# Globalization and Altruism Towards the Poor in Developing Countries

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Visualize the poor in developing countries.
What image do you see?

If you had $100, how much would you share with
them?

Now visualize the poor in developing countries that have been liberalizing.
What image do you see?



If you had $100, how much would you share with them?

# Puzzle

- Situation of the poor in less developed countries (LDCs) has not been improving in response to openness

  – Kosack and Tobin 2006,  Milanovic 2002, Agenor 2002, Carkovic and Levine 2002,  Helpman 2004, Andersen 2005, Feenstra and Hanson 1997, Choi 2006, Alvarez et al. 2005, Verhoogen 2008, Hoekman and Winters 2005; Goldberg and Pavcnik 2007, Basu and Guariglia 2007, and Pavcnik et al. 2004

- Limited (and sometimes reduced) government welfare assistance

  – Kaufman and Segura 2001; Garrett 2001; Rudra 2002, 2008; Segura-Ubiergo 2007;  Wibbels 2006; Huber, Mustillo and Stephens 2008..

*No government consequences?*

*Micro-level determinants: is this because <u>citizens</u> feel that the poor need less help because of globalization?*

# We focus on FDI

Because…

- Particular characteristic of today's globalization

- More visible to ordinary citizens (foreign brands, shiny buildings, newspaper stories, etc )

- Can affect  micro-level demands (Scheve and Slaughter 2004)

# Logic of our hypothesis

**FDI reduces rich's willingness to provide for the poor**

Causal mechanism:

- FDI in LDC creates the perception that the poor now has   more social mobility.
- This upward bias is quickly realigned to reality for the poor but remains for the rich due to lack of exposure to the poor's actual social mobility.

*Caveat:* the rich differentiate between types of FDI

# Roadmap

- Theory:
  - Piketty (1995)
  - FDI shocks beliefs about social mobility

- Cross-country survey of attitudes about the poor (World Values Survey)

- Framed field experiment across 3 states in India (dictator game with low income recipients )

- Theoretical foundations: Piketty (1995)

  - "Altruistic" redistribution preferences are determined by beliefs about social mobility.

  - Beliefs may not be correct since they are inherited and learning is limited to personal experience.

- Our paper:

  - A shock (e.g., FDI) that introduces an upward bias to beliefs about the poor's mobility is more likely to remain uncorrected for the rich.

  - This shock will result in decreased support for pro-poor redistribution that will be most pronounced for the rich.

# FDI in LDC -> perception that the poor are doing better

- "*There is no country that has fought poverty without attracting FDI, ...so let us not resist and discourage FDI*"
    - *The Post* (Zambia), August 9, 2009, " Zambian minister urges opposition parties not to resist foreign investment."

- Changing perceptions of poor's opportunity?

- Issue: Thus far, FDI has yet to bring benefits to the poor (infant mortality, access to clean water, GDP/cap)
    - Chakraborty and Basu 2002, Ray 2012, and Rudra 2012

# World Values Survey: Hypotheses

1. Y=Demand for pro-poor policies

    Y= a+b1 FDI **b1<0**

    Y= a+b1 FDI +b2 Income+b3 FDI*Income **b3<0**

2. Y=Perception of poor's social mobility

    Y= a+b1 FDI **b1>0**

    Y= a+b1 FDI +b2Income+b3 FDI*Income **b3>0**

# FDI and Attitudes about the poor

|  | Eliminating inequality is important (1-5) | Gov needs to do more for poor (1-5) | Gov should provide for everyone (1-10) |
|---|---|---|---|
| FDI (% GDP) | **-0.144*** | **-0.0454*** | **-0.216** |
|  | **0.024** | **0.0154** | **0.092** |
| Pseudo R2 | 0.0413 | 0.0355 | 0.018 |
| Observations | 15,249 | 40,608 | 95,930 |
| # Countries | 14 | 32 | 50 |

Demographic and political controls included

# Effect of FDI on attitudes increasing in income

❖ Demand for pro-poor= a+b1FDI +b2Income+b3 FDI*Income
     **b3<0 for all 3**
❖ Perception of poor's social mobility = a+b1FDI +b2Income+b3 FDI*Income
     **b3>0 for chance, b3=0 for role of effort**

