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Do Human Rights Regimes Affect FDI in Developing Countries?

Importante

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Abstract

What are the effects of international human rights (HR) regimes on foreign direct investment (FDI)? The literature generally shows a negative relationship between HR violations and FDI, with some variation across sectors of investment. Similarly, international regimes can have effects beyond the parties in the agreement. However, it is not clear how a country's participation in HR regimes affects investors' decisions. This paper analyzes the effect of international HR regimes on FDI, including by looking at how they condition the impact of HR violations on FDI. I theorize that the host country's participation in HR regimes provides a "reputational umbrella" for investors, and has a positive effect on FDI. This effect is stronger in countries with poorer HR records. Furthermore, and against the purpose of HR covenants, state participation in HR regimes curbs the negative effect of HR violations on FDI. Empirical analysis on a sample of developing countries, from 1982 to 2011, provides support for the existence of these direct and indirect effects of participation in HR regimes on FDI.

Keywords: *Human rights, International institutions, Treaties, Foreign direct investment, Reputation, Developing countries*

Resumen

¿Qué efectos tienen los regímenes internacionales de derechos humanos (DDHH) sobre la inversión extranjera directa (IED)? La literatura muestra, en general, una relación negativa entre violaciones de los DDHH e IED, con algunas variaciones según el sector de inversión. De manera similar, los regímenes internacionales pueden tener efectos más allá de las partes en el acuerdo. Sin embargo, no es claro de qué modo la participación de un país en regímenes de DDHH afecta las decisiones de inversionistas. Este artículo analiza el efecto de los regímenes internacionales de DDHH sobre la IED, considerando también cómo esta participación condiciona el impacto de violaciones a los DDHH sobre la IED. La teoría propone que la participación de los países receptores de IED en regímenes de DDHH proporciona un "paraguas reputacional" para inversionistas, y tiene efectos positivos sobre la IED. Este efecto es más marcado en países con peores historiales en materia de DDHH. Más aun, en contra del propósito de las convenciones de DDHH, la participación en regímenes de DDHH reduce el efecto negativo que las violaciones de DDHH tienen sobre la IED. Análisis estadísticos en una muestra de países en vías de desarrollo entre 1982 y 2011 proporcionan evidencia sobre la existencia de estos efectos directos e indirectos de la participación en regímenes de DDHH sobre la IED.

Palabras clave: *Derechos humanos, Instituciones Internacionales, Tratados, Inversión extranjera directa, Reputación, Países en vías de desarrollo*

Introduction

What are the effects of international human rights (HR) regimes[1] on foreign direct investment (FDI) inflows? Although there is a broad literature examining both why countries commit to HR regimes (Hafner-Burton et al. 2008; Hathaway 2007), and the effects of HR regimes on state behavior (e.g., Cole 2012; Goodman and Jinks 2003; Hafner-Burton and Tsutsui 2007; Hathaway 2002), there is less said regarding the effect of HR regimes on the behavior of third parties. Although several studies examine whether third actors punish HR violations (notably, Burton and Lewis 1993; Cingranelli and Pasquarello 1985; Lebovic and Voeten 2009; Neumayer 2003a, 2003b), little is said about the effect of participation in HR regimes on third parties. This lacunae is striking given the expansion of HR regimes (Elliott 2011), the legitimizing effect of HR regimes (Hafner-Burton et al. 2008), and their potential for indirect effects on state behavior. I argue that a country's HR record has reputational effects on investors' decisions. HR violations deter FDI because of investors' fears of being associated with countries responsible for these violations. However, the host country's participation in HR regimes provides a "reputational umbrella" for investors, and has a positive effect on FDI. Furthermore, this effect is particularly important for countries with higher levels of violations, in which participation in HR regimes has a stronger positive effect. In other words, countries that violate HR the most benefit more from participating in HR regimes in terms of FDI inflows.

HR protection mechanisms are based on the state's commitment to respect, protect and/or promote a series of rights. However, the state is simultaneously the main actor responsible for violating HR, and for protecting those rights. International regimes formalize countries' commitments to HR protection and have the potential for imposing exogenous limits to the state's discretion – or, at least, additional costs for HR violations. Beyond the debate regarding the effect of ratifying HR treaties on HR practices, there are other less explored mechanisms that can reward commitment to HR regimes. This paper analyzes the existence and reach of one of those informal mechanisms: the reaction of foreign investors to countries' participation in HR regimes.

Do investors care about HR treaties? The literature suggests that investors react to HR violations (e.g., Blanton and Blanton 2007, 2009; Blume and Voigt 2007), and to HR non-governmental organizations' (NGOs) naming and shaming (e.g., Barry et al. 2012). However, there is no much said about the effect of HR regimes on investment decisions. Participation in HR regimes is a

[1] I define regime following Krasner, as "principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area" (Krasner 1982:185). However, I assume that signing an international HR convention is the most common and easily observable way to enter a HR regime. Therefore, in this paper, HR regimes, treaties and agreements are used indistinctly.

public act,[2] witnessed not only by other participants in the regime, but also by a wider audience. Investors pay attention to HR treaties as part of the host country's legal framework and as a reference for the HR situation. Particularly, in recent years, foreign investment practices started including pre- and post-investment HR impact assessments.[3] For example, after buying the Guatemalan Marlin mine, Goldcorp commissioned a HR impact assessment, contrary to what it is usually expected from companies engaging in extractive FDI.[4] Interestingly, this assessment describes Guatemala's participation in HR conventions and the ratification dates as relevant information, along with the description of the general political environment (On Common Ground Consultants Inc. 2010).[5]

This report – like many other HR impact assessments – examines four dimensions of the HR situation in the host country: the first one is "formal acceptance of HR," measured as ratification of fundamental HR conventions; followed by compliance with civil and political rights (including respect for physical integrity rights); compliance with economic, social and cultural rights; and women's rights (see Appendix 1). The inclusion of ratified HR conventions is not exclusive to this assessment, but it is suggested in most HR assessment tools or guidelines provided by several international organizations (e.g., the International Financial Corporation), NGOs (such as the Danish Institute for Human Rights) and business associations.[6] Although this shows that investors can and do learn about the host country's involvement in international HR regimes, it does not *a priori* indicate how they use this information. Do investors reward or punish countries' commitment to HR regimes? In this paper, I argue that investors reward commitment to HR regimes.

