formal workers. This will be true if informal workers associate FDI with the entrance of new firms in the domestic economy. Even though outsiders lack market power and are considered

less productive workers, new firms are more likely to enfranchise outsiders because they start off without insiders (Lindbeck and Snower 1990). Informal workers are also more likely to accept the higher risk and wage penalty that tends to be associated with new firms (Nystrom and Elvung 2014).

Because of the way in which foreign firms are portrayed by elites and media, informal workers may more likely associate the FDI-productivity shock with the emergence of new firms and job opportunities that will benefit people like them. Policymakers widely publicize efforts to incentivize FDI manufacturing sectors- particularly because of its anticipated absorption of large populations of low-skilled labor- and this serves as information that FDI-related productivity shocks may respond to informal workers' interests. Elected officials are quick to advertise to the public their success in securing FDI in such sectors to the public and emphasize its anticipated effects on large-scale employment (Linardi and Rudra forthcoming). Civil society groups likewise actively advocate for labor-intensive FDI because of its employment effects. From the informal worker's perspective, the presence of FDI in manufacturing sectors, and its potential for increasing the number of 'good' formal sector jobs may improve their social mobility prospects.

In order to have access to these jobs, however, informal workers must also view that the FDI-merit shock advantages them more than it does for formal workers. Put simply, the presence of FDI represents a means to combat labor market discrimination based on their low social status. A history of social exclusion and stereotypes associated with low status informality have contributed to the resiliency of their outsider status. Stigmatization of these groups has been based on factors such as low occupational prestige, family background, slum residency, low education, income and ethnicity (see for example Levin et al (2002:148 and Jost, Pelham et al. 2003, Lindbeck and Snower

2001). Intergenerational mobility has been particularly challenging for this group since low status and stigmatization has impacted their access to coveted formal sector jobs, networks, and connections (WDR 2013, Birdsall and Sabot 1991). Prior to globalization, their labor market experiences arguably reinforced the view that the existing status hierarchy is impermeable and, reinforced their acceptance of the labor market status quo (see Jost et al 2001). Research finds that labor market discrimination, either based on their own encounters or the experience of others in their group (i.e., self-discrimination) has limited their mobility efforts and affected their labor supply decisions (Das 2013, Goldsmith et al 2004). The ‘informality trap’ thus persists, and informal workers continue to work in suboptimal conditions, receiving lower returns to skills (and effort) than their formal sector counterparts (Narayan 2015).

As FDI poses a ‘merit’ shock to the local labor market, introducing more hiring based on individual abilities rather than stigmatization, informal workers are likely to see a chance to improve their economic situation. FDI’s country of origin is likely to be of importance in this context. They may be especially sensitive to US firms as having less bias towards socially dominant groups and emphasizing merit and individual achievement, rather than family background and social connections.

We thus propose the following ‘informal sector mobility’ hypothesis

Hypothesis 3a *Informal sector households support foreign investment more than formal sector households.*

Hypothesis 3b *Informal sector households support foreign over domestic investment more than formal sector households.*

Mechanisms:

Hypothesis 4a *Informal workers anticipate greater social mobility prospects in response to the presence of labor-intensive foreign firms.*

Hypothesis 4b *Informal workers associate foreign firms with greater productivity shocks than formal sector workers.*

Hypothesis 4c *Informal workers associate foreign firms with greater merit shocks than formal sector workers.*

We also test alternative hypotheses that predict positive attitudes towards FDI: (1) sociotropic, where (in)formal workers like foreign investment because of the gains that it brings to the country as a whole rather than their own pocketbook concerns; (2) nationalism, where (in)formal workers dislike foreign investment because of nationalistic sentiment; and (3) more informal jobs through second and third-tier firms connected to global supply chains.

4 Research Design

We focus the study on two cities in southern India, Bengaluru and Mandya. Bengaluru is an important metropolitan hub in (and capital of) the state of Karnataka and has witnessed expansive growth over the last few decades. For our purposes, Bengaluru has thriving foreign investment in both the manufacturing and service sectors. In contrast, Mandya is a small town within the same state but has far less foreign investment than Bengaluru. These cities were chosen because of the variation that they provide us in terms of foreign investment exposure. Choosing these two cities within the same state has the advantage of holding constant any state-level factors in our design, especially given India's federal political structure. The survey was administered face-to-face by trained enumerators and was recorded on a tablet programmed with all questions, including the experimental treatments. Respondents were mainly surveyed at their homes over the course of around eight weeks.

