

**NÚMERO 249**

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## **Do Human Rights Violations Affect Investors’ Decisions? Past and Current Trends**

Importante

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## Abstract

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*Human rights protection mechanisms are based on the state's commitment to respect, protect and/or promote a series of rights. When one speaks about human rights violations' punishments, the first image that comes to mind is the execution of human rights court rulings. However, there are other less explored informal mechanisms that generate negative consequences ("punishments") after human rights violations. There are actors react to human rights violations in a non-coordinated but systematic way. This paper addresses the following question: Do multinational corporations punish or reward human rights violations? To answer this question, I first discuss the literature analyzing the consequences of human rights violations on foreign direct investment (FDI). Second, I examine the effect of human rights violations on FDI inflows between 2000 and 2011 and present descriptive data illustrating the past five-year trend.*

## Resumen

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*Los mecanismos de protección a los derechos humanos se basan en el compromiso del Estado de respetar, proteger y/o promover una serie de derechos. Al hablar de castigos a violaciones a los derechos humanos, la primera imagen que se viene a la mente es la ejecución de decisiones judiciales sobre derechos humanos. Sin embargo, hay otros mecanismos informales menos estudiados que generan consecuencias negativas ("castigos") tras violaciones a los derechos humanos. Hay actores que, ante violaciones a los derechos humanos, reaccionan de una manera no coordinada pero sistemática. Este artículo responde a la siguiente pregunta: las empresas multinacionales ¿castigan o premian las violaciones a derechos humanos? Para responder, primero se discute la literatura que analiza las consecuencias de violaciones a los derechos humanos sobre la inversión extranjera directa (IED). Segundo, se examina el efecto de violaciones a los derechos humanos sobre los flujos de IED entre 2000 y 2011 y se presentan datos estadísticos que ilustran la tendencia de los últimos cinco años.*

## Introduction

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Human rights protection mechanisms are based on the state's commitment to respect, protect and/or promote a series of rights. This commitment has been formalized both in constitutional charters and international agreements. However, international agreements are the key tool to institutionalize human rights protection because they impose exogenous limits to the state's discretion. Needless to say, the state is in the paradoxical position of being, at the same time, the main actor responsible for violating human rights (through its actions or its omissions), and for protecting those rights. Therefore, committing to an international regime appears to be a sensible mechanism to formalize human rights protection.

The institutionalization of human rights protection implied 1) combining a series of legal and political instruments to define the content of said rights and the eventual extent of their protection (*precision*); 2) placing those rights under the international law's umbrella (*obligation*); and ultimately, 3) establishing institutions for their interpretation, implementation and eventually, adjudication (*delegation*) (Abbott *et al.* 2000). This is possibly why when one speaks about human rights systems' effectiveness, the first image is the execution of international (and sometimes, domestic) court decisions in the domestic arena. However, there are other less explored informal mechanisms that generate negative consequences ("punishments") after human rights violations. This chapter analyzes the existence and reach of one of those informal mechanisms: the reaction of foreign investors to human rights violations.

Human rights institutions' rulings and declarations (as well as reports on human violations) are not only received by the parties in a controversy, but also by a wider audience. Other actors react to human rights violations in a *non-coordinated but systematic* way. There is a literature on the reaction of third governments, non-governmental organizations (NGOs) and international organizations.<sup>1</sup> This chapter addresses the following question: Do multinational corporations (MNCs) punish or reward human rights violations?<sup>2</sup> To answer this question, I first discuss the literature analyzing the consequences of human rights violations on foreign direct investment (FDI). I focus both on the causal mechanisms proposed and the empirical evidence supporting different arguments. Second, I examine the effect of human rights violations on FDI inflows between 2000 and 2011 and present descriptive data

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<sup>1</sup> See, for example, Burton and Lewis (1993), Cingranelli and Pasquarello (1985), Colonomos and Santiso (2005); Lebovic and Voeten (2006, 2009), Neumayer (2003a, 2003b).

<sup>2</sup> This chapter addresses the non-coordinated but systematic MNCs' reactions to human rights violations. By non-coordinated I mean the lack of a state, group of states or international organization formally boycotting or imposing financial sanctions on a country (for example, to the South African apartheid regime, see Arvanitis 2006). By systematic I mean the study of general trends, even when there are cases that deviate from these trends.

illustrating the past five-year trend. This chapter concludes by analyzing to what extent MNCs punish countries that violate human rights and highlights the importance of this punishment mechanism.

Why are MNCs' reactions to human rights violations important? Governments want FDI, and MNCs' avoidance of countries that violate human rights violations could be a costly punishment to said violations. Why do countries want FDI? There is a broad literature discussing the relationship between FDI and the improvement of economic indicators. Although an unconditional effect of FDI on growth is still disputed (Carkovic and Levine 2005), there is evidence that FDI improves economic growth (Li and Liu 2005; Moran 2002), especially in countries with well developed financial markets (Alfaro *et al.* 2004, 2010), and in those that encourage export-oriented FDI and maintain macroeconomic stability (Zhang 2001). FDI is associated with reduced poverty (Bhagwati 2007), lower domestic income inequality (Jensen and Rosas 2007), and more domestic investment (Borensztein *et al.* 1998, Modya and Murshid 2005). FDI is argued to also have indirect positive effects on growth via deterring conflict escalation (Lee and Mitchell 2012).

Independently of FDI's long-term effects on growth, FDI is the most stable source of international financing, and generally has positive short term effects on domestic employment, government financing, foreign exchange reserves, and potentially, on government approval (Przeworski and Wallerstein 1988:12). That is why almost all governments compete to receive these financial flows (Elkins *et al.* 2006; Oman 2000). Knowing whether a country's human rights record affects its FDI inflows is important because MNCs' avoidance of human rights violators would imply a punishment (intentionally or not) for human rights violations.<sup>3</sup> Furthermore, one might hope that the competition for FDI could lead to more respect for human rights. This expectation is in line with Simmons' finding regarding commitment and compliance with international legal agreements. According to Simmons, reputational concerns explain patterns of compliance: "competitive market forces, rather than overt policy pressure from the International Monetary Fund, are the most likely 'enforcement' mechanism" (Simmons 2000:819).

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<sup>3</sup> Note that the debate on the effects of FDI on human rights, the reverse relationship, is beyond the scope of this chapter. See for example Blume and Voigt (2007), Hafner-Burton (2005), Kim and Trumbore (2010), Richards *et al.* (2001), Sorens and Ruger (2012).

### ***Effect of human rights on FDI in the literature: Is there a relationship?***

In 1999, Deborah Spar noted a lack of interest in the study of the relationships between human rights and FDI for two reasons. First, she argued that scholars and analysts assumed any association between human rights and FDI to be either negative or irrelevant. Yet, the relationship between human rights respect and FDI is not a new topic in the literature (see, for example, Hymer 1972). Second, firms supposedly considered human rights to be a “government policy, not a business concern” (Spar 1999:56). However, it is not necessary that companies get involved in politics or actively sponsor policies that promote human rights for a relationship between FDI and human rights violations to exist. In this section, I review the literature analyzing the relationship between human rights and FDI and the evidence presented. Overall, recent studies suggest that MNCs do take into account the situation of human rights when choosing countries where to invest.

#### *No relationship between human rights record and FDI?*

Two situations could suggest a lack of relationship between human rights violations and FDI. First, if firms considered human rights to be a “government policy, not a business concern,” as Spar indicates (1999:56), it would seem logical to assume a lack of significant relationships between a country’s human rights record and its inflows of FDI (see also Meyer 1998:142). This hypothesis is problematic in its own terms: One issue is to assume that MNCs will not try to influence domestic politics in the host country because it is “not a business concern.” However, that is very different from the assertion that MNCs will not take into account domestic factors in the host country that can affect the profitability of their own investment. That would imply that the human rights situation does not affect the mere economic calculations of investment abroad.

Second, there is a “temporal dissonance” between FDI’s long-term goals and the timing and effects of government policies that affect human rights that may obscure any relationship between human rights records and FDI inflows. On the one hand, given that FDI has long-term goals, it is possible that changes in the human rights environment would not immediately affect these investment strategies. On the other hand, it is possible that investors anticipate changes in human rights policies or general situation and invest in some countries that still exhibit poor human rights conditions, but with the expectation that human rights conditions would improve in the near future. In both hypothetical situations, it would be hard to find a systematic

relationship between countries' human rights records and the foreign investment they receive.