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[2] Even in the economic specialized press, see Gorst (2010)

[3] Although larger companies are more likely to engage in impact assessment or be concerned with social sustainability of their activities, smaller companies are starting to move in that direction (UN News Centre. 2013). Furthermore, not only HR impact assessments include information or references to HR regimes. The press reflects companies and business association discussing host countries international commitments (e.g., Tribune Report 2013).

[4] Although this study may have been motivated by conflicts with local groups, we are interested in the content and not in the motivations for the report.

[5] The report includes the following sections: "Implementation of International Human Rights Law in Guatemala," "Civil and Political Rights (violence and impunity)," "Indigenous Peoples Rights," "Economic, Social and Cultural Rights." These sections are at least as detailed as the sections on "Labor Rights" or "Administration of Justice and Rule of Law" (On Common Ground Consultants Inc. 2010:20-24).

[6] Other examples are guidelines produced by the International Business Leaders Forum and the International Finance Corporation (IFC), in association with the UN Global Compact, that recommend to "identify the international conventions the host country has signed and ratified" (Abrahams and Wyss 2010:25, 28); a nonprofit research organization, NomoGaia, whose format for assessments includes identifying the ratified treaties recognizing nondiscrimination or the right to health (NomoGaia 2012:28-29), and academic articles (Salcito et al. 2013). Similarly, and not surprisingly, the UN Office of the High Commissioner for HR mentions the use of "indicators on the number of ratifications of treaties" for human rights assessment (2012:17). Ratified HR treaties are also recommended indicators for HR impact assessment applicable to corporate investments that involve large land acquisitions in the 2012 Annual World Bank Conference on Land and Poverty (Salcito 2012:3).

Knowing the effect of a country's HR international commitments on the FDI it receives is important because governments want FDI;[7] therefore, investors' avoidance of countries that do not commit to international HR regimes would entail a costly pressure on governments to join international conventions. Furthermore, the answer to this question sheds light on questions still open in three literatures.

First, this paper contributes to the literature on the effect of international institutions beyond the parties in the agreements. The analysis of HR regimes allows us to distinguish different effects on third parties because of the particular characteristics of these regimes. HR regimes' ends and means characterize a peculiar type of institutionalized cooperation (Moravcsik 2000:217). As Moravcsik highlights, HR regimes generally do not target "policy externalities arising from societal interactions across borders," but instead governments' domestic activities. Additionally, although HR treaties allow parties to demand compliance from other parties, this rarely occurs.[8] This suggests the possibility of disentangling HR regimes' different effects on third parties. Although there are studies exploring institutions' effects of on third parties (e.g., Büthe and Milner 2008; Dreher and Voigt 2011; Gray 2009, 2013), it is not easy to distinguish different effects institutions may have. Participation in regimes can provide information, signals, and enhance countries' reputation, and they can also affect costs for third parties. It is difficult to discern these first three effects from the cost effect – the regime's monitoring or enforcement mechanisms can reduce third parties' monitoring and enforcement costs. This paper also makes an effort to separate HR regimes' informational and the reputational effects.

Second, this paper contributes to the literature on international political economy. By analyzing the direct and conditional effects of HR regimes on FDI, this paper further specifies the political determinants of FDI and the cues that investors look at (Allee and Peinhardt 2011; Busse and Hefeker 2007; Büthe and Milner 2008; Jensen 2006; Kerner 2009; Lektzian and Biglaiser 2013; Pinto 2013). Finally, this paper also speaks to the more general question about the relationships between globalization and HR (Blanton and Blanton 2007; Egan 2012; Richards et al. 2001). Particularly, it provides evidence of direct and indirect effects of HR conventions, both in projected and "undesirable" paths. Finally, it suggests a possible way for investors to

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[7] Governments want FDI because of its short- and long-term effects on the economy. Although an unconditional effect of FDI on growth is still disputed (Carkovic and Levine 2005), there is evidence linking FDI to economic growth (Li and Liu 2005), reduced poverty (Bhagwati 2007), lower domestic income inequality (Jensen and Rosas 2007), and more domestic investment (Borensztein et al. 1998; Modya and Murshid 2005). Also, FDI generally has positive short-term effects on domestic employment, government financing, foreign exchange reserves, and potentially, on government approval. That is why almost all governments compete to receive these financial flows (Elkins et al. 2006; Oman 2000).

[8] "The distinctiveness of [HR] regimes lies instead in their empowerment of individual citizens to bring suit to challenge the domestic activities of their own government" (Moravcsik 2000:217).

foster changes in regime participation, by giving incentives for countries to join international HR conventions (Büthe and Milner 2008; Ellis 1973).

