

# 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
  - ▶ **33% unbanked, 50% underbanked with alternative (predatory) debt**
- Mixed experience with economic integration
  - ▶ Settler colonialism
  - ▶ Import-dependent, migrant remittances, foreign aid
  - ▶ **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?

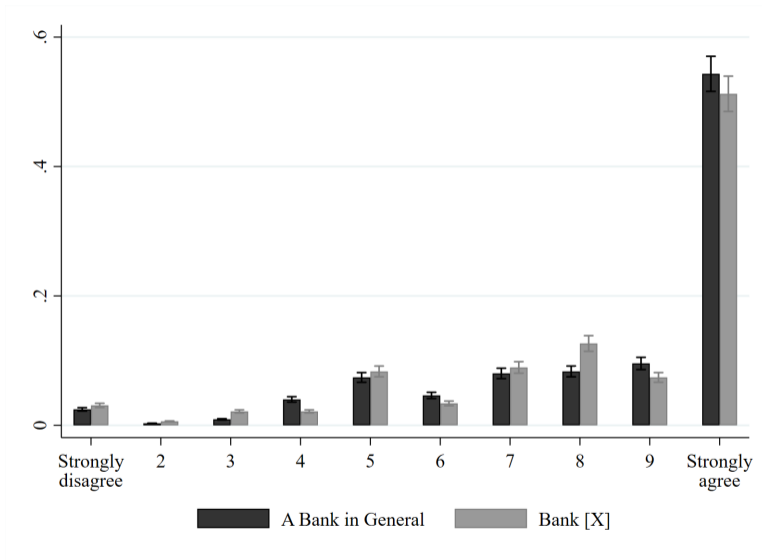
## Five outcomes:

- 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

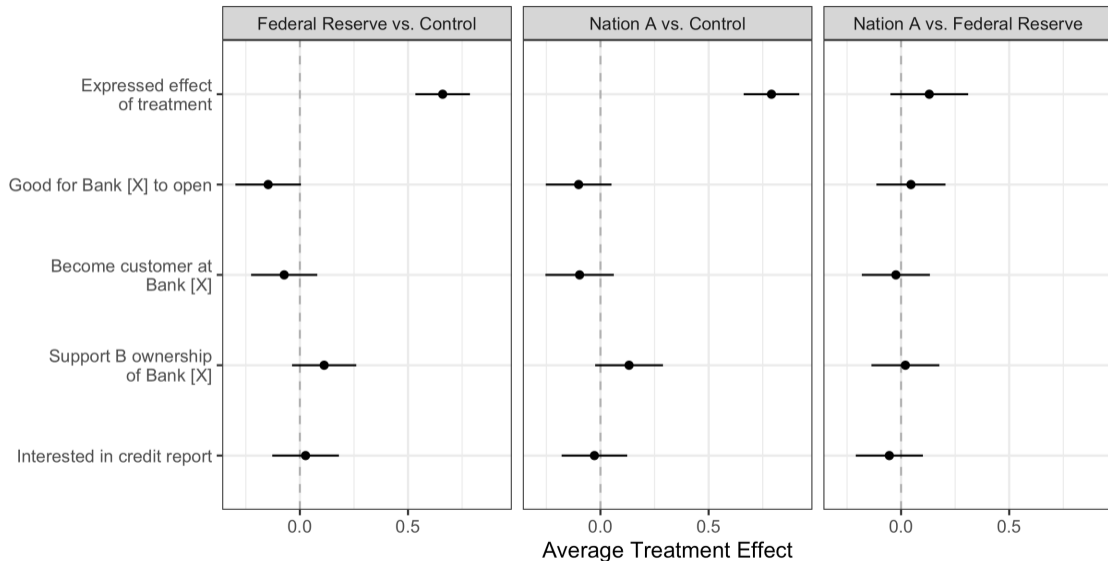
- Very high baseline support for hypothetical bank or Bank [X]. (✓)
  - ▶ Note: Results not due to ceiling effects.
- Overall: weak treatment effects
  - ▶ When asked directly, respondents *think* that endorsements increase their support
  - ▶ No effect on behavioral outcome (steps toward accessing free 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.”