### *A poor human rights record attracts FDI?*

A series of works posited a negative relationship between human rights respect and FDI. Anchored on the model of *capitalist accumulation*, several authors suggest that MNCs and FDI are a consequence of the concentration of capital, which presses for the expansion of capitalism (e.g., Lindblom 1977:172-5; Miliband 1969). In order to maintain their investments' profitability (and to preserve their privileged position of financial superiority), MNCs need to maintain labor tamed to avoid riots against this form of exploitation. Because governments depend on investment to maintain the level of economic activity, and economic activity depends on capitalists' investment decisions, investors "have a veto over state policies in that their failure to invest at adequate levels can create major political problems for state managers" (Block 1977:15).<sup>4</sup> Therefore, countries with policies that *empower labor rights* will receive less FDI.<sup>5</sup> In order to attract and keep investment, governments have incentives to adopt policies that allow this logic of exploitation. These policies ("negative state interventions") may include "repressive measures to ensure the regime's durability by quelling political opposition while guaranteeing a docile workforce" (Apodaca 2001:589).

Another set of arguments share principles with the literature on *dependency* (Cardoso and Faletto 1971, 1979; Furtado 1970; Prebisch 1962). Przeworski (1990) summarizes the theory of structural dependency between state policies and firms' behavior as follows: states are structurally dependent because it is impossible for a government to simultaneously reduce profits and increase investment. Given that firms invest as a function of expected returns, any policy that *transfers income* away from owners of capital will reduce the firms' return, and will therefore disincentive investment (Przeworski 1990:93-94).<sup>6</sup>

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<sup>4</sup> Block clarifies the logic behind this argument: it is not a matter of "ruling class consciousness," but of business confidence. "Business confidence [...] does not make subtle evaluations as to whether a regime is serving the long-term interests of capital. When there is political turmoil and popular mobilization, business confidence will fall, and it will rise when there is a restoration of order, no matter how brutal. [...] The crudeness of business confidence makes capitalism peculiarly vulnerable to authoritarian regimes that are capable of acting against the general interest of capital" (Block 1977:16-17, emphasis added).

<sup>5</sup> Hirst and Thompson go to the extreme of stating that "distinct national regimes of extensive labor rights and social protection are thus obsolete" (1996:175).

<sup>6</sup> Notice, however, that Przeworski and Wallerstein (1988) show that the premises do not support the corollaries of this argument. In particular, Przeworski and Wallerstein (1988) show that 1) it is possible for governments to redistribute income to workers without losing investment and the conditions under which that is possible. Also, 2) for workers not to be structurally dependent on capital, government's actions are necessary, particularly, imposing taxes on capital outflows.

Beyond economic structural arguments, other scholars posit a negative relationship between a country's human rights record and its FDI inflows, but based on a different logic: The relationships between MNCs and developing countries' governments do not have to be conflictive, in fact, there are *cooperative* (yet, pervasive) *associations* between MNCs and developing countries' governments. On the one hand, MNCs invest and support governments in countries with repressive mechanisms, capable to maintain order and guarantee the maintenance of operations (Huntington and Nelson 1976). On the other hand, authoritarian governments will maintain and even strengthen repressive systems that guarantee cheap labor (Hymer 1972) and low levels of political organization and mobilization of the working class (O'Donnell 1973:53).

For example, Peter Evans (1979) stresses the “triple alliance” between MNCs, local capital and the Brazilian state. In fact, he sees Brazilian authoritarian politics as the result of a bargaining among local capital owners, MNCs and entrepreneurial state managers. His analysis departs from the traditional structural dependence theory by stressing both the cooperative relations between the state and MNCs, and the possibilities of bargaining between developing countries and MNCs (Jenks and Newfarmer 1979:134). Regarding the reproduction of repressive systems, Evans explains that “the tendency toward repression stems in part from the economic rationale of exclusion” (Evans 1979:48). Repression is the only way to reduce the mobilization of the “already activated urban popular sector” (O'Donnell 1973:53). “When repression of the urban working class, effective bargaining with the MNCs, and entrepreneurial initiative on the part of the state bourgeoisie are the critical components of capital accumulation, then imperative control, not consensus building within the bourgeoisie, is the response” (Evans 1979:49).

Finally, there is a host of anecdotal evidence of ties between MNCs and repressive governments. As Spar (1999:61) summarizes, “the loudest accusations of complicity between Western corporations and repressive regimes cluster around the extractive industries”<sup>7</sup> such as British Petroleum (Colombia), Freeport McMoran (Indonesia), Shell (Nigeria), Unocal (Myanmar), although the list also includes the cases of Bhopal (India), ITT in Chile and United Fruit in Guatemala (Amnesty International 2002).

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<sup>7</sup> She makes the point, however, that “the relative importance of these industries [in relation to total FDI flows] is apparently declining” (Spar 1999:61).

### *The case of labor rights in particular*

Conventional wisdom suggests that FDI is attracted to countries with a poor labor rights' record. On logical grounds, for this conventional wisdom to hold, two things should be true. First, labor rights should have a direct impact of on labor costs: for example, inferior labor standards would mean that workers cannot freely form or join unions, engage in collective bargaining, or eventually, protest to improve their working conditions and wages. Second, labor costs should be the *main* driver of FDI, something that aggregate data does not seem to support. Even when labor costs affect location decisions, they are not the main determinant (e.g., Braconier *et al.* 2005), and some studies found the opposite: higher hourly compensation costs are associated with greater FDI (e.g., Cooke and Noble 1998). This result can be explained because labor costs may proxy skill requirements (Cooke and Noble 1998; Noorbakhsh *et al.* 2001). Finally, micro-level data does not seem to support this assumption either: in a survey where several hundred managers of MNCs and international experts were asked about the main concerns regarding where to locate investment, Kucera (2002:35-36) finds that the cost of labor was actually ranked ninth, notably below political and social stability (4<sup>th</sup>) and quality of labor (5<sup>th</sup>).

### *In sum...*

In sum, there is a broad literature suggesting that countries with a poor human rights record draw MNCs, and some of this literature does a good job explaining the path to development in several cases. However, in spite of the extension of the literature positing a negative relationship between human rights respect and FDI, the evidence supporting those arguments is not as strong as one might expect. Although there is anecdotal evidence and some case studies conducted in the 1970s suggesting the likelihood of governments repressing human rights in order to attract investment, many studies suggest that in fact, the relationship is the opposite: investors tend to avoid countries with a poor record in human rights respect. The next section discusses that literature.

### *A good human rights record attracts FDI?*

Why would respect for human rights attract investment? Different studies argue and present empirical evidence that a good human rights record attracts FDI. Although there is some variation of the causal story depending the types of human rights that scholars study,<sup>8</sup> the explanations can be classified in two groups. On the one hand, some scholars argue that respect

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<sup>8</sup> See below.

for human rights create conditions that attract FDI. For example, respect for human rights creates “an environment uncondusive to violence” (Sorens and Ruger 2012:428), and low levels of political instability or social conflict; and workplace equality and limits to children labor are associated to higher levels of human capital. Both political stability and human capital attract investment. Therefore, violations of human rights would *indirectly* deter FDI.

On the other hand, other scholars stress the *direct* effect of human rights violations in the host country on MNCs. These arguments involve the idea of reputational costs (Downs and Jones 2002; Guzman 2002) of investing in countries charged with having high levels of repression, also known as “the spotlight phenomenon” (Spar 1999:70-74). According to Letnes, NGOs direct media attention to human rights violations, making it more difficult for MNCs to evade responsibility about human rights violations (Letnes 2002:36), and to avoid being linked to countries responsible for said violations.<sup>9</sup> Furthermore, the role of NGOs has been highlighted also when they publicize “a state’s failure to meet its treaty obligations, *a decision by investors to withdraw or withhold funds*, or a decision by a country to withhold foreign aid” (Hathaway 2007:597, emphasis added). Some scholars even suggest the “development of moral expertise in civil society” (Colonomos and Santiso 2005:1324), whereas others simply posit that “the global marketplace functions as an ‘audience’ that rewards or punishes the policy choices of states. Globalization, which connotes an increased exposure to this marketplace, increases the relevance of the ‘costs’ that this ‘audience’ may impose” (Blanton and Apodaca 2007:599).

In the following paragraphs, I analyze the arguments and the empirical evidence regarding the existence of a positive relationship between good human rights practices and MNCs’ investment. The evidence is organized by categories of human rights.