Human rights, regimes, and FDI

Human rights and FDI

Do investors care about a country's HR record in general, or about their eventual commitment to HR? An early literature would be skeptical about this. This literature posits that multinational corporations (MNCs) invest and support governments in countries with repressive mechanisms, capable to maintain order and guarantee the maintenance of operations (Evans 1979; Huntington and Nelson 1976). This creates incentives for authoritarian governments to 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) to attract investment. These arguments have been illustrated by a host of anecdotal evidence, such as the ties between repressive governments and MNCs.[9] However, a more recent literature provides evidence suggesting that HR violations, in fact, deter FDI.

Studies showing that a good HR record attracts FDI can be classified in two groups. First, some scholars argue that HR violations *indirectly* deter FDI. HR respect creates favorable conditions for investment, such as "an environment unconducive to violence," political instability or social conflict (Sorens and Ruger 2012:428); or better conditions for human capital development (Blanton and Blanton 2007). Other studies stress a more *direct* effect of HR violations in the host country on investors' incentives: investing in countries that violate HR can hurt companies' reputation. Blanton and Apodaca (2007) posit that "the global marketplace functions as an 'audience' that rewards or punishes the policy choices of states." Globalization implies more exposure to this marketplace, increasing these audience costs (Blanton and Apodaca 2007:599). Colonomos and Santiso (2005:1324) stress the "development of moral expertise in civil society;" others stress the role of NGOs directing media attention to HR violations and making it difficult for MNCs to avoid being linked to countries responsible for said violations, known as the "spotlight phenomenon" (Spar 1999:70-74).[10]

This literature suggests investors avoid countries with poor HR records. Some empirical studies support this idea, but they have usually looked at small

[9] For example, the cases of Bhopal in India, British Petroleum in Colombia, Freeport McMoran in Indonesia, ITT in Chile, Shell in Nigeria, United Fruit in Guatemala or Unocal in Myanmar (Amnesty International 2002; Spar 1999:61).

[10] Hathaway (2007:597) also stresses the role of NGOs when they publicize "a decision by investors to withdraw or withhold funds".

samples or particular investors. For example, several studies show a positive 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. Blanton and Blanton (2007) assess both the direct and indirect effects of HR respect on FDI and show that HR respect attracts FDI., on a sample of developed and developing countres, between 1980 and 2003 Blume and Voigt (2007) find similar results. Blanton and Blanton (2009) further study the mechanism that links HR to FDI. 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. Recently, Blanton and Blanton (2012) analyze the impact of HR on U.S. outward 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. Additionally, using different samples and different measures of FDI, many studies find a positive relationship between political rights and civil liberties and FDI inflows (see Rodrik (1996), Harms and Ursprung (2002), Kucera (2002), Jensen (2003), and Busse (2004)). This relationship, however, may be non-linear (Adam and Filippaios 2007; Ponce 2010).

International regimes' effects on FDI

Can international regimes affect investors' decisions? The literature shows that participation in international institutions can produce effects not only among the regimes' members, but also beyond them (e.g., Büthe and Milner 2008; Dreher and Voigt 2011; Gray 2009, 2013; Hafner-Burton et al. 2008; Kerner 2009). Third parties, whether they are non-member states, NGOs or investors, can learn and update their expectations when countries formalize their commitment to international regimes.

Specifically, participation in international regimes can influence investors through different channels. First, regimes provide *information about policy commitments*. Formal and informal international agreements are "promises about future national behavior" (Lipson 1991:498). Because joining a formal regime is a visible act, investors can learn to what policies a state is committing to (i.e., free trade, labor standards), and assess how desirable said policies are for them. Second, regimes also *inform about members' compliance*, reducing monitoring costs for interested third parties. For example, each of the United Nations' HR conventions has a committee of experts that meet periodically to monitor the implementation of the treaties. These committees evaluate reports regularly submitted by the parties in the agreement, together with "shadow reports" submitted by interested NGOs, and discuss the HR situation with the parties. These regular reporting activities can be complemented with the implementation of the more limited petition or complaints system (receiving complaints against the state), the elaboration of "ad hoc" reports, and even fact-finding missions.

Finally, regimes can also affect countries' *reputation*. There is a significant literature exploring the reputational cost of noncompliance. Exposure to noncompliance costs makes international commitments more credible than unilateral declarations (Abbott and Snidal 2000:426; Garriga 2009:700; Keohane 1989), and has been argued to be the mechanism at work behind compliance in different policy areas, such as trade (Büthe and Milner 2008), monetary agreements (Simmons 2000), or debt (Tomz 2007).[11] The cost of reneging on an agreement can go beyond the parties and the particular agreement, and include not only reputational costs, but also different forms of retaliation (Abbott and Snidal 2000; Lipson 1991). There is less evidence, however, regarding positive reputational effects of joining international regimes. Although there is a literature showing positive effects associated with joining a regime (e.g., Büthe and Milner 2008; Dreher and Voigt 2011; Gray 2009, 2013; Kerner 2009), it is hard to disentangle mere reputational aspects of joining those regimes, from other effect such as information gains, or preference for countries that commit to policies that are desirable for third actors.

Although international regimes could affect investors' decisions through either or all three of these channels, this paper proposes a theory about the reputational effect of joining international HR regimes on investors. Furthermore, I try to distinguish empirically the reputational from the informational effects of committing to international HR regimes.

The effect of human rights regimes on FDI

In this section, I argue that (a) investors react to countries' HR record, and that (b) these reactions are based on reputational concerns that may exceed the spotlight phenomenon. Therefore, mechanisms that potentially improve a country's reputation will attract investment even in the presence of HR violations. Because membership in HR regimes improves a country's reputation, (c) membership in HR regimes has a positive effect on FDI, (d) especially for countries with poor HR records.