**Effect of FDI on likelihood of agreeing with "The poor has a chance to escape poverty"**
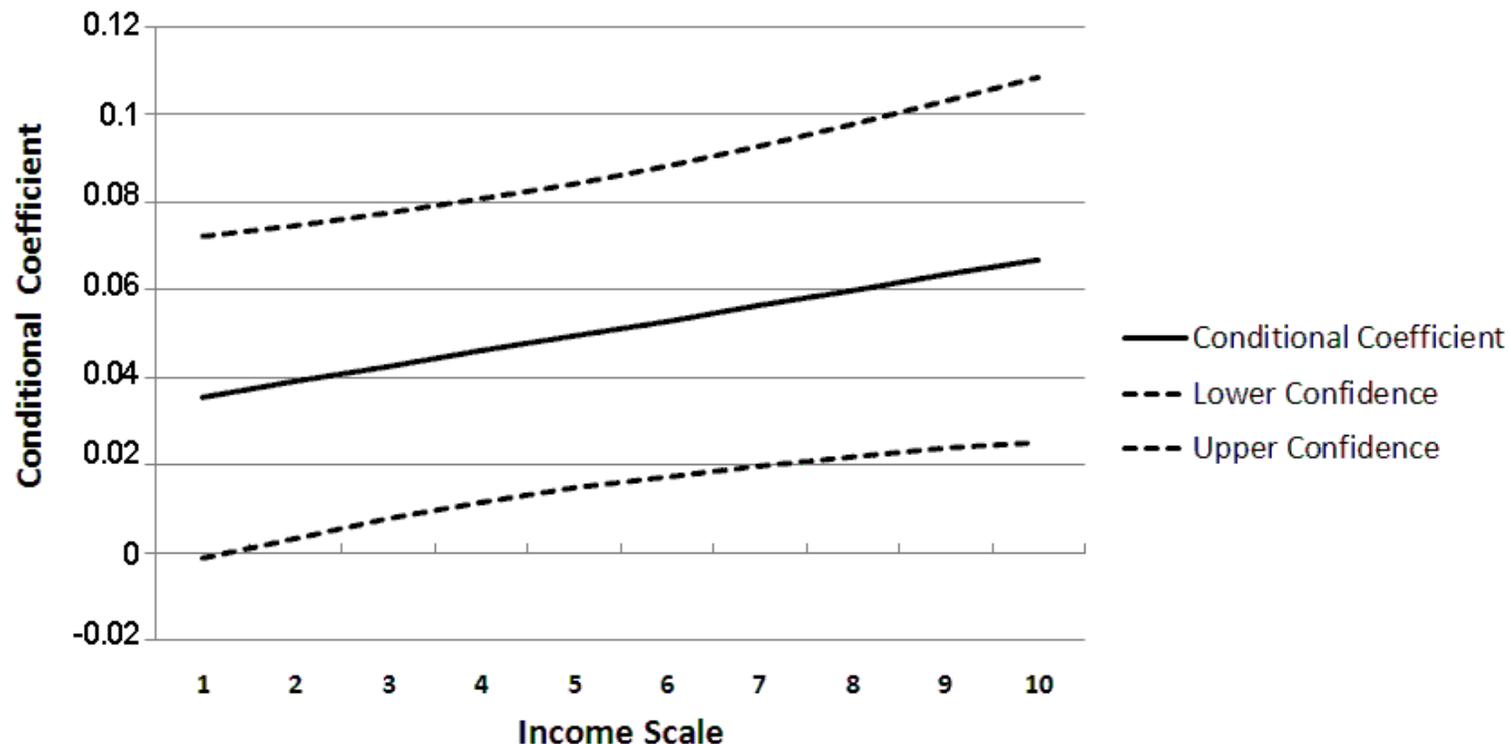
# Field Experiment: Hypotheses

- In LDC, FDI has a causal effect on the rich's attitude towards the poor.

    Giving = a+b1FDI
    **b1<0**

    Perception of poor's social mobility = a+b1FDI
    **b1>0**

- Because the benefits of FDI to a country depends the sector (O'Keef and Li 2011), it is likely that the effect of FDI on attitudes about the poor also differs by sector.

# Experimental Design



- Dictators: earning average Rs. 1000/day
- Recruited from workplaces, malls, social group, universities
- Recipients: Lower income: Rs. 100/day
- Dictators matched with recipients (Person A, verified by NGO)  through pictures in envelopes, but not shown

PERSON NAME:

**MR. SANJEET**

ADDRESS:

New Palam Vihar, Gurgaon

INCOME:

**300 PER DAY**



PERSON NAME:

**MOHAMAD SAFI**

ADDRESS:

**NEW PALAM VIHAR GURGAON**

INCOME:

**200 PER DAY**

PERSON NAME:

**MS. GEETA DEVI**

ADDRESS:

New Palam Vihar, Gurgaon

INCOME:

**350. PER DAY**



PERSON NAME:

**MR. NITTU**

ADDRESS:

**NEW PALAM VIHAR GURGAON**

INCOME:

**150 PER DAY**

- **FDI treatment framed as economic opportunities near the location of the recipient**

- *There is a food and beverage industry close to Person A's neighborhood The firm employs more than 100 workers and has low skilled workers. Based on this information, how much do you want to give to Person A?*

- *There is a food and beverage industry owned and operated by a US company close to Person A's neighborhood...*

- Test low skill FDI (food and beverage) and high skill FDI (IT) .

- **Poor's opportunity:**
  *How much do you think Person A will earn per day this year (2013)? ... five years from now (2018)?*

# Results

| | Donor's giving to recipient (poor) | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| VARIABLES | All | All | Low Skill | High Skill |
| | | | | |
| FDI Frame | -9.409 | -138.2* | -151.7** | 104.3 |
| | (77.71) | (72.10) | (68.55) | (67.86) |
| High skill | 27.53 | -96.84 | | |
| | (46.72) | (71.11) | | |
| High x FDI | | 250.0** | | |
| | | (99.90) | | |
| Random effects | no | yes | yes | yes |
| Observations | 137 | 137 | 67 | 77 |
| R-squared | 0.133 | 0.147 | 0.218 | 0.231 |

Demographic controls included.

|  | **Support for redistribution** | **Perceived future opportunities for poor** |
|---|---|---|
| World Values Survey | - | + |
| Field Experiment | - | + |