### *Physical integrity rights*

A recent literature studies the effect of countries’ respect for physical integrity rights (that is, the lack of torture, extrajudicial killings, political imprisonment, or disappearances) on the investment they receive. This line of research is strongly associated with the work of Robert and Shannon Blanton, from the University of Memphis. In one of their early articles, on a sample of developing countries for the years between 1980 and 2003 they find that human rights respect determines a country’s FDI inflows (Blanton and Blanton 2006). In their 2007 *Journal of Politics* article, they assess both the direct and indirect effects of human rights respect on FDI. They measure physical

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<sup>9</sup> Letner (2002:39) cites the cases of The Co-operative Bank and The Body Shop as examples of MNCs taking responsibility in human rights issues as a part of their business strategy.

integrity rights respect using the Political Terror Scale (Gibney *et al.* 2011) and show that human rights attract FDI (Blanton and Blanton 2007). Blume and Voigt (2007) find a similar result using a different dataset (the CIRI data, Cingranelli and Richards 2010).

Blanton and Blanton further study the mechanism that links human rights to FDI. They stress the heterogeneity of FDI flows, and the variance in both skill requirements and in the degree to which societal acceptance is sought by different industries. This last factor should particularly increase the salience of human rights concerns in investment decisions. They find that physical integrity rights significantly determine U.S. foreign investment in developing countries in industry sectors that value higher skills and integration within the host society (Blanton and Blanton 2009).

Finally, in their 2012 article, Blanton and Blanton (2012b) analyze the impact of human rights (using data from Cingranelli and Richards 2010) on U.S. outward foreign investment across multiple sectors. On a sample of 32 developing countries between 1982 and 2007, they find that physical integrity rights violations deter U.S. FDI in sectors with no temporal inconsistency (Blanton and Blanton 2012b).

### *Political rights, civil liberties and democracy*

As explained in section 2.1, early studies posit that authoritarian governments should attract more FDI than democratic ones. However, several studies find that political rights and civil liberties associated with democratic governments attract foreign investment.<sup>10</sup> Rodrik (1996) is one of the first studies that found a positive relationship between democracy and FDI. His evidence suggests that countries that respect democratic rights tend to receive more FDI from American MNCs. Similarly, Harms and Ursprung ask whether civil and political repression “really boosts FDI” or whether MNCs “prefer societies in which political participation and civil liberties are guaranteed” (Harms and Ursprung 2002:653). On a sample of 62 developing and emerging markets, between 1989 and 1997, they find that countries that respect civil and political freedoms receive more FDI Per capita. Similarly, on a sample of 85 countries, Kucera (2002:57) finds that “stronger civil liberties, political rights, and democracy” attract more FDI.

Matthias Busse (2004) extends the temporal scope of these studies and examines the relationship between democracy and FDI in 69 countries, from 1972 to 2001. First, his statistical analysis shows a positive relationship between a composite index of political rights and civil liberties, and Per capita FDI inflows in the whole period. Busse also gives a closer examination to

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<sup>10</sup> These studies use measures of political and civil rights from the Freedom House project (Freedom House 2012). This index is described below, in the empirical section.

18 cases of democratic transitions. He shows that in 11 out of 12 cases of transition to democratic regimes, FDI inflows increased after the transition (Bolivia is the exception). This increase is remarkable in the cases of Panama (from average FDI outflows to FDI inflows), Paraguay (1716%), Uruguay (735%), Benin (300%), and South Korea (226%). His evidence is less clear regarding transitions to authoritarian regimes. Still, 4 out of 6 countries show a decline of FDI inflows after the transition to autocracy<sup>11</sup> (Busse 2004:53-55). Second, he examines the effect of democracy and FDI by decade. He finds that there is a clear positive effect in the 1990s, and that this relationship seems to be stronger in the last years of the century. However, this positive relationship between respect for political rights and civil liberties, and FDI inflows does not hold for the 1970s and 1980s.

Busse speculates that two factors may have affected investors' decisions, drawing investment to more democratic countries –at least in the 1990s. First, he cites the obvious shift in the composition of global FDI flows: from the extraction of raw materials, to manufacturing and services (Busse 2004:58-59). Notice that in spite of this explanation, Busse does not find in the 1970s or 1980s a *negative* relationship between democratic rights and investment, as the literature on structural dependence would have predicted. That is, even in the period when FDI was primarily oriented to the primary sector (in the 1970s), investment was not significantly attracted to authoritarian countries. Second, in recent decades, there has been a growing concern among consumers regarding how products are made and where MNCs invest. This international audience is increasingly aware of MNCs' activities due to two interacting factors: the presence of activist groups and the ease of communications that new technologies allow (Busse 2004:59-60). This would explain, for example, why FDI plummeted in Burma by the end of the 1990s (see MacCarthy 2000).

Adam and Filippaios (2007) study the individual effects of civil liberties and of political rights. On a sample of 105 developing and developed countries between 1989 and 1997, they find that in fact each kind of rights has a different effect on US FDI inflows. Their evidence suggests that U.S. MNCs invest in countries with high levels of political rights, but the relationship between civil liberties and investment is not linear: investment increase with more civil liberties' respect to a point in which a better record of civil liberties is associated with no increases in FDI inflows. Their explanation follows two different rationales. Regarding respect for political rights, more democratic countries have more stable policies and longer time horizons. This positively affects returns on investment, and that is why MNCs reward countries with higher levels of political rights. Regarding civil liberties, however, there is a first stage in which more protection increases FDI because said protection

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<sup>11</sup> The four cases are Thailand, Burkina Faso, Ghana and Nigeria. The exceptions are Argentina and Turkey.

improves the workforce's productivity. However, when civil liberties encourage unionization<sup>12</sup> and empower special interest groups, MNCs' ability to extract rents from their investment diminishes. Therefore, FDI decreases (Adam and Filippaios 2007:1041).

Focusing exclusively on civil rights, Aldo Ponce (2010) finds a similar relationship. Ponce argues that civil rights have positive but decreasing returns on FDI inflows (Ponce 2010:11). On a sample of transition economies, and using global FDI data, he finds support for his hypothesis.

Using a different measure for democracy,<sup>13</sup> Jensen (2003) finds that democracies attract higher levels of FDI inflows. According to his findings, in a sample of 100 developing countries during 30 years, democracies receive 70% more FDI than autocracies. Blanco (2012) also finds a moderate effect of democracy on FDI in 17 Latin American countries, between 1986 and 2006. However, Li and Resnick (2003) separate democracy and democracy-related property rights and find that democracy seems to deter FDI, while property rights has a positive association (on a sample of 53 developing countries, between 1982 and 1995).<sup>14</sup> Overall, most studies have found a positive relationship between democracy and the respect for political rights and civil liberties, and FDI inflows.

### *Labor rights*

The critics of globalization and the "race to the bottom" literature argue that investors should be attracted to countries where labor rights are violated for two reasons. First, investors should be enticed because said violations could imply lower labor costs. Second, labor rights violations could tame protests for better working conditions.

Although this is a powerful argument, and there is anecdotal evidence in this direction, a great deal of research demonstrates that MNCs are not only driven by labor costs when choosing a host country for their investment. Furthermore, recent studies have found systematic evidence suggesting that labor rights violations may in fact deter investment. Scholars suggest different rationales for this relationship. For example, there is a literature suggesting the negative effect of demonstrations and other forms of political instability or social conflict on FDI (e.g., Asiedu 2006; Kucera 2002; Schneider and Frey 1985). In that case, both freedom of association and rights for collective bargaining have the potential for reducing instability. Egan emphasizes the

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<sup>12</sup> Notice, however, that there is research showing that unionizations does not deter FDI (see below).

<sup>13</sup> Jensen (2003) and Li and Resnick (2003) use the Poliy IV dataset (Marshall and Jaggers 2012).

<sup>14</sup> A note of caution regarding the interpretation of Li and Resnick's (2003) findings: although their result for democracy is negative, it is negative when a democratic country has no protection for property rights. That is, improvements in democracy without any improvement in property rights that are associated with democracy have a negative effect on FDI. However, there are no empirical examples of democracies without any protection for property rights.

importance of business models. Labor rights violations may deter MNCs whose business models are based “on the expectation of stable, conflict-free operation” or on the supply of “high-skilled workers, who are likely to have more exit options and/or be aware of their rights” (Egan 2012:416). Kucera shows that lower levels of gender discrimination and child labor are associated with higher (or the potential for higher) human capital, which in turn attracts FDI (Kucera 2002:37). Finally, there are also arguments stressing the reputational cost of investing in countries accused of having high levels of labor repression: MNCs may suffer from bad publicity or consumers boycotts (Egan 2012:416; Kucera 2002). In the following paragraphs, I organize the evidence regarding the type of indicators different scholars used for these studies, that is, *de jure* or *de facto* indicators of the level of labor rights respect.