Do investors punish HR violations? Although this paper studies the effect of HR regimes on FDI, it is first necessary to establish whether investors react to HR violations. If investors were indifferent to HR violations, arguing the existence of commitment to HR regimes' reputational effects could constitute a stretch. The literature distinguishes direct and indirect effects of HR

[11] Many argue that this reputational cost is what makes compliance likely. As Lipson (1991:511) clearly put it, "treaties are a conventional way of raising the credibility of promises by staking national reputation on adherence."

violations on FDI, and there is some evidence about both types of effects, but no undisputed support for an unconditional direct effect. Although some studies suggest that HR violations deter investment, the use of different samples, operationalization – of both violations and FDI –, and modeling choices might leave some questions regarding the existence of a general reputation-based direct effect. I argue that there are non-coordinated but systematic investors' direct reactions to HR 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 presence of general trends, even when there are cases that deviate from these trends.

I argue that the direct mechanism linking HR violations to investment deterrence is based on investors' reputational concerns of being associated with countries accused of violating HR. This argument is not new in the literature (e.g., Blanton and Apodaca 2007; Spar 1999); however, investors' reputational concerns may go beyond the spotlight phenomenon, that is, the action of HR NGOs spurring press releases against the country and, eventually, against companies investing in said country (Spar 1999; Spar and La Mure 2003). Empirically, the spotlight effect has been tested with the inclusion of the number of press releases by major international sources, or the number of press releases originated on NGOs' actions, or the number of NGOs in the host country and there is evidence supporting this effect (Barry et al. 2012). However, limiting investors' reactions to the spotlight effect seems insufficient for two reasons. First, investors' sources of information are not limited to the international press. Other means for investors to gather information include informal means of communication (word of mouth, informal networks of elites (Davis and Ruhe 2003; Ruey-Jer et al. 2011), local media (including radio) that is not well covered by the international press, reports from diplomatic representations or business associations in the host country, and consultants in the field.[12] Moreover, the literature shows the presence of bias in NGOs naming and shaming strategies (Ron et al. 2005), and in news sources reporting of HR violations (Hafner-Burton and Ron 2012). Therefore, it should not surprise us that investors gather information through other channels.[13] Second, it seems reasonable that investors are not only passive actors and merely react to naming and shaming from NGOs. Given the lags between HR violations and HR NGOs' effect on the press, and the

[12] For example, the Guatemalan mine report cites among its sources the following: interviews with local individuals, companies, organizations and other representatives of the government; "the Universal Periodic Review of Guatemala, reports from OHCHR field presence in Guatemala; the UN Treaty Bodies; the UN Special Procedures that have conducted field missions to Guatemala; the International Labour Organization; and civil society organizations specialized in human rights" (On Common Ground Consultants Inc. 2010:11, 21).

[13] This may explain why the correlation between actual HR violations and naming and shaming by NGOs or even news reports is not high or always significant.

availability of other sources of information about HR violations, investors can anticipate naming and shaming against a country. The fear of being linked to countries that violate HR should discourage investment.[14] Because there is no clear evidence of an unconditional effect of a country's HR record on the global FDI flows it receives, the first hypothesis to test is the following:

Hypothesis 1: *HR violations have a negative direct impact on the general level of FDI inflows.*

Finding support for hypothesis 1 is important because if investors were not deterred by HR violations – or if HR violations did not hurt countries' reputation – it would be difficult to argue that a country's commitment to HR has a positive effect on investment.

Do investors care about human rights treaties?

Joining international HR regimes can increase a country's reputation (Hafner-Burton et al. 2008:116) and it is the argument of this paper that HR regimes also provide investors with a reputational umbrella they can use to deflect claims (from board members, consumers, NGOs, etc.) regarding the country's HR record. After presenting my argument, I discuss a way to distinguish the reputational from the informational effects of joining an international HR regime.

I argue that international HR regimes can increase a country's reputation. For this to happen, three conditions need to be met: First, ratifying HR treaties needs to be costly. Second, for the ratification to be informative, the cost of ratifying HR treaties needs to be different for different types of states. Third, investors should care about potential host countries' reputation.

The costs of joining human rights regimes

Although ratifying a HR treaty may be less costly than changing domestic politics, for example, it is not cost-free. There are at least three kinds of costs associated with formalizing commitments to HR regimes. First, treaties impose (different levels of) constraints on states' behavior and potentially on their sovereignty (Abbott and Snidal 2000:422). HR treaties are hard forms of legalization – that is, precise, legally binding obligations with different levels of third-party delegation (Abbott and Snidal 2000). Treaties' precision limits countries' interpretations about the extent of their commitment, and

[14] On investors withdrawing funds anticipating U.S. sanctions, see Biglaiser and Lektzian (2011).

treaties' monitoring mechanisms may constrain countries' interpretations about the extent of their compliance.

Second, joining an international regime opens the door to noncompliance or to agreement reneging costs. As mentioned above, these costs can go beyond the parties (Abbott and Snidal 2000), and include not only the "loss of reputation as a reliable partner" that may facilitate other cooperative agreements, and different forms of retaliation (Lipson 1991:511), but also broader consequences for violating social norms (Kandori 1992), related regimes (Keohane 1984:104) and international law (Abbott and Snidal 2000:427-8). In the particular case of HR treaties, these costs could be higher because they are part of broader regimes, and the noncompliance costs may spread throughout the regime (Abbott and Snidal 2000:427). For a cautionary note, see Downs and Jones (2002).