We define formal sector workers as those who satisfy three criteria: they

have an employment contract with their employer, get pension (provident fund in the Indian context), and they get paid leave from their workplace. Informal sector workers are defined as those who do not satisfy at least one of the three conditions. Based on these definitions, our sample consists of 1,807 respondents with a mix of informal and formal sector workers. Since household decisions in India are usually taken together by the family, we focus on informal and formal households: the former are households that only have informal sector workers while the latter include at least one formal sector worker. In the rest of this paper, we use '(in)formal sector worker' and '(in)formal household' interchangeably.

Informal sector workers constitute around 39% of our sample while the rest are formal sector workers. Among informal sector workers, 38% are female, 70% are in the working age of 25-50 years, 37% work in the manufacturing sector, and 56% belong to the lower caste. Among formal sector workers, 44% are female, 71% are in the working age of 25-50 years, 40% work in the manufacturing sector, and 50% belong to lower caste communities. Taken together, our sample has considerable variation across a number of demographic characteristics.

4.1 Key Variables

To measure support for foreign investment, we use a survey question that asks respondents on the extent to which they agree that foreign companies should invest in their city. We also ask respondents the same question with investment from domestic companies. Our two key dependent variables are defined as follows: (1) support for foreign investment, and (2) difference between the support for foreign and domestic investment. There is considerable support for foreign investment among both informal and formal households. On a scale of

| Informal Households | | | | | |
|--|-------|------|-------|-------|-------|
| | mean | sd | min | max | count |
| Support for FDI | 2.18 | 1.10 | 0.00 | 4.00 | 705 |
| Support for FDI - Domestic | -0.94 | 1.24 | -4.00 | 3.00 | 705 |
| BJP Support | 0.46 | 0.50 | 0.00 | 1.00 | 581 |
| Manuf Sector | 0.37 | 0.48 | 0.00 | 1.00 | 705 |
| Income (Log) | 9.23 | 0.70 | 0.00 | 10.46 | 705 |
| Female | 0.38 | 0.49 | 0.00 | 1.00 | 705 |
| Small Child | 0.34 | 0.47 | 0.00 | 1.00 | 704 |
| Working Age | 0.70 | 0.46 | 0.00 | 1.00 | 705 |
| Class 10 | 0.65 | 0.48 | 0.00 | 1.00 | 705 |
| Lower Caste | 0.56 | 0.50 | 0.00 | 1.00 | 687 |
| Better paying job in an American Company | 2.33 | 1.05 | 0.00 | 4.00 | 705 |
| Better paying job in a Japanese Company | 2.23 | 1.04 | 0.00 | 4.00 | 705 |
| Better paying job in an Indian Company | 2.48 | 1.02 | 0.00 | 4.00 | 705 |
| Good jobs in an American Company | 2.25 | 1.01 | 0.00 | 4.00 | 705 |
| Good jobs in a Japanese Company | 2.29 | 1.03 | 0.00 | 4.00 | 705 |
| Good jobs in an Indian Company | 2.40 | 1.02 | 0.00 | 4.00 | 705 |
| Value skills in an American Company | 2.45 | 0.99 | 0.00 | 4.00 | 705 |
| Value skills in a Japanese Company | 2.44 | 1.03 | 0.00 | 4.00 | 705 |
| Value skills in an Indian Company | 2.67 | 0.94 | 0.00 | 4.00 | 705 |
| Bribe to work in an American Company | 1.93 | 1.07 | 0.00 | 4.00 | 705 |
| Bribe to work in a Japanese Company | 1.97 | 1.07 | 0.00 | 4.00 | 705 |
| Bribe to work in an Indian Company | 2.10 | 1.07 | 0.00 | 4.00 | 705 |

