

FDI and the Empowerment of Minority Groups: Evidence from India

Benjamin Helms¹ Sonal Pandya¹ Sheetal Sekhri²

¹Dept. of Politics, University of Virginia

²Dept. of Economics, University of Virginia

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How to Empower Marginalized Social Groups?

Challenge: require dominant group acquiesce/fund

- Affirmative action/quotas
- Subsidized inputs (ex: microlending)
- Interventions to shift norms

Problems

- Rely on government willingness to create and sustain support
- Can provoke a backlash

FDI Aligns Leaders' Incentives with Social Equality

- Leaders want to attract FDI
- Self-interested MNCs (incidentally and indirectly) strengthen social equality
- MNCs' leverage over governments often criticized
- Leverage uniquely advances equality

FDI Provides Economic Empowerment

- MNCs strategically tap into underutilized labor
- Local social divisions often lack salience for foreigners
- MNCs lack access to social networks that bias labor recruitment
- MNC practices embody non-discrimination laws/norms of origin country
- MNCs pay higher wages

Economic Empowerment → Political Empowerment?

- Higher wages improve incentives/capacity for political participation/making claims
- But backlash drives wedge between economic and political empowerment
- What dominates is an empirical question

Setting: India's Scheduled Castes and Tribes

- Indian constitution explicitly protects people belonging to marginalized castes and tribes (“scheduled”)
- Entitled to reservations in education and government employment
- SCs & STs face severe labor market discrimination
- Hypothesis: MNCs exploit misallocated SC/ST labor, increasing their wages and changing their political behaviors

Setting: India's FDI Liberalization

- India: liberalized FDI into 110 industries in 2005
- FDI inflows nearly triple by 2007
- Inflows geographically concentrated in a few states

Empirical Strategy

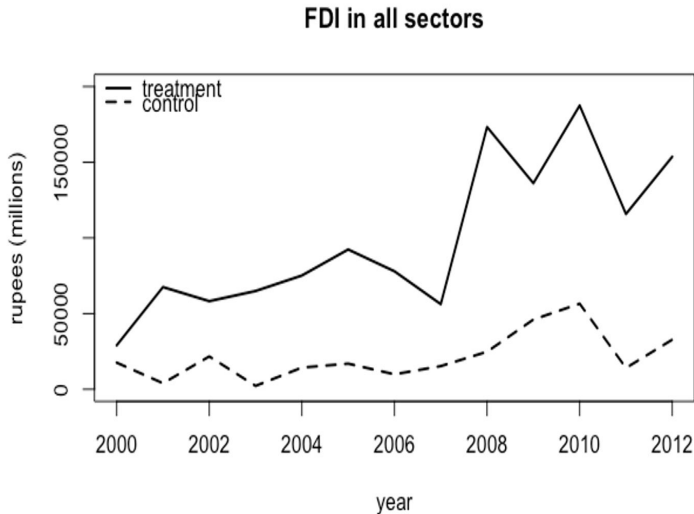
Reduced Form Estimation

- Six “treated” states: received lion’s share of FDI
- Treated=1 if district i located in six treated states

[Two-Stage Least Squares (2SLS) Estimation]

- Leverage detailed data on FDI liberalization policies

FDI in Treated vs. Control States



Data

- **SC/ST wages:** National Sample Survey on Employment/Unemployment (1999-2009)
- **SC/ST political participation:** Indian National Election Study (2004-2014)
- **SC/ST political attitudes:** Indian Human Development Survey (2005-2012)

FDI Increases SC/ST Wages

	<i>Dependent variable: log(wages) previous week</i>			
	All	All	High ed.	Low ed.
	(1)	(2)	(3)	(4)
<i>Treated</i> × <i>Post</i>	0.092*** (0.034)	0.076** (0.034)	0.168** (0.083)	0.065* (0.035)
Observations	84,497	74,317	14,176	60,138
District FEs	✓	✓	✓	✓
Year FEs	✓	✓	✓	✓
Controls	X	✓	✓	✓

Note: *p<0.1; **p<0.05; ***p<0.01. Data: Indian NSS.

FDI Increases High-Educated SC/ST Voter Turnout

	<i>Dependent variable: Voted in national election</i>				
	All SCs/STs	All SCs/STs	High ed. SCs/STs	Low ed. SCs/STs	High ed. Others
	(1)	(2)	(3)	(4)	(5)
<i>Treated</i> × <i>Post</i>	0.044* (0.025)	0.047* (0.025)	0.106** (0.048)	0.033 (0.026)	0.028 (0.025)
Observations	19,630	19,295	2,738	16,557	10,319
District FEs	✓	✓	✓	✓	✓
Election FEs	✓	✓	✓	✓	✓
Controls	X	✓	✓	✓	✓

Note:

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$. Data: Indian NES.

FDI-Exposed SC/STs More Critical of Politicians

	<i>Dependent variable: Confident in politicians</i>			
	All	All	High ed.	Low ed.
	(1)	(2)	(3)	(4)
<i>Treated</i> × <i>Post</i>	-0.077** (0.037)	-0.075** (0.037)	-0.107** (0.050)	-0.075* (0.039)
Observations	24,292	24,269	4,297	19,972
District FEs	✓	✓	✓	✓
Wave FEs	✓	✓	✓	✓
Controls	X	✓	✓	✓

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$. Data: IHDS.

Does FDI Produce a Backlash?

- District-level analysis of SC/ST hate crimes
- No robust increase in hate crimes in treated areas
- Takeaway: no strong evidence of backlash against SCs/STs

Discussion and Future Directions

Preliminary Takeaways

- FDI → economic empowerment of marginalized groups
- SCs/STs become more politically engaged, but also more critical

Next Steps

- Explore effect of FDI on public goods provision in SC/ST-dominant areas
- Variation in political empowerment by SC/ST population density and elected officials