Third, there are also costs associated with the ratification of an international agreement in general (and a HR treaty in particular). In general, formalizing the commitment is a prominent act that may have "consequences for democratic oversight, bureaucratic control, and diplomatic precedent" and may expose the matter to the public debate (Lipson 1991:500). Depending on how open the society is, the public debate exposes "the depth of national support for an agreement," and may mobilize various domestic and international actors interested in an agreement (Lipson 1991:501).

Different costs from more exposure to mechanisms of monitoring and charges of noncompliance

One could argue that joining HR regimes is non-informative because both countries intending to respect HR (Simmons 2009) and those who do not mean to respect HR (Hafner-Burton and Tsutsui 2007; Hafner-Burton et al. 2008; Hollyer and Rosendorff 2011) can obtain benefits from these ratifications. However, the three costs mentioned above may be higher for countries with worse HR records: these countries are relatively more exposed to monitoring and publicity of HR violations, they are more likely to suffer noncompliance costs, and they may be more negatively affected by HR advocate's mobilization. The fact that some countries are willing to absorb eventual noncompliance costs to pursue different goals (Keohane 1984:104) does not change the fact of the higher costs of joining HR regimes.

Investors and reputation

For the reputational mechanism to work, it is necessary that investors care about host countries' reputation. Note that investors' concerns about host countries reputation do not imply preoccupation about actual policies being implemented or about treaty compliance (à la Zartner and Ramos 2011). For my argument to work, it is not necessary that investors believe the country will not violate HR, because they already have information about HR violations (see hypothesis 1). It is necessary that investors can use the country's commitment to HR regimes to shield themselves from eventual accusations and to deflect responsibility.[15]

The literature documents the efforts of not only firms, but also of regions, countries, and continents to build reputation (van Ham 2001:2) because reputation seems to have an independent effect in business decisions. Furthermore, there are indications that a host country's reputation may affect companies' reputations,[16] and that companies frequently engage in reputation building and reputation repair operations (Dukerich and Carter 2000). Additionally, recent studies show that investors rely on informational shortcuts (Biglaiser et al. 2008; Garriga and Phillips 2013; Gray 2009, 2013), and that their perceptions about a country may be influenced by other investors' opinions and perceptions (Davis and Ruhe 2003:277). Therefore, it seems plausible that beyond actual HR data, investors use participation in HR regimes as cues for locations where they can defend their investment.

In other words, if reputational concerns effectively drive investors' reactions to HR violations, then commitment to HR should improve a country's reputation and mitigate investors' concerns of being associated with countries that violate HR. Because I theorize that participation in HR regimes has a positive effect on the countries' reputation that attracts investment – independent from the actual level of HR violations – I test the following hypothesis:

Hypothesis 2: *State participation in HR regimes has a positive effect on FDI inflows.*

The reputational mechanism

I argue the existence of an independent effect of subscribing to HR regimes on FDI. However, this positive effect on investment varies depending on the country's HR record. I argue that the reputational gains of adhering to HR conventions should be more important for states with worse HR records for two reasons. First, the cost of committing to HR regimes is higher for countries with worse HR records (see above). Second, investors should not worry about commitment to HR regimes in states that already have good HR records.

[15] See for example Wadi (2013).

[16] For example, the campaign against Ben and Jerry for selling ice-cream in Israeli settlements (Vermonters for a Just Peace in Palestine/Israel 2013), or the reputational losses attributed to MTN's ventures in Iran and Syria (Saigol and England 2013).

Hypothesis 3 (reputation): *State participation in HR regimes has a stronger positive effect on FDI inflows in countries with more HR violations.*

Hypothesis 3 also allows us to disentangle HR regimes' reputational and informational effects. Because I expect the reputational mechanism to be at work, participation in HR regimes should have a positive effect on FDI inflows. However, if the informational mechanism was at work, one should expect the opposite effect: if regimes are providing information about their members' compliance, HR violations should become more visible, and HR regimes should reinforce the deterrent effect of HR violations.[17]

Alternative hypothesis 3 (information): *State participation in HR regimes has a negative effect on FDI inflows in countries with more HR violations.*

If hypothesis 3 (reputation) is true, this implies that against the original intention of HR institutions creation, HR regimes may also curb the negative effect of HR violations on investment. Therefore, I also test the following hypothesis:

Hypothesis 4: *State participation in HR regimes curbs the negative effect of HR violations on FDI.*

Note that hypotheses 2, 3 and 4's expected effects are not necessarily intuitive. Many kinds of treaties (Moravcsik 2000:217) can reduce costs for third parties, either by providing information or, more importantly, by enforcing a commitment that may interest investors (e.g., the WTO demanding countries to keep free trade standards). HR treaties, however, can increase costs for investors. Once treaties' provisions are incorporated to the domestic legal framework, they increase the level of constraints on companies' activities,[18] and may subject these activities to international monitoring and naming and shaming, especially in countries with worse HR records. If this was the principal effect, then one should observe state participation in HR regimes having a *negative* effect on FDI inflows in countries that violate HR. Table 1 summarizes the expectations for different mechanisms.

[17] If both mechanisms were at work, their effects would offset each other.