| Formal Households | | | | | |
|--|-------|------|-------|-------|-------|
| | mean | sd | min | max | count |
| Support for FDI | 2.28 | 1.09 | 0.00 | 4.00 | 1102 |
| Support for FDI - Domestic | -0.84 | 1.22 | -4.00 | 2.00 | 1102 |
| BJP Support | 0.50 | 0.50 | 0.00 | 1.00 | 842 |
| Manuf Sector | 0.40 | 0.49 | 0.00 | 1.00 | 1102 |
| Income (Log) | 9.20 | 0.97 | 0.00 | 10.82 | 1102 |
| Female | 0.44 | 0.50 | 0.00 | 1.00 | 1102 |
| Small Child | 0.34 | 0.47 | 0.00 | 1.00 | 1100 |
| Working Age | 0.71 | 0.45 | 0.00 | 1.00 | 1102 |
| Class 10 | 0.77 | 0.42 | 0.00 | 1.00 | 1102 |
| Lower Caste | 0.50 | 0.50 | 0.00 | 1.00 | 1071 |
| Better paying job in an American Company | 2.45 | 0.99 | 0.00 | 4.00 | 1102 |
| Better paying job in a Japanese Company | 2.37 | 1.01 | 0.00 | 4.00 | 1102 |
| Better paying job in an Indian Company | 2.56 | 0.98 | 0.00 | 4.00 | 1102 |
| Good jobs in an American Company | 2.38 | 1.01 | 0.00 | 4.00 | 1102 |
| Good jobs in a Japanese Company | 2.40 | 1.02 | 0.00 | 4.00 | 1102 |
| Good jobs in an Indian Company | 2.51 | 1.00 | 0.00 | 4.00 | 1102 |
| Value skills in an American Company | 2.55 | 1.00 | 0.00 | 4.00 | 1102 |
| Value skills in a Japanese Company | 2.48 | 0.99 | 0.00 | 4.00 | 1102 |
| Value skills in an Indian Company | 2.63 | 0.97 | 0.00 | 4.00 | 1102 |
| Bribe to work in an American Company | 2.07 | 1.07 | 0.00 | 4.00 | 1102 |
| Bribe to work in a Japanese Company | 2.04 | 1.08 | 0.00 | 4.00 | 1102 |
| Bribe to work in an Indian Company | 2.02 | 1.12 | 0.00 | 4.00 | 1102 |

Table 1: Summary Statistics

0-4, both informal and formal households have means above two. We also find that both groups like domestic investment as well, but as we will show below formal households support foreign investment (even when compared to domestic) more than informal households.

We use two survey questions to measure a productivity shock due to foreign investment. First, we ask respondents whether they think they will get a better paying job in an American/Japanese/Indian company. Second, we ask respondents whether American/Japanese/Indian companies will have good jobs for someone like them. We use a combination of outcome variables, including the average of the the American and Japanese questions as well as the difference between the foreign and Indian questions.

We also use two survey questions to measure a merit shock due to the presence of foreign companies. First we ask respondents about whether they think their skills will be valued in an American/Japanese/Indian company. Second, we ask respondents whether they need to pay less bribes to get a job at an American/Japanese/Indian company. As before, we use a combination of outcome variables, including the average of the the American and Japanese questions as well as the difference between the foreign and Indian questions. Table 1 presents more information on the demographics as well as the summary statistics of the key variables used in this paper, split between informal and formal households.

4.2 Survey Experiment

The productivity and merit shocks could work through different mechanisms: self interest or more specifically upward mobility (both personal and intergenerational), sociotropic and nationalism. In order to further examine the mechanisms, we use a survey experiment where we randomize information about

the origin of a foreign company that opened in their area. The two treatments we use are the same except that they have a different country origin: “A manufacturing company that is owned and operated by an American/Japanese firm has recently opened in a nearby location. The firm employs more than 100 people, employs both low-educated and high educated workers and is located in an urban area.” The control condition was the same but did not mention the country origin.

The outcome measures of the survey experiment helps distinguish between the different mechanisms. To measure personal mobility, we use the question “In this year or the next, how likely are you to get a (better) formal sector job?” We use three questions to get at different aspects of intergenerational mobility: their children getting a formal sector job (In this year or the next, how likely are your children to get a formal sector job?), their children getting a job in the specific company (In this year or the next, how likely are your children to get a job in this company?), and higher education of their children (How likely are your children will get a university degree?). To measure sociotropic preferences, we use the question “In the last two years, the Indian economy has grown at an average of 7%. How slow or fast do you think India’s economy will grow in the next two years?” To measure the nationalistic mechanism, we use the question “To what extent do you agree with this statement: Indian people are not perfect, but our/their culture is superior to others?”.

4.3 Estimation Strategy

We use the following estimation equation to test whether support for foreign investment is higher/lower among informal sector workers.

$$Y_{ij} = \beta_0 + \beta_1 * \text{Formal Households}_{ij} + \beta_2 * X_{ij} + \alpha_j + \epsilon_{ij} \quad (1)$$

where Y_{ij} is a measure of support for foreign investment for respondent i in city j , $\text{FormalHouseholds}_{ij}$ is an indicator for whether the respondent belonged to an informal household, X_{ij} is a matrix of control variables that include various respondent characteristics including income, gender, education, working age (i.e. between the ages 25-50), have small children, political partisanship (measured using support for the ruling nationalist Bharatiya Janata Party (BJP)), and whether the respondent belongs to a lower caste group. Lastly, α_j represents city fixed effects and ϵ_{ij} is the error term. We also use Equation 1 to estimate the productivity and merit shock mechanisms among (in)formal households. For the survey experiment, we will estimate the standard difference-in-means between the treatments (American & Japanese company) and control group without covariate adjustment. Our research design is based on a pre-registered analysis plan.⁵

5 Preliminary Results

Based on our theory and the research design outlined above, Table 2 presents the predicted effects for the different hypotheses. For both the informal and the formal mobility hypotheses, it lists the expected sign of the main coefficient as well as the design source.