First, a group of studies focuses on *de jure indicators* of the state’s commitment to labor rights protection, such as ILO conventions ratifications, or the extent of the freedom of association and unionization. For example, Cooke and Noble (1998) find that the total number of ILO standards that a country has ratified is positively related to U.S. FDI inflows. The OECD’s study *International Trade and Core Labour Standards* finds a “small positive correlation between” FDI inflows and the recipient country’s respect for freedom of association rights (OECD 2000:35). After analyzing the literature, the OECD concludes that there is “no robust evidence that low-standard countries provide a heaven for foreign firms,” and that areas “with poor working conditions are unlikely to attract *sustained*, long-term investment” (OECD 2000:34).

David Kucera (2002) analyzes the effect of “core” labor standards contained in the ILO’s Declaration on Fundamental Principles and Rights at Work and its Follow-up, specifically, freedom of association and the effective recognition of the right to collective bargaining, the effective abolition of child labor, and the elimination of discrimination in respect of employment and occupation (Kucera 2002:33). He finds that FDI tends to be greater in countries with stronger worker rights; however, the results obtained on a cross-sectional sample (85 to 127 countries) are not robust to different specifications.

Blanton and Blanton (2012a) analyze the link between labor rights associated with collective bargaining regimes and FDI, across different industrial sectors. They find that, although labor rights are negatively related to total FDI, they are positively related to investment in manufacturing sectors. Their evidence is drawn from a sample of 33 to 35 developing countries, between the early 1990s and 2002.

Many other studies focus on *de facto* indicators, such as effective levels of unionization, child labor or labor compensation. Regarding unionization, Cooke and Noble (1998) study the effect of government restrictions on layoffs,

union penetration (that is, the percentage of all employed wage earners who are union members) and centralized negotiation on U.S. FDI. On a sample of 33 developed and developing countries, they find that government restrictions on layoffs, union penetration and centralized negotiation structures are negatively related to U.S. FDI. These findings, however, were contested by later studies.

Harms and Ursprung (2002:653, 658) also ask whether MNCs are more attracted to countries with curtailed workers' rights, or to countries in which "an organized labor force is able to pursue its interests", as suggested by Greider (1998). They measure workers' rights as trade union density (rescaled by taking civil repression into account) and find that a greater degree of unionization seems to attract foreign investors (Harms and Ursprung 2002:653). Radulescu and Robson (2008) also test the effect of union density on FDI in developed countries and find the relationship between labor rights and FDI to be more complex: the impact of union density on FDI is conditioned by the degree of wage bargaining coordination. Although the general impact of trade union density on FDI is negative, higher levels of wage coordination weakens the deterrent effect of high union density. This effect is explained by the idea that coordinated increases in wages can increase profits of MNCs. Similarly, Egan (2012) finds a consistent association between labor rights violations and poor risk ratings, suggesting that labor rights violations lead to reductions in FDI.

Finally, regarding child labor, Rodrik (1996) finds that countries with more child labor attract less U.S. FDI capital than countries that protect child workers. This finding is confirmed by Busse (2003), who finds a similar result regarding less discrimination against female workers (Busse 2003:46). In sum, in spite differences in samples and measures of labor rights, the studies examined here show an overall positive relationship between labor rights respect and FDI inflows.

### ***Human rights and FDI in the last five years***

In this section, I present descriptive data on FDI inflows and human rights violations. These data attempt to illustrate some of the arguments and the evidence described in the previous sections, but are focused on the period 2006-2011. A necessary caveat is that these descriptive statistics do not intend to posit causality, but to show correlations between the variables under analysis. In order to standardize the information on FDI, in this section FDI is measured as a country's FDI inflows over its GDP.

#### *Physical integrity rights*

What is the relationship between physical integrity rights and FDI in the recent years? Assessing this relationship is always problematic because of the

difficulties in accurately (or at least, acceptably) measuring human rights and human rights violations.<sup>15</sup> In an attempt to provide data that has a reasonable level of face validity, I present data from different sources.

First, I measure human rights violations using CIRI's physical integrity rights index (Cingranelli and Richards 2010). The CIRI dataset measures government human rights practices in 195 countries on the following areas: the rights not to be tortured, summarily executed, disappeared, or imprisoned for political beliefs. The yearly scores from the *Torture*, *Extrajudicial Killing*, *Political Imprisonment*, and *Disappearance* indicators for each country (between 1981 and 2010) are added up in a cumulative scale.<sup>16</sup> The constructed index of physical integrity ranges from 0 (no government respect for these four rights) to 8 (full government respect for these four rights) (Cingranelli and Richards 1999).

For the purposes of this chapter, I first recode the CIRI data in three categories: *low level* of human rights violations (countries with index of physical integrity equal to or higher than 6), *intermediate level* (index of physical integrity between 3 and 5), and *high level* of human rights violations (index of physical integrity between 0 and 2). I then break up the data on FDI by level of human rights violations in the previous year to see whether past levels of human rights violations affect present FDI flows. Table 1 shows the average FDI as a percentage of a country's GDP per year ( $FDI/GDP_t$ ), by level of human rights violations in the previous year (level of violations $_{t-1}$ ), on different samples of developing countries between 1978 and 2011.

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<sup>15</sup> For discussions about the problem of measuring human rights, see the issue 8(4) of the Human Rights Quarterly (1986).

<sup>16</sup> For the definitions and coding of these variables, see Appendix I.

**TABLE 1. AVERAGE FDI (AS A PERCENTAGE OF THE COUNTRY'S GDP) PER YEAR IN DEVELOPING COUNTRIES, BY LEVEL OF HUMAN RIGHTS VIOLATIONS (1978-2011). DIFFERENT SAMPLES**

SAMPLE	ALL DEVELOPING COUNTRIES		DEVELOPING COUNTRIES (NET OIL EXPORTERS)		DEVELOPING COUNTRIES (NO OIL)	
	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS
Low	4.24%	1259	3.10%	174	4.43%	1085
Intermediate	3.17%	1490	3.63%	266	3.07%	1224
High	2.17%	692	1.98%	158	2.22%	534
All levels	3.36%	3441	3.04%	598	3.43%	2843
Statistical significance: F-ratio (Prob > F)	24.982 (0.000)		4.233 (0.015)		23.938 (0.000)	

Source: Author's elaboration based on recoded CIRI data on human rights violations (Cingranelli and Richards 2010) and on World Bank's information on FDI flows (World Bank 2012).

The first column in Table 1 shows that, in the whole period (1982/2011), the average FDI a country received was 3.36%. However, there are significant differences in the average FDI a country received at different levels of human rights violations. A country experiencing low levels of human rights violations received FDI representing 4.14% of their GDP per year, while a country experiencing high levels of human rights violations received on average, almost half of that investment (2.17%).<sup>17</sup>

It is possible that countries that produce oil receive large amounts of FDI, but that those investments follow different criteria. I therefore break up the data depending on whether the country under consideration is a net oil exporter. Columns 2 and 3 show the data for developing countries that are (or are not) net oil exporters. In the case of *net oil exporter* developing countries, countries with intermediate levels of human rights violations receive on average 17% *more* investment than countries with low levels of human rights violations. However, countries with high levels of human rights violations receive significantly less investment per year than countries with low and intermediate levels of human rights violations (-36% and -45.5%, respectively). Regarding the rest of the developing countries, the same relationship described in column 1 holds: countries with low levels of human rights violations receive *on average* 44% and 99.5% more FDI than countries with intermediate and high levels of human rights violations, respectively.

Some of the literature examined in the previous section presents somewhat contradictory evidence regarding the relationship between human rights violations and FDI. Some of said differences could be due to changes in investors' behavior (or investment conditions) across time. Table 2 shows the same information presented in Table 1, but divided by decades. FDI has significantly increased in the last three decades, moving from 1.14% of the average country's GDP in the 1980s, to 2.93% in the 1990s and 5.17% in the last decade. Table 2 shows that the relationship observed in the general sample holds in each of the three decades: higher levels of human rights violations are associated with lower levels of FDI.<sup>18</sup>

Because this article especially focuses on the developments in the last five years, I also present two alternative ways to assess the correlation between human rights respect and FDI inflows in this period. Table 3 presents information about the data used in the figures that follow.

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<sup>17</sup> All these differences are significant at the conventional levels of statistical significance.

<sup>18</sup> Note, however, that the difference among the three groups is only significant at a .1 level in the 1992-2001 sub-sample. In the other two decades, differences are highly significant.