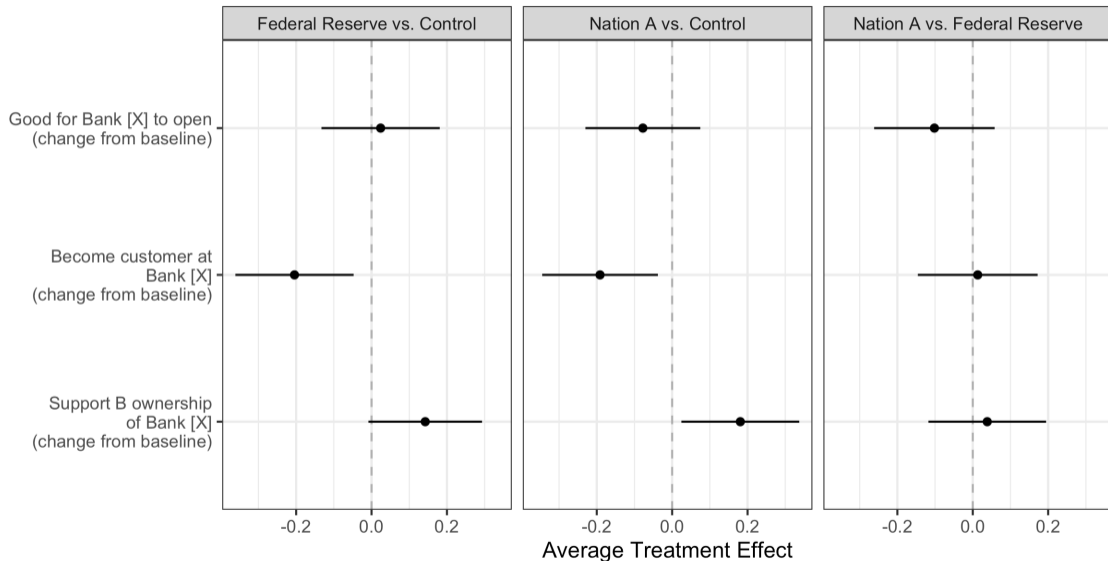




# Main Results (Levels)



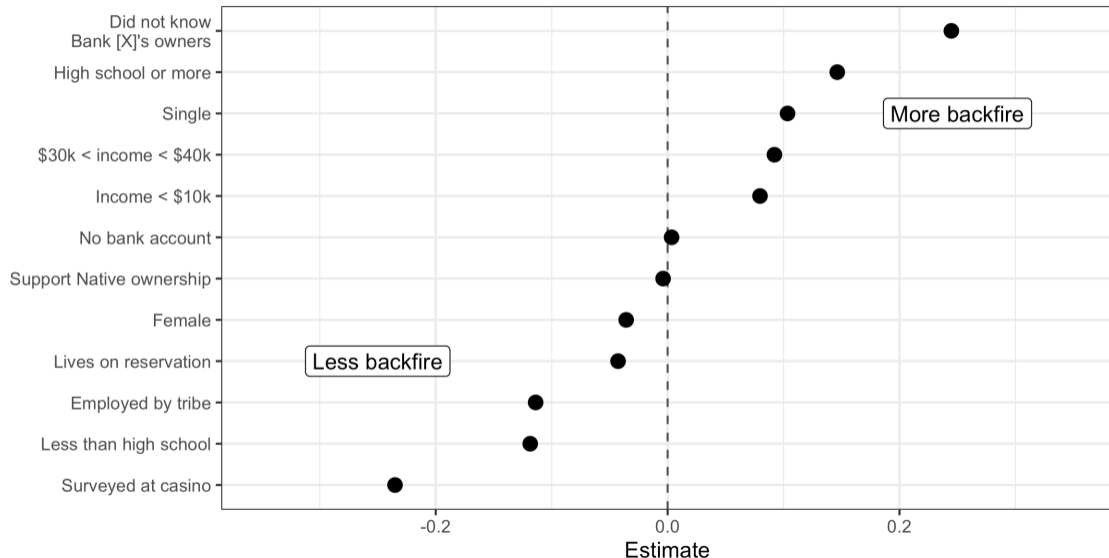
# Main Results (Changes)



## (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?



# 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.