We present our results in three stages. First, we show that informal sector households have lower support for foreign investment than formal sector households. These results are robust to various control variables that could plausibly account for this difference. Second, we test the mechanisms that could explain this finding. Using the survey experiment, we distinguish between two main mechanisms (personal mobility, international mobility) and two alternative mechanisms (sociotropy and nationalism). We show that the

⁵A discussion of the deviations from the pre-analysis plan is available from the authors.

| Hypothesis | Expectation | Source |
|---|--|-------------------|
| Formal Mobility | | |
| H1a: Formal sector workers support foreign investment more than informal sector workers | Formal (+) | Survey |
| H1b: Formal sector workers support foreign investment than domestic investment more than informal sector workers | Formal (+) | Survey |
| H2a: Formal sector workers expect greater social mobility in response to foreign firms | Mobility for self (+) and Intergenerational mobility (+) | Survey Experiment |
| H2b: Formal sector workers associate foreign investment with greater productivity shocks than informal sector workers | Better Paying Jobs (+) and Good Jobs Like Me (+) | Survey |
| H2c: Formal sector workers associate foreign investment with greater merit shocks than informal sector workers | Value Skills (+) and Less Bribe (+) | Survey |
| Informal Mobility | | |
| H3a: Informal sector workers support foreign investment more than formal sector workers | Formal (-) | Survey |
| H3b: Informal sector workers support foreign investment than domestic investment more than formal sector workers | Formal (-) | Survey |
| H4a: Informal sector workers expect greater social mobility in response to foreign firms | Mobility for self (+) and Intergenerational mobility (+) | Survey Experiment |
| H4b: Informal sector workers associate foreign investment with greater productivity shocks than formal sector workers | Better Paying Jobs (-) and Good Jobs Like Me (-) | Survey |
| H4c: Informal sector workers associate foreign investment with greater merit shocks than formal sector workers | Value Skills (-) and Less Bribe (-) | Survey |

Table 2: Theoretical Expectations

support for foreign investment among formal sector workers is driven primarily by intergenerational mobility. We do not find evidence of any of the four mechanisms for informal sector workers. Third, we show that formal households are guided by both the productivity and merit shocks of the foreign investment.

Table 3 presents estimations to show that formal households have higher levels of support for foreign investment than informal sector workers. Models (1)-(4) presents results for foreign investment support, and Models (5)-(8) presents results for the difference in support between foreign and domestic investment. Across both outcome variables, formal sector workers show a positive and statistically significant association. These results are robust to the inclusion of several control variables. In models (2) & (6), we take the respondent's income, work sector and political preferences into account. In models (3) & (7), we additionally include the respondent's gender and whether the respondent has a small child. Lastly, in models (4) & (8), we further include controls for the respondent's education level, whether they are of working age and whether they belong to a lower caste group. All models also include city fixed effects and hence take into account any unobserved city-specific characteristics that could affect support for foreign investment. Taken together, these results find support for hypothesis 1a on formal sector mobility, where formal sector workers are more likely to support the presence of foreign firms than informal sector workers.

Next we present results of a survey experiment that distinguishes between the mechanisms that drive support for FDI. Figures 1 and 2 present the results of the 'American Company' and 'Japanese Company' treatments respectively. The American company treatment has no effect on informal households, i.e. the treatment is statistically indistinguishable from the control condition for all