**TABLE 2. AVERAGE FDI (AS A PERCENTAGE OF THE COUNTRY'S GDP) PER YEAR IN DEVELOPING COUNTRIES, BY LEVEL OF HUMAN RIGHTS VIOLATIONS. DIFFERENT DECADES**

YEARS	1982-1991		1992-2001		2002-2011	
	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS	AVERAGE FDI/GDP	NUMBER OF OBSERVATIONS
Low	1.37%	312	3.37%	395	6.49%	552
Intermediate	1.29%	409	2.79%	495	4.80%	586
High	0.43%	186	2.55%	263	3.08%	243
All levels	1.14%	907	2.93%	1153	5.17%	1381
Statistical significance: F-ratio (Prob > F)	15.120 (0.000)		2.268 (0.104)		17.527 (0.000)	

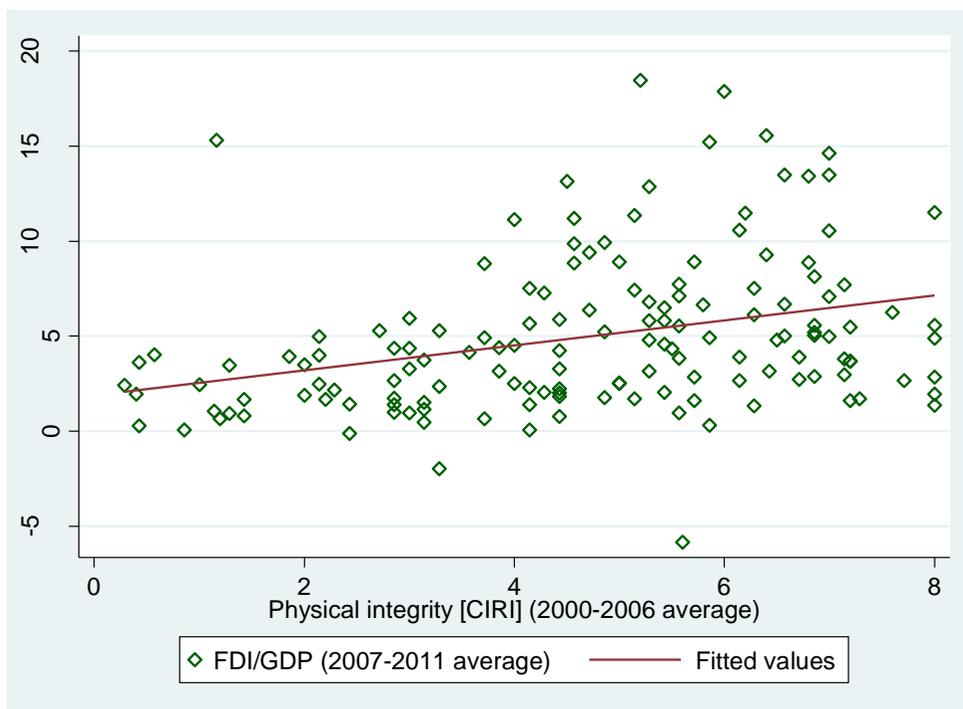
Source: Author's elaboration based on recoded CIRI data on human rights violations (Cingranelli and Richards 2010) and on World Bank's information on FDI flows (World Bank 2012).

**TABLE 3. DESCRIPTIVE STATISTICS OF DATA USED IN FIGURES. DEVELOPING COUNTRIES, YEARS AS INDICATED**

VARIABLE	DESCRIPTION	SOURCE	OBSERVATIONS	MEAN	STD. DEV.	MINIMUM VALUE	MAXIMUM VALUE
FDI/GDP (2007-2011 average)	Average of a country's FDI inflows (divided by the country's GDP) received between 2007 and 2011.	World Bank (2012)	150	5.08	4.15	-5.82	18.48
Physical integrity index (2000-2006 average)	Additive index constructed from the Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance indicators. 2000-2006 average.	Cingranelli and Richards (2010)	148	4.72	1.99	.286	8
Political Terror index (2000-2006 average)	First, yearly averages of Amnesty International's ratings on human rights, and the US Department of State's ratings are obtained. Second, the scores for the years 2000 to 2006 are averaged.	Political Terror Scale (Gibney <i>et al.</i> 2011)	141	2.66	0.929	1	4.93
Freedom House index (2000-2006 average)	Additive index measuring civil liberties and political rights. 2000-2006 average.	Freedom House (2012)	145	3.22	1.79	0	6
Polity2 (2000-2006 average)	Additive index measuring democratic constraints on governments. 2000-2006 average.	Marshall and Jaggers (2012)	125	2.11	6.28	-10	10
Children labor (2000-2006 average)	Percentage of children (ages 7 to 14) who are involved in economic activity for at least one hour.	World Bank (2012)	87	23.02	17.66	1	74.4
Vulnerable employment (2000-2006 average)	Unpaid family workers and own-account workers as a percentage of total employment.	World Bank (2012)	96	43.94	28.07	0.4	94.6

Figure 1 places each country in two dimensions: the horizontal axis represents the average level of physical integrity between 2000 and 2006. I use the raw CIRI data on human rights violations (Cingranelli and Richards 2010), where 0 represents the minimum level of human rights *respect*, and 8 is the maximum. The vertical axis represents the average FDI inflows that each developing countries received between 2007 and 2011. Each developing country is represented by a hollow diamond. The intuition is that past levels of human rights respect (2000-2006) would influence present levels of investment (2007-2011).<sup>19</sup> The fitted line shows that higher levels of human rights respect are associated with more FDI. There are three clear outliers: the Democratic Republic of Congo and Djibouti receive far more FDI than the level of human rights respect would lead to expect, and Suriname receives significantly less investment than other countries with the same level of human rights respect.<sup>20</sup>

**FIGURE 1. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF RESPECT FOR HUMAN RIGHTS (BETWEEN 2000-2006). SCATTER PLOT AND LINE SHOWING THE TREND**



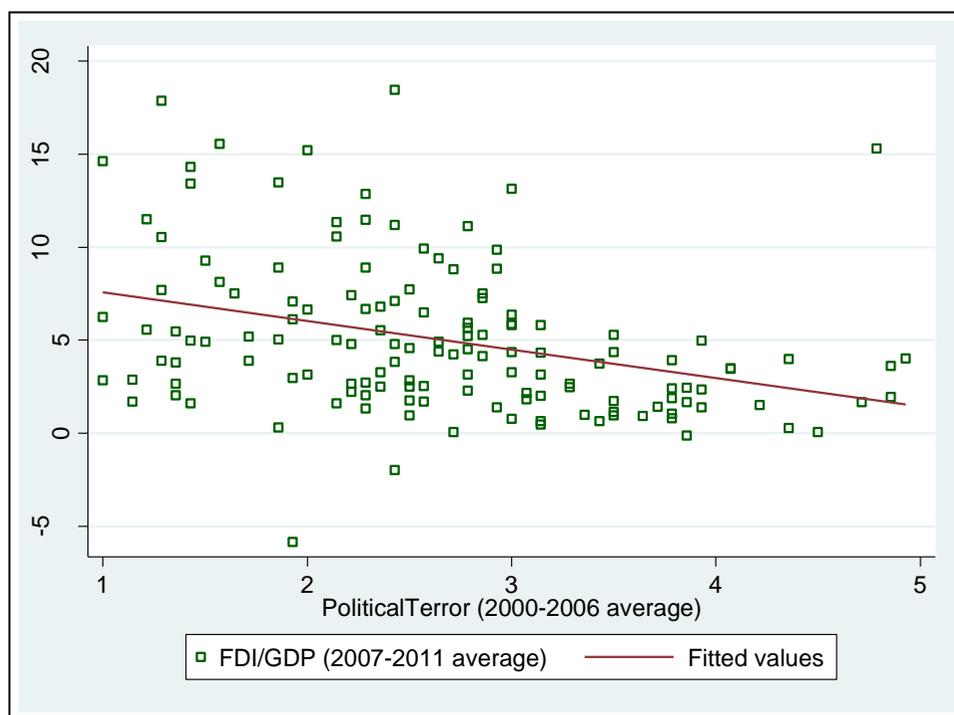
Source: Author's elaboration based on the physical integrity index (Cingranelli and Richards 2010) and on World Bank's information on FDI flows (World Bank 2012).

<sup>19</sup> Although imperfect, this is a reasonable way to overcome the problem of reverse causality: it is unlikely that FDI flows between 2007 and 2011 influenced the levels of human rights respect between 2000 and 2006.

<sup>20</sup> These outliers could be explained by other determinants of FDI that are not considered in this bivariate correlation.

