

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

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## 1 Conjoint Experiment

In this section, we examine how the country of origin compares with other aspects of an investment for both informal and formal sector workers using a conjoint experiment. We presented respondents with information on a pair of investment profiles and ask them to choose between them. This experimental design is well suited for our purposes since it allows us to provide the respondent with different dimensions of an investment, and then determine the causal effect of each of these dimensions. The approach is also useful because it helps us to identify the relative influence of different dimensions of an investment. Each respondent is presented with five pairs of investment profiles, and each profile consists of the following dimensions:

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**Sector** We use eight industries: *automotive, food and beverage, retail, footwear, textiles, furniture, electronic components and information technology (IT)*. The sectors represent a combination of low-skill and high-skill industries, and all of them are relevant for the Indian context.

**Firm Size** We distinguish between big and small investments using the size of the company. We use the number of employees as a proxy for size, and use 100 people as the threshold between big and small firms. In other words, this particular dimension uses ‘company employing less than 100 people’ and ‘company employing more than 100 people’ as indicators of a small and big investment respectively.

**Headquarters** We use the headquarters of the company to distinguish between foreign and domestic investment. A company that is headquartered in the USA, Britain or Japan will be considered foreign investment where a company headquartered in India will be considered domestic investment. Including American, British and Japanese investment separately helps us identify the extent to which the country of origin matters for (in)formal sector workers.

**Location** We distinguish between firms that are either located in an urban or rural area.

**Labor Conditions** We use the number of hours per week of work to proxy for labor conditions at the firm. The categories we use are ‘10 hrs per week’, ‘30 hrs per week’, and ‘40 hrs per week’.

**Wages** We use three wage categories as part of the investment. They are: ‘More than what you receive today’, ‘Equal to what you receive today’, and ‘Less than what you receive today’

After each investment profile pair, we ask respondents to choose between the two investment profiles. To determine which profile they prefer, we ask “Which investment profile did you prefer?” with the respondents able to pick one of the two investment profiles. We use the average marginal component effects (AMCEs) and estimate them for the different choice outcomes using the method outlined in Hainmueller et al (2014) for completely independent randomization using a linear regression estimator.

Figure 1 presents the results of the conjoint experiment for both informal and formal sector workers. It shows that informal workers are not concerned about the sector of an investment. Compared to retail, they express no preference for footwear, textiles, furniture, electronic components, automotive, food and beverage and information technology sectors. This is in contrast with formal sector workers who prefer investment in information technology, automotive, electronic components, furniture and textiles. Informal sector workers are also unconcerned with the size of the firm, but formal sector workers express a clear preference for working in large company. Both groups have similar preferences over labor (they prefer to work fewer hours per week), wages (they prefer to earn more than what they do today), and not have a preference over the urban/rural location of an investment.

Of interest to us is the preference of formal and informal sector workers over the country of origin. Formal sector workers show a clear preference for American investment compared to investment from other foreign countries. This is consistent with formal sector workers being more exposed to American culture. In contrast, informal sector workers are ambivalent about the country of origin of any foreign investment. Interestingly, both informal and formal sector workers show a clear preference for Indian investment over FDI. This is consistent with a home-country bias where everyone has greater exposure and

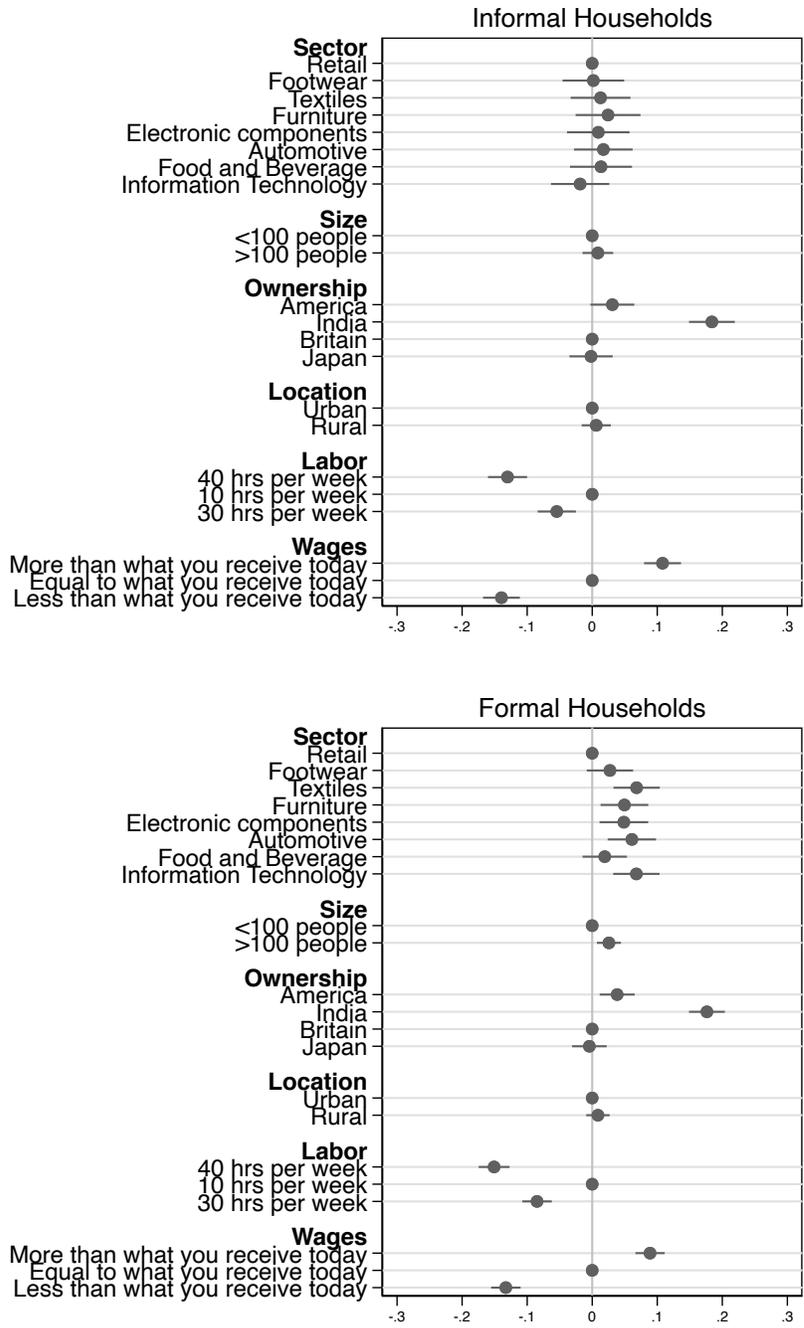


Figure 1: Results of the Conjoint Experiment. Standard errors are clustered at the respondent level.

experience with Indian firms.