| | Foreign | | | | Foreign vs. Domestic | | | |
|------------------|---------|----------|-----------|-----------|----------------------|----------|-----------|-----------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Formal Household | 0.094* | 0.151*** | 0.163*** | 0.164*** | 0.101* | 0.171*** | 0.184*** | 0.195*** |
| | (0.052) | (0.059) | (0.059) | (0.060) | (0.059) | (0.066) | (0.066) | (0.067) |
| BJP Support | | -0.024 | -0.053 | -0.063 | | -0.002 | -0.031 | -0.044 |
| | | (0.059) | (0.059) | (0.060) | | (0.066) | (0.066) | (0.067) |
| Manuf Sector | | 0.058 | 0.055 | 0.054 | | 0.034 | 0.034 | 0.037 |
| | | (0.060) | (0.060) | (0.060) | | (0.067) | (0.067) | (0.068) |
| Income (Log) | | -0.059 | -0.061 | -0.065 | | -0.018 | -0.020 | -0.028 |
| | | (0.043) | (0.043) | (0.047) | | (0.048) | (0.048) | (0.053) |
| Female | | | -0.218*** | -0.195*** | | | -0.225*** | -0.209*** |
| | | | (0.059) | (0.062) | | | (0.066) | (0.069) |
| Small Child | | | -0.005 | -0.038 | | | -0.018 | -0.031 |
| | | | (0.061) | (0.065) | | | (0.068) | (0.073) |
| Working Age | | | | 0.037 | | | | -0.006 |
| | | | | (0.067) | | | | (0.075) |
| Class 10 | | | | 0.103 | | | | 0.058 |
| | | | | (0.069) | | | | (0.078) |
| Lower Caste | | | | -0.023 | | | | -0.026 |
| | | | | (0.060) | | | | (0.068) |
| City FE | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Observations | 1807 | 1423 | 1420 | 1387 | 1807 | 1423 | 1420 | 1387 |

Table 3: Support for Foreign Investment

the possible mechanisms. In contrast, the American company treatment has a positive and statistically significant effect ($p=0.042$) on intergenerational mobility (formal work) for formal households. This suggests that formal households support foreign investment, particularly of American origin, as it can help their children also get formal sector work. Importantly, we do not find evidence of the alternative mechanisms of sociotropic and nationalism for both informal and formal sector workers.

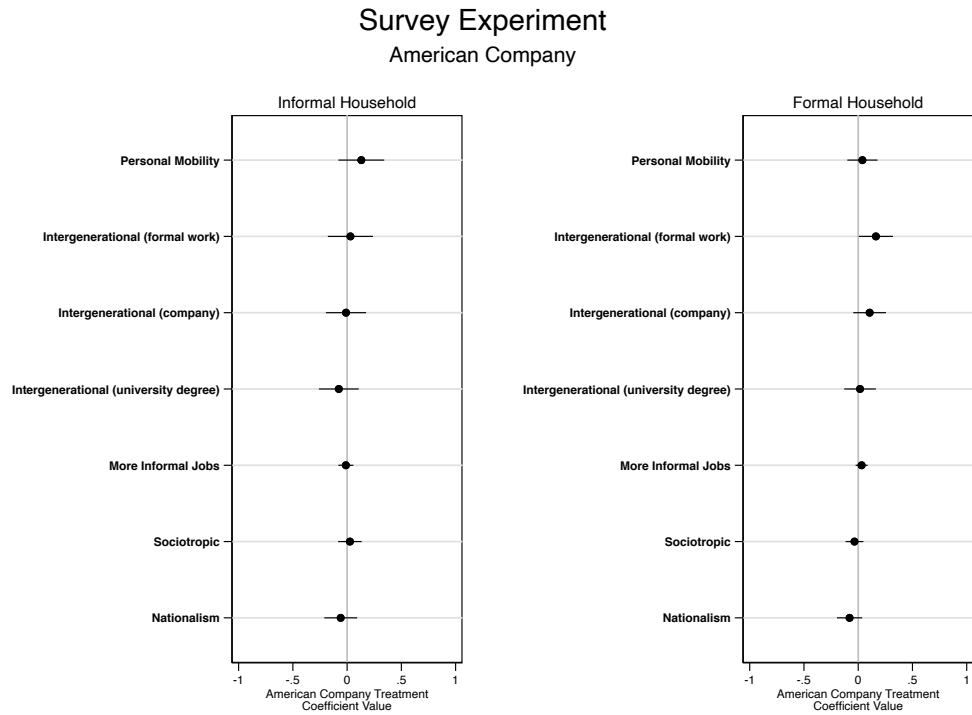


Figure 1: Survey Experiment Results for informal and formal households. The sample only includes those to passed a country-origin manipulation check (90% of our original sample).

In contrast to the American company treatment, we do not find any effect of the Japanese company treatment. Neither informal nor formal households consider Japanese investment sufficient to increase their personal or intergenera-

tional mobility prospects. Taken together, the survey experiment results show that the support for foreign investment by formal sector workers is driven primarily by American firms via the mechanism of intergenerational mobility. Hence these findings suggest that the country of origin matters for foreign investment and they support hypothesis 2a. These results are also consistent with a conjoint experiment (details available in the appendix) comparing different investment profiles, where we find that formal sector workers prefer American to Japanese investment.