Figure 2 reproduces Figure 1 but with a different measure of human rights violations. *Political Terror* is an index that averages two sources of information on human rights violations: Amnesty International's ratings on human rights, and the United States Department of State's ratings (based on its Country Reports on Human Rights Practices).<sup>21</sup> Although there are few differences between both datasets (Poe *et al.* 2001), combining them allows to extend the cross-sectional coverage of the data. Note that I do not use the straight Political Terror Scale (Gibney *et al.* 2011), but the average of its sources.<sup>22</sup> The main difference between the Political Terror Scale and the index used here is that the average allows for a more fine-grained measurement.<sup>23</sup> *Political terror* ranges from 1 (lowest level of human rights violations, reign of the rule of law) to 5 (highest level of human rights violations, widely occurring terror in the society). See Appendix 2 for a description of the categories.

**FIGURE 2. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF POLITICAL TERROR (BETWEEN 2000-2006) SCATTER PLOT AND LINE SHOWING THE TREND**



Source: Author's elaboration based on Gibney *et al.* (2011) and on World Bank's information on FDI flows (World Bank 2012).

<sup>21</sup> The data was taken from [www.politicalterroryscale.org](http://www.politicalterroryscale.org) (Gibney *et al.* 2011).

<sup>22</sup> Even when both the CIRI data and the Political Terror Scale use the same sources, different coding rules produce non-identical results (Wood and Gibney 2010).

<sup>23</sup> That is why observations in Figure 2 do not cluster around 1, 2, 3, 4 and 5, but are more dispersed along the horizontal axis.

In Figure 2, the vertical axis represents average FDI inflows that each developing countries received between 2007 and 2011. Each developing country is represented by a hollow square. The horizontal axis is the average level of Political Terror for a given country, between 2000 and 2006. If past levels of human rights violations (2000-2006) influence present levels of investment (2007-2011), the observations should make a descending slope, indicating that lower levels of terror are associated with higher FDI inflows. The fitted line shows that relationship.<sup>24</sup>

### *Political rights, civil rights and democracy*

Figures 3 and 4 examine the relationship between past levels of respect for political rights, civil liberties, or of democracy and FDI inflows. Following the studies described in the section 2.3.2 (see above), I measure civil liberties and political rights using data from the Freedom House project. According to Freedom House (2012), *political rights* include the right to freely participate in the political process and civil liberties means “the freedoms to develop views, institutions, and personal autonomy apart from state.” Specifically, the index includes the rights to participate freely in the political process; to vote freely in legitimate elections; to have representatives that are accountable to them; to exercise freedoms of expression and belief; to be able to freely assemble and associate; to have access to an established and equitable system of rule of law; and to enjoy social and economic freedoms, including equal access to economic opportunities and the right to hold private property.

The Freedom House index ranges from 1 (no respect for the above described rights) to 7.<sup>25</sup> Figure 3 shows the distribution of countries in two dimensions: the average Freedom House scores obtained by the country between 2000 and 2006 (in the horizontal axis), and the average FDI inflows received between 2007 and 2011 (in the vertical axis).

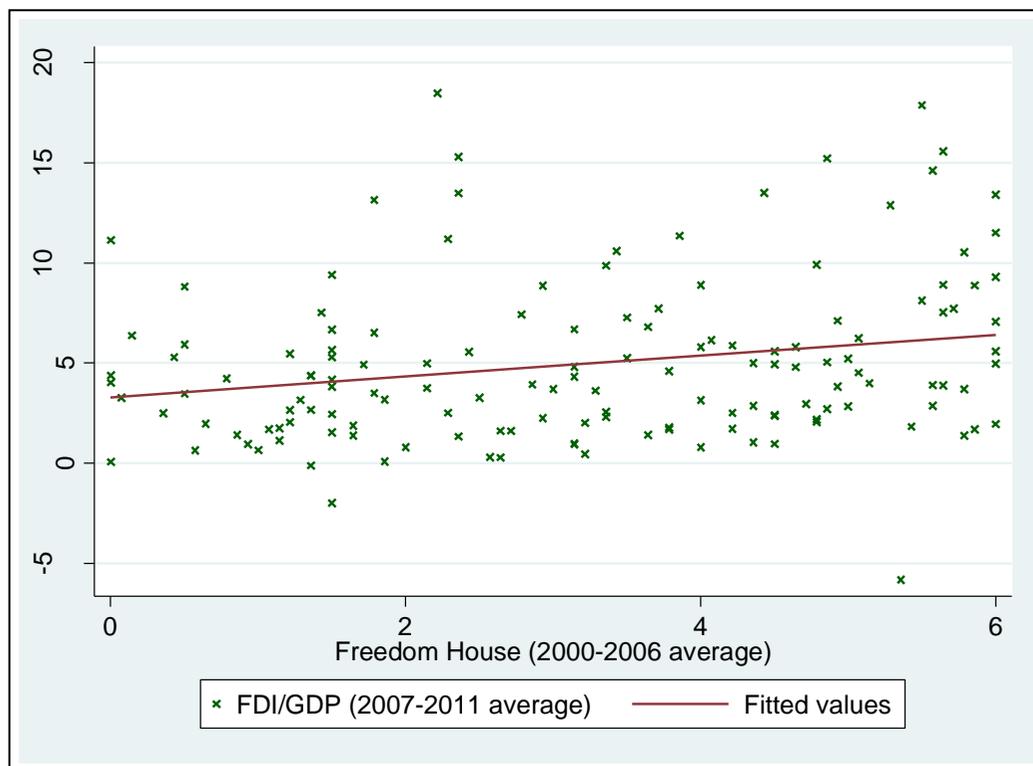
Figure 3 shows that, on average, countries that show lower respect for civil and political rights receive less investment. There are a few outliers in this plot: Djibouti, the Democratic Republic of Congo, Lebanon, Turkmenistan and Singapore receive more FDI than other countries with similar levels of respect for civil and political rights. Suriname and Azerbaijan receive less FDI than countries with similar levels of respect for civil and political rights. As mentioned above, these outliers may be explained by other determinants of FDI that are not considered in this two-dimensional plot.

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<sup>24</sup> Notice also that the outliers are the same countries that appear in Figure 1: the Democratic Republic of Congo, Djibouti, and Suriname.

<sup>25</sup> The original Freedom House coding has higher political rights at lower numerical values, but I reverse this scale to be more intuitively interpretable

**FIGURE 3. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF RESPECT FOR CIVIL LIBERTIES AND POLITICAL RIGHTS (BETWEEN 2000-2006). SCATTER PLOT AND LINE SHOWING THE TREND**

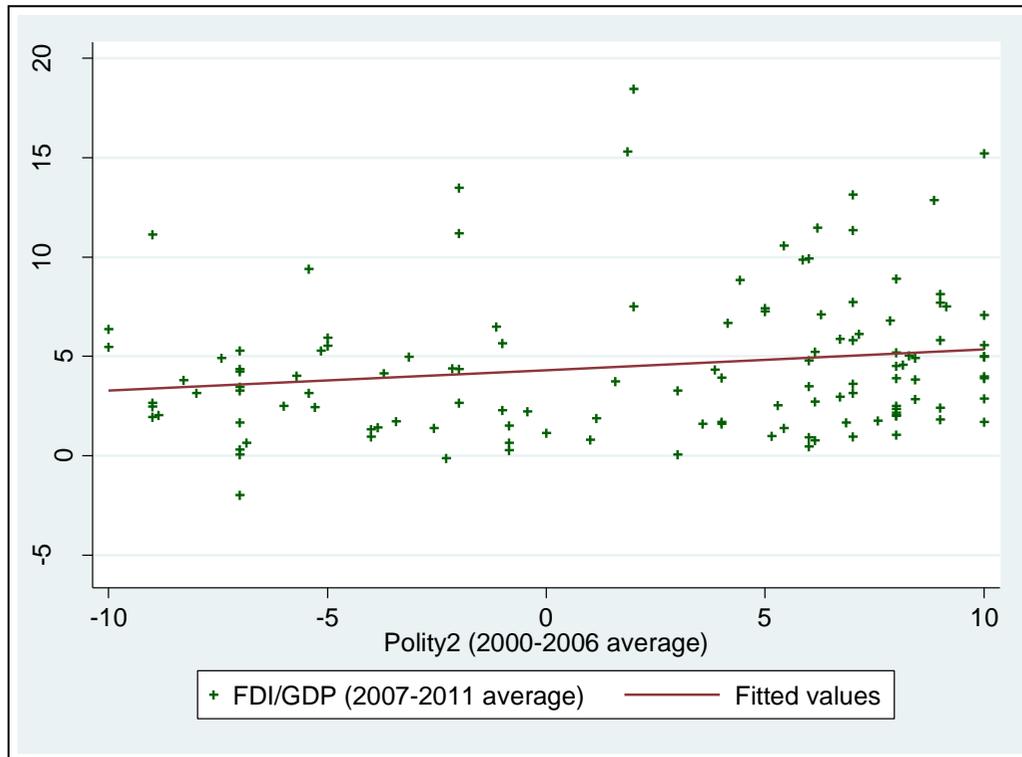


Source: Author's elaboration based on Freedom House project (Freedom House 2012) and on World Bank's information on FDI flows (World Bank 2012).

