The Promise of Foreign Direct Investment: Experimental Evidence from the First Bank in a Native Nation

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Setting and Motivation

- American Indian Nation A* reservation is a pre-FDI “banking desert.”

- Upcoming entry by retail Bank [X*], owned by Nation B*.
  - Nation A Tribal Legislature voted unanimously to allow entry.

- Is IPE theory on public opinion and economic integration internally valid here?
  - Greenfield, South-South, customer-facing FDI between two typically-overlooked nations.
  - Profit-motivated foreign investor addressing a crucial economic development problem.

- (How) can stakeholders move individuals’ support and willingness to become customers?
  - Overlapping interests: Bank [X] + Nation A + (US-tied) Federal Reserve
  - High salience, high stakes → ideal chance to study IPE preferences (Curtis, Jupille, and Leblang 2014; Hicks, Milner, and Tingley 2014)
Summary: Research Design and Results

- **Research design**: survey of Nation A tribal members, with embedded experiments
  - Non-experimental: Priming FDI identity
  - Treatment 1: Nation A Tribal Legislature (a) endorsement and (b) status as customer
  - Treatment 2: “US Federal Reserve” support for financial services in underserved communities

- **Main results**: endorsements have little effect, and may even backfire
  - No US “baggage”: same effect size/direction for both treatments
  - Normative upside: Backdrop of very high ex ante support and customer interest

- **Heterogeneous effects of treatments**:
  - Community connections → more positive treatment effects
  - Normative downside: LASSO correlates of backfire linked to financial precarity
Nation A Overview

- Federally-recognized tribe in Midwestern US state
  - Small (<15,000 members)
  - Rural; main exports are forestry commodities
  - Parliamentary democracy with legislative and judicial branches

- Very low economic development
  - 38% poverty rate
  - Weak infrastructure: No cell service in second-largest town
  - \textit{33% unbanked, 50% underbanked with alternative (predatory) debt}

- Mixed experience with economic integration
  - Settler colonialism
  - Import-dependent, migrant remittances, foreign aid
  - \textit{Pre-FDI: No foreign-owned business on reservation}
Survey

• Nationally representative survey on Nation A adult members’ financial situations and preferences over banks.
  ▶ Main funder: Federal Reserve; Survey roll-out: Nation A tribal college
  ▶ Compensation: $10 gift card to (only) on-reservation grocery store
  ▶ 15-minute survey on (offline) tablet computers (Bush and Prather 2019)

• Approved by the Nation A Tribal Legislature.
  ▶ Bank [X] vouched for co-authors
  ▶ *Clear that investment not contingent on survey approval*

• 982 high-quality responses collected from January to May March 2020.
  ▶ Bank [X] held a (socially-distanced) groundbreaking ceremony in early mid-summer 2020.
Hypotheses and Outcomes

Hypotheses:
- Non-randomized: Does nationality of investor matter?
- Randomized: Do treatments from Federal Reserve and A’s government matter?

Five outcomes:
- Supports Nation B’s ownership of Bank [X]
- Self-reported effect of treatment
- “Thinks it’s good for Bank [X] to open”
- Self-reported likelihood of becoming a customer of Bank [X]
- Behavioral: Steps toward accessing free annual credit report
Results

- Very high baseline support for hypothetical bank or Bank [X]. (✔)
  - Note: Results not due to ceiling effects.

- Overall: weak treatment effects
  - When asked directly, respondents *think* that endorsements increase their support
  - No effect on behavioral outcome (steps toward accessing free annual credit report)

- Heterogeneous effects?
  - Parallel magnitude/direction of US Fed and Government A treatments
  - Normative upside: Significant effects for those connected to the Nation A community
  - Some treatment backfire: *reduced* support for/interest in becoming Bank [X] customer
“It would be good for [a bank]/[Bank X] to open.”
Main Results (Levels)

- Expressed effect of treatment
- Good for Bank [X] to open
- Become customer at Bank [X]
- Support B ownership of Bank [X]
- Interested in credit report

### Federal Reserve vs. Control

### Nation A vs. Control

### Nation A vs. Federal Reserve

Average Treatment Effect

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FDI in a Native Nation
Main Results (Changes)

- **Good for Bank [X] to open** (change from baseline)
- **Become customer at Bank [X]** (change from baseline)
- **Support B ownership of Bank [X]** (change from baseline)

### Graphs:

- **Federal Reserve vs. Control**
- **Nation A vs. Control**
- **Nation A vs. Federal Reserve**

### Axes:

- **Average Treatment Effect**

### Data Points:

- -0.2
- 0.0
- 0.2

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FDI in a Native Nation
(Ex post consideration of) heterogeneous effects?

- Yes: Connected to community index ( +++ )
  - Pays attention to Nation A news most of the time
  - Knew a bank was opening
  - Lives on Nation A reservation
  - Has debt from a tribal loan
  - Learned about finance from a local community program
  - Employed in Nation A government

- No/mixed evidence for other theoretically-motivated heterogeneous effects:
  - Knows about finance ( + )
  - Financial resilience (e.g. well-off) (+ / - )
  - Negative views of banks ( + / - )
  - Discount rate re: becoming customer ( . )
LASSO results on treatment backfire: normative concerns?

- Did not know Bank [X]'s owners
- High school or more
- Single
- $30k < income < $40k
- Income < $10k
- No bank account
- Support Native ownership
- Female
- Lives on reservation
- Employed by tribe
- Less than high school
- Surveyed at casino

More backfire

Less backfire
Conclusions

● No FDI backlash: very high support for/customer likelihood at foreign-owned bank.
  ▶ Significant FDI nationality effects: Nation B owner >>> US (American) owner

● Little evidence that stakeholder endorsements are useful.
  ▶ Evidence of backfire suggests (research on) targeting.
  ▶ No US “baggage” for Federal Reserve: same effect size/direction for both treatments

● Challenge to IPE: Do theories cover the population, a random sample, or a biased sample of the full set of sovereigns?
  ▶ Are empirical results internally valid to non-Westphalian sovereigns?
  ▶ Normative call to prioritize research on the political economy of development of nations like A, where economic integration choices are incredibly salient.