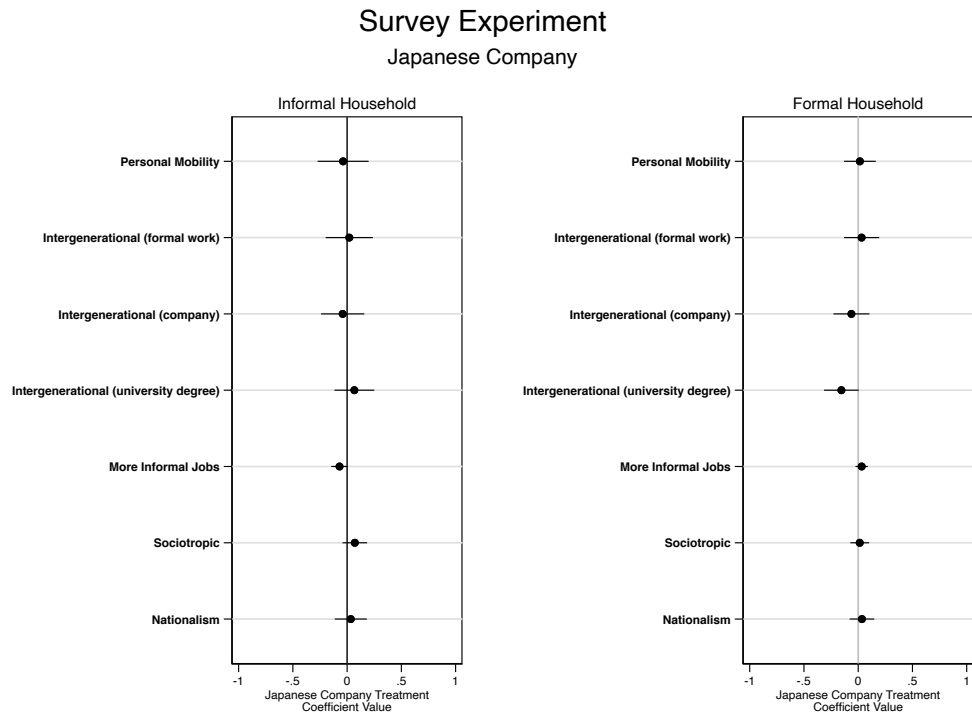


Figure 2: Survey Experiment Results for informal and formal households. The sample includes those to passed a country-origin manipulation check (90% of our original sample).

Now that we have established that formal sector workers support foreign investment because of intergenerational mobility concerns, we further exam-

ine whether productivity and/or merit shocks guide these preferences. Table 4 presents the results for the productivity shock of the foreign investment. Models (1)-(6) reference the first measure of whether the respondents expect to get better paying jobs in an a foreign/domestic firm, while Models (7)-(12) reference the second measure of whether the respondents expect foreign/domestic firms to give good jobs to someone like them. All models control for a broad range of demographic variables: income, gender, education, working age, have small children, political partisanship, whether the respondent belongs to a lower caste group and city-level fixed effects. In both sets, the first, second and fourth models present the results for American, Japanese and Indian firms respectively. The third model uses the average of the American and Japanese firms, while the last two models use the difference between the American/Japanese and the Indian firms as the outcome variable.

We find that formal sector workers support foreign investment because of higher incomes compared to informal sector workers. This is particularly true for Japanese firms, taking into account the whole range of demographic controls. However, the difference between the foreign and Indian outcomes are not statistically significant – this suggests that formal sector workers also expect similar paying jobs from domestic firms as well. We also find that formal sector workers support foreign investment because American firms provide good jobs for someone like them (statistically significant at 90%). As with income, the difference between the foreign and Indian outcomes are not statistically significant, suggesting that formal sector workers are ‘insiders’ who benefit from both national and international investment. Overall, these results find some support for hypothesis 2b that formal workers associate foreign investment with productivity shocks to the local economy, and are more likely to take advantage of higher paying jobs and benefit from such investment.