[18] For example, the Guatemalan Marlin mine's assessment highlights that "Guatemala's strong record of ratifying international human rights [leaves] no question of the applicability of these standards in the national context of Guatemala" (On Common Ground Consultants Inc. 2010:15)

TABLE 1: MECHANISMS AND EXPECTED DIRECTION OF THE REGIME VARIABLES

HR REGIMES MECHANISM	HR REGIMES (HYPOTHESIS 2)	HR VIOLATIONS*HR REGIMES (HYPOTHESIS 3)
REPUTATION	+	+
INFORMATION ABOUT COMPLIANCE	+	--
COSTS OF ADAPTING TO THE LEGAL FRAMEWORK	-- / NO EFFECT	--

Empirical analysis

The dependent variable is *FDI* measured as the natural log of net flows in 2005 U.S. dollars. I use aggregate FDI flows because the theory does not suggest different effects for different kinds of FDI. Although it would be ideal to test the theory in different sectors to identify differences in "sensibility" to HR records across sectors, there is no comprehensive sectoral data.[19] Finally, the literature uses similar operationalization (Barry et al. 2012). All of the economic variables come from the World Bank (2012), except where indicated otherwise.

Physical Integrity measures HR violations using CIRI's physical integrity rights index reversed (Cingranelli and Richards 2010). The CIRI dataset adds countries' yearly scores from the torture, extrajudicial killing, political imprisonment, and disappearance indicators in a cumulative scale ranging from 0 (no government respect for these four rights) to 8 (full government respect for these four rights) (Cingranelli and Richards 1999).[20] I reversed the index so 0 equals absence of HR violations and 8 indicates the maximum level of HR violations. Although I acknowledge the problems associated with the use of indices to measure countries' HR records,[21] the CIRI data are satisfactory for the purposes of this paper and are widely used in the literature.

To test hypothesis 2, I use a series of variables representing the degree of commitment to HR regimes. The data come from the Reporting Status of HR Treaty Bodies (United Nations 2013). First, *HR treaty count* is a count of the

[19] Although some studies use US FDI outflows (Blanton and Blanton 2009), other studies suggest that US FDI has characteristics that differentiate them from investment from other countries (Biglaiser and Lektzian 2011; Lektzian and Biglaiser 2013).
[20] For the definitions and coding of these variables, see Appendix 1.
[21] For discussions about the problem of measuring human rights, see the issue 8(4) of the Human Rights Quarterly (1986).

number of worldwide HR treaties signed and ratified by a country in a given year.[22] Second, *HR treaty percentage* is equal to *HR treaty count* divided by the total number of HR open for signature in a given year. Third, *HR weight* follows Dreher and Voigt's (2011:331) weighted index and takes into account not only the number of HR treaties ratified, but also "the possibility that the length of membership could have an effect on the degree of credibility it conveys." *HR weigh* is the result of dividing the number of years a country has ratified a HR treaty by the maximum number of years membership is possible, and then averaging the sum of all ratified treaties by the total number of HR treaties existing in that year. For country *i*, and for treaties 1 to *j*, following the formula:

$$HR\ weigh_i = \frac{\sum_j^1 \left(\frac{Current\ year - Ratification\ year_i}{Current\ year - Signature\ year_j} \right)}{j}$$

For example, the Convention against Torture (CAT) was signed in 1984, but ratified by Costa Rica in 1993. For the year 2010 Costa Rica's weighed membership in the CAT is (2010-1993)/(2010-1984)=.65. This number is added to Costa Rica's weighed membership in other 7 treaties and divided by 9, the total number of HR conventions Costa Rica could be a part of (Costa Rica did not ratify the International Convention on the Protection of the Rights of All Migrant Workers). The score for Costa Rica in 2010 is then .59. Interactive terms test hypothesis 3 and 4.

I control for a series of factors that the literature associates with FDI levels. *Market size* is the natural logarithm of the country's population (Büthe and Milner 2008; Neumayer and Spess 2005). *Economic development* is the country's GDP per capita in constant 2005 U.S. dollars. *GDP growth* is the percentage of change in the country's GDP in the previous year (Blanton and Blanton 2007; Li and Resnick 2003). *Trade* is a country's exports plus imports over GDP (Büthe and Milner 2008; Jensen 2003). I also control for regime type (Jensen 2003; Li and Resnick 2003) using scores from both Polity2 (Marshall and Jaggers 2012), and Freedom House (2012). Freedom House scores are

[22] The coded treaties are the International Convention on the Elimination of All Forms of Racial Discrimination (21-Dec-65); the International Covenant on Civil and Political Rights (16-Dec-66); International Covenant on Economic, Social and Cultural Rights (16-Dec-66); Convention on the Elimination of All Forms of Discrimination against Women(18-Dec-79); Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment(10-Dec-84); Convention on the Rights of the Child(20-Nov-89); International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families(18-Dec-90); International Convention for the Protection of All Persons from Enforced Disappearance(20-Dec-06); Convention on the Rights of Persons with Disabilities(13-Dec-06).

reversed so that 0 indicates the least-free category, and 6 indicates the most-free category. Finally, *Political instability* is a count of the number of disturbances such as riots, strikes, anti-government demonstrations or assassinations in a country in a given year (Banks 2011). Instability also controls for an indirect mechanism linking HR record and FDI (Blanton and Blanton 2007). Although instability should make foreign firms less likely to invest in a country (Schneider and Frey 1985), evidence on this matter is mixed (Asiedu 2006; Büthe and Milner 2008; Feng 2001).

Alternative model specifications attempt to control for other factors that may affect the relationships under study. Because of concerns regarding the effect of including the lagged dependent variable in the model, it was not included in the baseline model (Achen 2001; Keele and Kelly 2006). However, model 4 includes the dependent variable lagged one year.