Figure 4 shows the relationship between democracy and investment. Democracy is measured using *Polity2*, a 21-point combined index of regime type, ranging from -10 (full autocracy) to 10 (full democracy) (Marshall and Jaggers 2012).<sup>26</sup> This figure shows how much FDI developing countries have received on average, and their corresponding average levels of democracy (in the horizontal axis). The fitted line shows that more democratic countries tend to receive more FDI. There outliers in this plot are Djibouti, the Democratic Republic of Congo, Turkmenistan, Singapore, Jordan and Kazakhstan, which receive more FDI than other countries with similar levels of respect for civil and political rights.

<sup>26</sup> For details regarding the construction of the index, see Marshall and Jaggers (2012).

**FIGURE 4. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF DEMOCRACY (BETWEEN 2000-2006). SCATTER PLOT AND LINE SHOWING THE TREND**



Source: Author's elaboration based on *Polity2* (Marshall and Jaggers 2012) and on World Bank's information on FDI flows (World Bank 2012).

### *Labor rights*

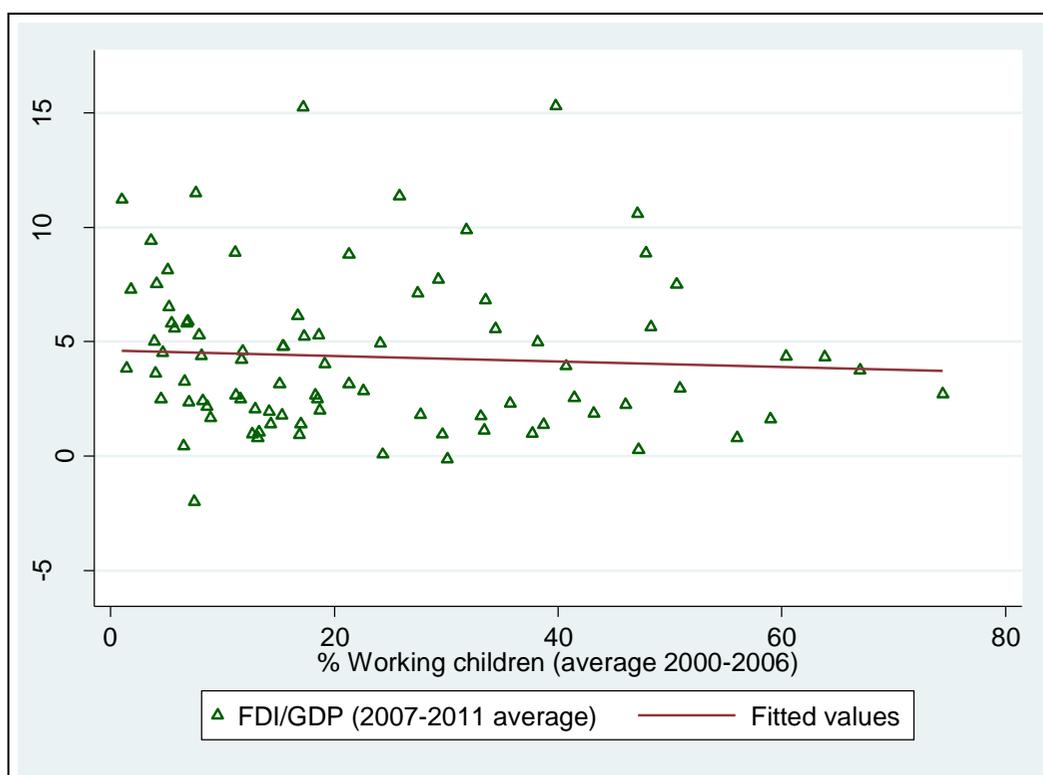
I finally present some data on the relationship between labor rights and FDI inflows.<sup>27</sup> Figure 5 shows the levels of average FDI a country received between 2006 and 2011, and its average level of child work. The horizontal axis shows the percentage of economically active children (ages 7 to 14). According to the Understanding Children's Work project based on data from ILO, UNICEF and the World Bank, economically active children are "children involved in economic activity for at least one hour in the reference week of the survey" (World Bank 2012).

Figure 5 shows that, although there is a considerable dispersion, the general trend is a negative relationship between child work and FDI inflows. Although the slope of the trend line is not steep, the data indicates that countries with higher levels of children working are associated with less FDI. There are several countries that lie away from the central tendency, and the

<sup>27</sup> Space considerations limits the number of indicators that can be presented in the present chapter.

most remarkable outliers are the Democratic Republic of Congo, Niger, and Zambia.

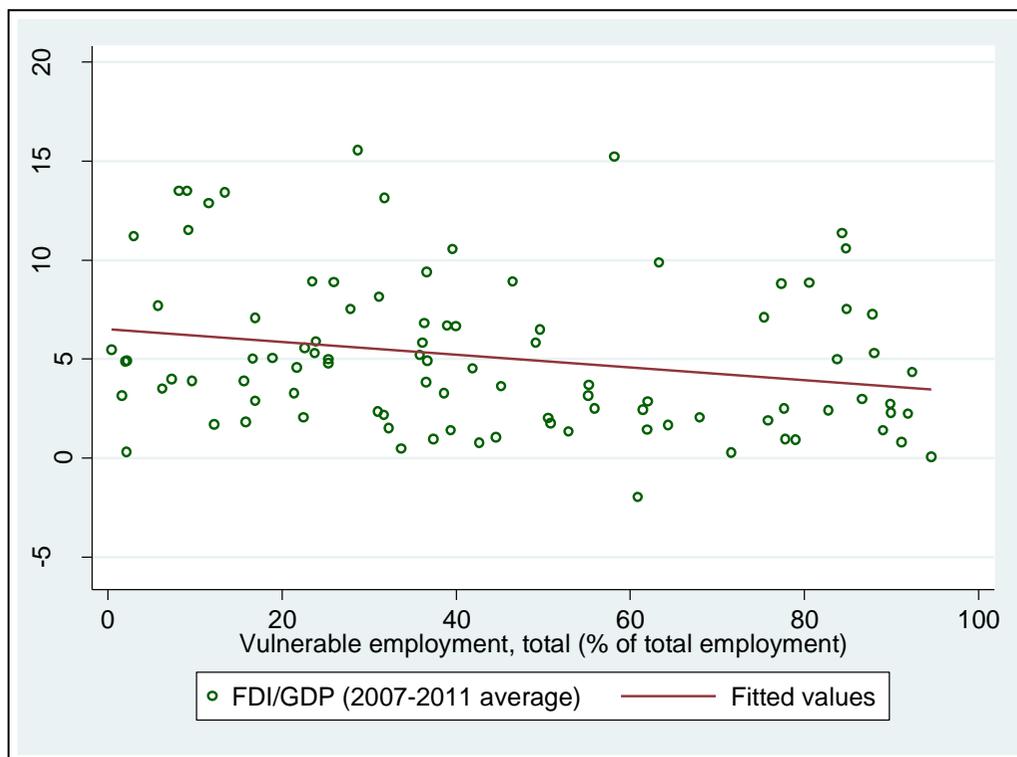
**FIGURE 5. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF CHILD WORK (BETWEEN 2000-2006). SCATTER PLOT AND LINE SHOWING THE TREND**



Source: Author's elaboration based on the Understanding Children's Work project and World Bank's information on FDI flows (downloaded from World Bank 2012).

Finally, Figure 6 plots the relationship between FDI inflows and vulnerable employment (as a proxy for labor costs). According to the *Key Indicators of the Labor Market* database (International Labor Organization, downloaded from World Bank 2012), vulnerable employment is “unpaid family workers and own-account workers as a percentage of total employment.” The data also shows a negative relationship between a country's level of vulnerable employment (2000-2006), and its FDI inflows (2007-2011). Some outliers are Mongolia, Madagascar, Niger and Zambia.