| | Better Paying Jobs | | | | | | Good Jobs Like Me | | | | | |
|------------------|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|---------------------|---------------------|---------------------|-------------------|---------------------|-------------------|
| | (1) US | (2) JP | (3) Favg | (4) IN | (5) USdiff | (6) JPdiff | (7) US | (8) JP | (9) Favg | (10) IN | (11) USdiff | (12) JPdiff |
| Formal Household | 0.090 (0.056) | 0.112** (0.057) | 0.101** (0.045) | 0.084 (0.056) | 0.005 (0.077) | 0.028 (0.075) | 0.093* (0.056) | 0.058 (0.057) | 0.076* (0.043) | 0.071 (0.056) | 0.023 (0.075) | -0.013 (0.079) |
| BJP Support | 0.011 (0.056) | -0.010 (0.057) | 0.000 (0.045) | 0.113** (0.055) | -0.102 (0.077) | -0.124* (0.074) | 0.040 (0.055) | 0.013 (0.056) | 0.026 (0.043) | 0.033 (0.056) | 0.007 (0.074) | -0.021 (0.078) |
| Manuf Sector | 0.025 (0.057) | 0.011 (0.058) | 0.018 (0.046) | 0.121** (0.056) | -0.096 (0.078) | -0.110 (0.075) | 0.019 (0.056) | 0.089 (0.057) | 0.054 (0.044) | 0.024 (0.057) | -0.005 (0.076) | 0.065 (0.079) |
| Income (Log) | 0.004 (0.044) | 0.015 (0.044) | 0.010 (0.035) | 0.003 (0.043) | 0.002 (0.060) | 0.012 (0.058) | 0.011 (0.043) | 0.086* (0.044) | 0.049 (0.034) | 0.020 (0.044) | -0.009 (0.058) | 0.066 (0.061) |
| Female | -0.065 (0.058) | -0.120** (0.059) | -0.092** (0.047) | -0.003 (0.057) | -0.063 (0.079) | -0.117 (0.077) | -0.039 (0.057) | -0.036 (0.058) | -0.037 (0.044) | -0.012 (0.058) | -0.027 (0.077) | -0.024 (0.081) |
| Small Child | 0.028 (0.061) | 0.066 (0.061) | 0.047 (0.049) | 0.042 (0.060) | -0.014 (0.083) | 0.024 (0.081) | 0.091 (0.060) | 0.047 (0.061) | 0.069 (0.047) | -0.036 (0.061) | 0.127 (0.081) | 0.083 (0.085) |
| Working Age | 0.044 (0.063) | -0.060 (0.064) | -0.008 (0.051) | 0.046 (0.062) | -0.002 (0.086) | -0.106 (0.083) | 0.047 (0.062) | -0.051 (0.063) | -0.002 (0.048) | -0.049 (0.063) | 0.096 (0.084) | -0.002 (0.088) |
| Class 10 | 0.277*** (0.065) | 0.229*** (0.066) | 0.253*** (0.052) | 0.054 (0.064) | 0.223** (0.089) | 0.176** (0.086) | 0.330*** (0.064) | 0.230*** (0.065) | 0.280*** (0.050) | 0.100 (0.065) | 0.230*** (0.086) | 0.130 (0.091) |
| Lower Caste | -0.020 (0.056) | -0.043 (0.057) | -0.032 (0.046) | -0.002 (0.056) | -0.018 (0.077) | -0.041 (0.075) | -0.026 (0.056) | -0.057 (0.057) | -0.042 (0.043) | -0.024 (0.057) | -0.001 (0.075) | -0.033 (0.079) |
| City FE | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Observations | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 |

Table 4: Productivity Shock

| | Value Skills | | | | | Less Bribe | | | | | | |
|------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|-------------------|----------------------|--------------------|
| | (1) US | (2) JP | (3) Favg | (4) IN | (5) USdiff | (6) JPdiff | (7) US | (8) JP | (9) Favg | (10) IN | (11) USdiff | (12) JPdiff |
| Formal Household | 0.121** (0.055) | -0.009 (0.056) | 0.056 (0.044) | -0.068 (0.054) | 0.189** (0.073) | 0.059 (0.075) | 0.118* (0.060) | 0.080 (0.061) | 0.099** (0.049) | -0.053 (0.062) | 0.171** (0.078) | 0.133* (0.078) |
| BJP Support | -0.105* (0.055) | -0.053 (0.056) | -0.079* (0.044) | 0.043 (0.054) | -0.147** (0.073) | -0.096 (0.075) | 0.016 (0.060) | -0.030 (0.061) | -0.007 (0.049) | -0.002 (0.062) | 0.019 (0.077) | -0.028 (0.078) |
| Manuf Sector | 0.028 (0.055) | -0.015 (0.057) | 0.006 (0.045) | 0.146*** (0.054) | -0.118 (0.074) | -0.161** (0.076) | -0.112* (0.061) | -0.044 (0.062) | -0.078 (0.050) | 0.094 (0.063) | -0.207*** (0.078) | -0.138* (0.079) |
| Income (Log) | 0.062 (0.043) | 0.027 (0.044) | 0.045 (0.034) | -0.099** (0.042) | 0.161*** (0.057) | 0.126** (0.058) | 0.097** (0.047) | 0.084* (0.047) | 0.090** (0.038) | 0.063 (0.048) | 0.034 (0.060) | 0.021 (0.061) |
| Female | -0.102* (0.056) | -0.093 (0.058) | -0.098** (0.045) | 0.038 (0.055) | -0.140* (0.075) | -0.130* (0.077) | -0.100 (0.062) | -0.152** (0.063) | -0.126** (0.051) | -0.083 (0.064) | -0.017 (0.080) | -0.069 (0.080) |
| Small Child | 0.027 (0.059) | -0.018 (0.060) | 0.004 (0.048) | -0.122** (0.058) | 0.149* (0.079) | 0.104 (0.081) | -0.081 (0.065) | -0.018 (0.066) | -0.049 (0.053) | 0.064 (0.067) | -0.144* (0.084) | -0.081 (0.084) |
| Working Age | -0.006 (0.061) | 0.014 (0.063) | 0.004 (0.049) | -0.021 (0.060) | 0.014 (0.082) | 0.035 (0.084) | -0.092 (0.067) | -0.022 (0.068) | -0.057 (0.055) | -0.037 (0.070) | -0.055 (0.087) | 0.015 (0.087) |
| Class 10 | 0.150** (0.063) | 0.201*** (0.065) | 0.176*** (0.051) | 0.140** (0.062) | 0.010 (0.085) | 0.061 (0.087) | 0.153** (0.070) | 0.067 (0.071) | 0.110* (0.057) | 0.096 (0.072) | 0.057 (0.090) | -0.029 (0.090) |
| Lower Caste | -0.092* (0.055) | -0.004 (0.056) | -0.048 (0.044) | -0.039 (0.054) | -0.053 (0.073) | 0.035 (0.075) | -0.025 (0.060) | -0.009 (0.061) | -0.017 (0.049) | -0.041 (0.062) | 0.016 (0.078) | 0.033 (0.078) |
| City FE | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Observations | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 | 1387 |

Table 5: Merit Shock

Table 5 presents results for the merit shock of the foreign investment. Models (1)-(6) reference the first measure of whether the respondents foreign/domestic firms to value their skills, while Models (7)-(12) reference the second measure of whether they would pay a lower bribe to get a job in foreign/domestic firm. As before, all models control for income, gender, education, working age, have small children, political partisanship, whether the respondent belongs to a lower caste group and city-level fixed effects. In both sets, the first, second and fourth models present the results for American, Japanese and Indian firms respectively. The third model uses the average of the American and Japanese firms, and the last two models use the difference between the American and the Indian firms.

We find some support among formal sector workers on how much their skills are valued at foreign firms. Compared to informal sector workers, they are more likely to have their skills valued at American firms. Importantly, formal sector workers also show support for the valuation of their skills at American firms when compared with Indian firms. We do not find evidence that formal sector workers are statistically different from their informal counterparts when it comes to Japanese firms. Formal sector workers are also more likely to lower bribes to get a job at an American firm. As before, this association is robust even after accounting for bribes at an Indian firm. Taken together, these results find some support for hypothesis 2c that formal sector workers associate foreign investment with merit shocks where their skills are more valued and they will need to pay less bribes in American firms.

In summary, our results find support for the formal worker mobility hypothesis. Formal sector workers is more likely support foreign investment than informal sector workers. This is robust to the inclusion of a battery of demographic controls as well as city-level fixed effects. Further, we find that

this support for FDI among formal sector workers is driven primarily by intergenerational concerns and not because of personal mobility, sociotropy or nationalism. In addition, the intergenerational mechanism is guided by both productivity and merit shocks, associated primarily with an American firm. For the informal sector worker, this suggests that they still see high barriers in the labor market that prevent them from actually attaining jobs at foreign companies for either themselves or their children.

6 Conclusion

Globalization has led to an influx for foreign firms in many developing countries. In this paper, we examined whether the citizens of these countries were actually persuaded by its benefits. To study this issue, we focused on India, a country with a large number of informal sector workers in its labor force. We found that both informal and formal sector workers like foreign investment. However, there are significant differences for the between the two groups for why they support FDI. Formal sector workers are set to reap the benefits of the productivity shock, aiding social mobility. However, informal sector workers who require both a productivity and merit shock are skeptical that they or the future generation will obtain any gains from foreign investment. These results are robust to skill, gender, sector, caste status and income considerations. Taken together, they suggest that the informality-formality divide persists with globalization and contributing to increasing inequality in many developing countries.

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