**FIGURE 6. AVERAGE FDI RECEIVED BY DEVELOPING COUNTRIES (BETWEEN 2007-2011) AND THEIR AVERAGE LEVELS OF VULNERABLE EMPLOYMENT (BETWEEN 2000-2006). SCATTER PLOT AND LINE SHOWING THE TREND**



Source: Author's elaboration based on International Labor Organization and World Bank's information on FDI flows (downloaded from World Bank 2012).

## Conclusions

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This chapter analyzes the existence and reach of one informal mechanism that can generate negative consequences to countries that violate human rights: Do MNCs in a *non-coordinated but systematic* way avoid countries that have a poor human rights record? Analyzing the reactions of investors to human rights violations is important because governments want FDI to finance themselves, and they are willing to implement policy changes in order to attract investment. If MNCs' avoid human rights violators, one might hope that the competition for FDI could lead to more respect for human rights.

The second section examines the literature analyzing the relationship between human rights respect and FDI. The focus is both on the logic behind the proposed causal mechanisms linking both variables, and on the empirical supporting different arguments. Although the early studies presented arguments for why MNCs should prefer countries that do not respect human rights, a close examination to the logic supporting these arguments and to the evidence suggests this may not be the case. This suspicion finds some empirical support when the literature suggesting that countries that respect human rights generally receive more FDI.

Section 2.3 explores the literature suggesting that a good human rights record attracts FDI. Some of these studies argue that respect for human rights has an *indirect* effect on FDI (e.g., Adam and Filippaios 2007; Blanton and Blanton 2012b), mainly through two channels: first, human rights respect lead to a less violent and more stable environment; second, it contributes to the conditions that improve human capital. Both political stability and human capital attract investment. Scholars also posit a *direct* effect of human rights on FDI (e.g., Blanton and Blanton 2007, 2009; Busse 2004): countries that have a poor human rights record impose reputational costs on the MNCs that invest in their territories (the “spotlight phenomenon”, Spar 1999:70-74).

What does the evidence suggest? There is empirical evidence supporting the idea that violations of physical integrity rights deter FDI. Although this negative effect of violations on FDI does not appear across *all* kinds of FDI, it is important to stress that there is no evidence that violations attract FDI in any case.

The evidence around the effect of democracy, political rights and civil liberties on FDI inflows shows some contradictions. Although several studies find that democracy, political rights and civil liberties attract FDI (e.g., Busse 2004; Harms and Lutz 2006; Jensen 2003; Kucera 2002; Rodrik 1996), other studies find that this relationship is more complicated. In particular, Adam and Filippaios (2007) and Ponce (2010) find that the effect of civil liberties on FDI is not linear: there is a first stage in which civil liberties increase FDI through improvements in the workforce's productivity. However, after a

threshold of civil liberties, further increases actually deter FDI. Finally, after separating democracy and democracy-related rights, Li and Resnick (2003) find that democracy alone deters FDI.<sup>28</sup>

Regarding labor rights, many studies suggest that violations of these rights are not necessarily rewarded by MNCs. Although *de jure* commitment to labor rights respect has a weak effect on FDI, this effect is generally positive. Regarding *de facto* indicators of respect for labor rights, the evidence is suggestive in several areas: unionization seems not to deter FDI (Cooke and Noble 1998; Harms and Ursprung 2002), although in some cases this effect is conditional upon wage coordination (Radulescu and Robson 2008). Finally, child labor (Busse 2003; Rodrik 1996) and discrimination against female workers (Busse 2003) are associated with lower FDI.

What has happened in the last five years? Although I have not reproduced the tests in the discussed literature on a sample of the last five-year period, I present descriptive data on the most relevant human rights variables during 2000-20006, and the FDI inflows country received in the last five years. The intuition behind this information is that if there is a relationship between human rights respect and FDI, one should at least see an association between a country's recent human rights record and present levels of FDI. Although these associations are not enough to show a causal relationship, these data suggest interesting patterns.

Broadly speaking, the data show a consistent positive association between higher levels of human rights respect and FDI: countries that violate human rights tend to receive less FDI than countries that respect human rights. It is noteworthy that the data do not indicate a "pervasive" relationship between human rights violations and higher levels of FDI, as the literature discussed in section 2.2 would have expected. On the contrary, the data shows a consistent relationship between human rights violations and low FDI.

To my knowledge, there have not been agreements among MNCs deciding to demand minimum human rights standards, or to punish countries that violate human rights. Furthermore, there have not been government incentives for companies to behave in that way. What we are observing is the result of individual non-coordinated decisions, made in a systematic fashion.

The most optimistic observers of this phenomenon may think that we are facing a new tendency in international relations, resulting from non-state actors "constructing new norms, shaping the economic public debate, compelling states to react, and setting new public policies" (Colonomos and Santiso 2005:1307). As a more cautious observer, one can note that it is possible, but not necessary, that this trend reflects the influence of ethics on MNCs' behavior. However, it is not necessary that MNCs make a moral judgment before investing for their behavior to punish human rights violators: the

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<sup>28</sup> See above the author's comment on this last finding.

literature discussed here argues that a poor human rights record can affect FDI through direct and indirect channels. Even following economic concern and profitability calculations, MNCs end up imposing costs on human rights violations, and rewarding human rights respect. Therefore, there is hope that the competition for FDI could lead to more respect for human rights.

## Appendix

### Appendix 1. Description of the coding of the physical integrity rights index

This appendix is an excerpt of the *Cingranelli-Richards (CIRI) Human Rights Dataset* codebook (Cingranelli and Richards 2010). For further details, see <http://ciri.binghamton.edu/documentation.asp>.

The *physical integrity rights index* an additive index constructed from the Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance indicators (see below). The scores of these variables are summed to form a statistically valid cumulative scale (Cingranelli and Richards 1999; Richards *et al.* 2001). The Index ranges from 0 (no government respect for these four rights) to 8 (full government respect for these four rights). For details on its construction, see Cingranelli and Richards (1999).

**TABLE A.1. DESCRIPTION OF INDICATORS (CINGRANELLI AND RICHARDS 2010)**

INDICATOR	DEFINITION	SCORES (IN A GIVEN YEAR)
<i>Torture</i>	The purposeful inflicting of extreme mental or physical pain, by government officials or by private individuals at the instigation of government officials. It comprises the use of physical and other force by police and prison guards that is cruel, inhuman, or degrading; and deaths in custody due to negligence by government officials.	0: Torture was practiced <i>frequently</i> . 1: Torture was practiced <i>occasionally</i> . 2: Torture did <i>not</i> occur.
<i>Extrajudicial Killing (EK)</i>	Killings by government officials without due process, or by private groups if instigated by government.	0: <i>Frequent</i> EK. 1: <i>occasional</i> EK. 2: EK did <i>not</i> occur.
<i>Political Imprisonment</i>	Incarceration of people by government officials due to their speech, their non-violent opposition to government policies or leaders, their religious beliefs, their non-violent religious practices, or their membership in a group ( <i>e.g.</i> , ethnic or racial group).	0: <i>Many</i> people were imprisoned for these reasons. 1: <i>Few</i> people were imprisoned for these reasons. 2: <i>No</i> persons were imprisoned for these reasons.

INDICATOR	DEFINITION	SCORES (IN A GIVEN YEAR)
<i>Disappearance</i>	Cases in which people have disappeared, the victims have not been found, and political motivation appears likely.	0: <i>Frequent</i> occurrence of disappearances. 1: <i>Occasional</i> occurrence of disappearances. 2: <i>No</i> disappearances.

## Appendix 2: Description of the Political Terror Scale levels

This appendix is an excerpt of the *Political Terror Scale* codebook (Gibney et al. 2011). For further details, see <http://www.politicalterror scale.org/about.php#levels>.

**TABLE A.2. DESCRIPTION OF THE POLITICAL TERROR SCALE LEVELS (GIBNEY ET AL. 2011)**

LEVEL	DESCRIPTION (LITERAL FROM THE SOURCE)
1	Countries under a secure rule of law, people are not imprisoned for their views, and torture is rare or exceptional. Political murders are extremely rare.
2	There is a limited amount of imprisonment for nonviolent political activity. However, few persons are affected, torture and beatings are exceptional. Political murder is rare.
3	There is extensive political imprisonment, or a recent history of such imprisonment. Execution or other political murders and brutality may be common. Unlimited detention, with or without a trial, for political views is accepted.
4	Civil and political rights violations have expanded to large numbers of the population. Murders, disappearances, and torture are a common part of life. In spite of its generality, on this level terror affects those who interest themselves in politics or ideas.
5	Terror has expanded to the whole population. The leaders of these societies place no limits on the means or thoroughness with which they pursue personal or ideological goals.

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