To make sure that the HR treaty count is not absorbing a more general tendency of a country to participate in international regimes,[23] I include *IO participation*, the number of non-HR international organizations that the country is a member on in a given year. This variable has been argued to affect HR regimes commitment, but not violations (Conrad and Ritter 2013:404). The data come from the Ulfelder's (2011) dataset on intergovernmental organizations and international regimes.[24]

Scholars arguing for an indirect effect of HR record suggest that "a government's willingness to violate human rights may signal that it would also be more willing to violate business and property rights," and suggest the need of distinguishing the effects of HR violations and property rights (Barry et al. 2012). Therefore, I include *Property Rights*, the variable summarizing the state of the legal system and property rights (Chain area 2) from the Economic Freedom of the World index (Fraser Institute 2012). Because before 2000 there are data every five years, the variable is linearly interpolated. Another indirect channel through which HR is said to affect FDI is the formation of human capital (Barry et al. 2012; Blanton and Blanton 2007). Said studies proxy human capital with female life expectancy. Therefore, I include *Human capital,* a variable that measures female life expectancy in years. Data come from the World Bank (2012), completed with the CIA fact sheets (Central Intelligence Agency 2013) and data from World Life Expectancy (2013). Finally, missing years were linearly extrapolated.

[23] For example, there is evidence that countries that are more involved in international organizations are more likely to join international environmental agreements (Bernauer et al. 2010).

[24] The variable sums the state's membership in a given year in the following organizations: Arab League, Asia-Pacific Economic Cooperation, Association of Southeast Asian Nations, Economic Community of West African States, European Union, GATT/WTO, Geneva Convention, International Court of Justice, North Atlantic Treaty Organization, Organization for Economic Cooperation and Development, Organization for Security and Cooperation in Europe, Organization of American States, Organization of Islamic Cooperation, Organization of the African Union, Organization of the Petroleum Exporting Countries, Partnership for Peace, South East Asia Treaty Organization, and the Southern Cone Common Market (MERCOSUR).

To separate the effect of naming and shaming by the press and by HR NGOs, I also control for naming and shaming, using *HRO shaming* (Barry et al. 2012) and *Naming and shaming* the number of mentions of HR violations in the New York Times (Nielsen Forthcoming). Finally, to separate the effect of HR violations from the effect of domestic of international conflicts that might be associated both with the level of HR violations and the withdrawal of FDI, I include *Conflict,* a dichotomous variable indicating whether the country is experiencing a civil conflict that results in at least 25 battle-related deaths in a single year, or inter-state war that results in 1,000 or more battle-related deaths. Civil conflict data come from the Armed Conflict Dataset (Gleditsch et al. 2002), and inter-state conflict data come from the Correlates of War data (Sarkees 2000).

Models are run on a sample of developing countries between 1982 and 2011. Developing countries are defined as countries that are not OECD members. The estimation technique is an ordinary least squares regression (OLS) with fixed effects and control for AR(1) disturbances. I use fixed effects to capture country-specific FDI determinants not included in the models. Furthermore, a series of Hausman tests show there is a systematic difference between the results of models with random and fixed effects, and that random effects seem to be inconsistent. Wooldridge tests show first-degree serial autocorrelation to be a problem, so I include the autoregression factor (Baltagi 2005:84-5). All independent variables are lagged one year. For descriptive data and correlation matrix, see appendices 3 and 4.

Findings

Table 2 shows the results of the multivariate analysis. As a baseline for comparison, I first run a parsimonious model of determinants of FDI in the full sample of developing countries (see model 1). As expected, FDI is positively associated with *Market size, Trade, Capital openness* and *Democracy*. It is negatively associated with *Instability*. *Economic development* and *Growth* do not achieve statistical significance. Model 2 includes the HR variables. The coefficient associated with *Physical integrity* is negative and statistically significant at the .1 level. This provides some support for hypothesis 1, stating an unconditional negative relationship between HR violations and the general level of FDI inflows a country receives. The coefficient associated with the count of ratified HR treaties is positive and statistically significant, suggesting that HR treaties attract FDI, in line with the expectation of a legitimating effect of these treaties suggested in hypothesis 2.

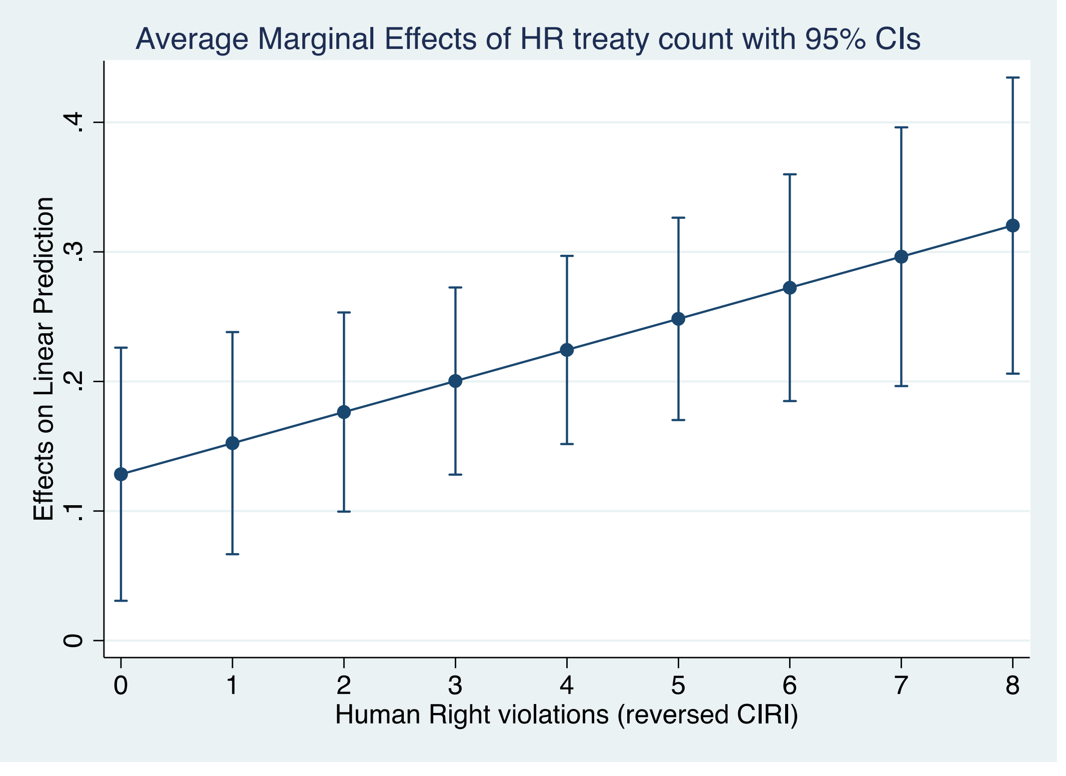
TABLE 2: DETERMINANTS OF FDI NET FLOWS (NATURAL LOG 2005 US DOLLARS). DEVELOPING COUNTRIES

	MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5	MODEL 6	MODEL 7
PHYSICAL INTEGRITY$_{T-1}$		**-.031 (-1.77)***	**-.108 (-3.32)*****	**-.120 (-3.81)*****	**-.107 (-3.25)*****	**-.103 (-2.72)*****	**-.102 (-2.68)*****
HR TREATY COUNT$_{T-1}$		**.216 (6.62)*****	**.138 (3.22)*****	**.130 (3.34)*****	**.130 (2.89)*****	**.128 (2.58)*****	**.123 (2.43)****
PHYSICAL INTEGRITY$_{T-1}$* HR TREATY COUNT$_{T-1}$			**.024 (2.81)*****	**.028 (3.44)*****	**.024 (2.76)*****	**.024 (2.42)****	**.024 (2.37)*****
MARKET SIZE$_{T-1}$	**.695 (39.60)*****	**.689 (35.96)*****	**.697 (36.07)*****	**.686 (28.31)*****	**.688 (30.32)*****	**.512 (9.10)*****	**.510 (8.88)*****
EC. DEVELOPMENT $_{T-1}$	-.033 (-0.17)	-.071 (-1.36)	-.067 (-1.28)	**-.112 (-2.77)*****	-.078 (-1.43)	**-.150 (-2.75)*****	**-.160 (2.84)*****
GDP GROWTH$_{T-1}$	.003 (0.80)	.003 (0.76)	.003 (0.79)	**.008 (1.64)***	.003 (0.71)	.006 (1.11)	.006 (1.07)
TRADE$_{T-1}$	**.011 (5.67)*****	**.009 (4.56)*****	**.009 (4.58)*****	**.007 (4.04)*****	**.009 (4.34)*****	**.007 (2.79)*****	**.007 (2.74)*****
CAPITAL OPENNESS$_{T-1}$	**.218 (5.51)*****	**.182 (4.68)*****	**.182 (4.68)*****	**.164 (4.94)*****	**.182 (4.53)*****	**.139 (3.39)*****	**.133 (3.17)*****
FHOUSE$_{T-1}$	**.108 (2.57)*****	.060 (1.43)	.063 (1.50)	**.087 (2.30)****	.058 (1.37)	.048 (1.08)	.047 (1.04)
POLITICAL INSTABILITY$_{T-1}$	**-.013 (-1.76)***	**-.012 (-1.68)***	**-.012 (-1.68)***	-.010 (-1.47)	**-.012 (-1.70)***	-.011 (-1.54)	-.011 (-1.55)
FDI$_{T-1}$				**.080 (3.35)*****			
IO PARTICIPATION$_{T-1}$					.051 (0.69)		.064 (0.82)
PROPERTY RIGHTS$_{T-1}$						**.210 (3.85)*****	**.211 (3.83)*****
HUMAN CAPITAL$_{T-1}$						**.064 (3.24)*****	**.061 (3.03)*****
NAMING AND SHAMING$_{T-1}$						-.024 (-1.07)	-.024 (-1.05)
CONFLICT$_{T-1}$						-.020 (-0.20)	-.020 (-0.19)
CONSTANT	**1.967 (12.76)*****	**1.961 (12.49)*****	**1.979 (12.60)*****	**.926 (5.10)*****	**2.065 (12.78)*****	**1.540 (8.09)*****	**1.604 (8.30)*****

NUMBER OF OBS	2010	2010	2010	1842	1923	1567	1543
NUMBER OF GROUPS	133	133	133	133	120	93	89
R^2 WITHIN	0.575	0.575	0.577	0.699	0.569	0.592	0.588
R^2 BETWEEN	0.715	0.737	0.742	0.729	0.758	0.650	0.666
R^2 OVERALL	0.596	0.629	0.635	0.653	0.641	0.581	0.591
F	336.33	280.95	255.12	359.17	216.29	151.23	136.85
PROB> F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AIC	5009.484	4959.927	4953.085	4205.373	4816.953	3864.509	3821.556
BIC	5054.332	5015.986	5014.75	4271.596	4883.749	3944.863	3907.02
AIC (§)	3892.704	3846.142	3841.7	3329.23	3331.144	3303.055	3821.556
BIC (§)	3935.436	3899.557	3900.457	3392.272	3394.185	3381.857	3907.02

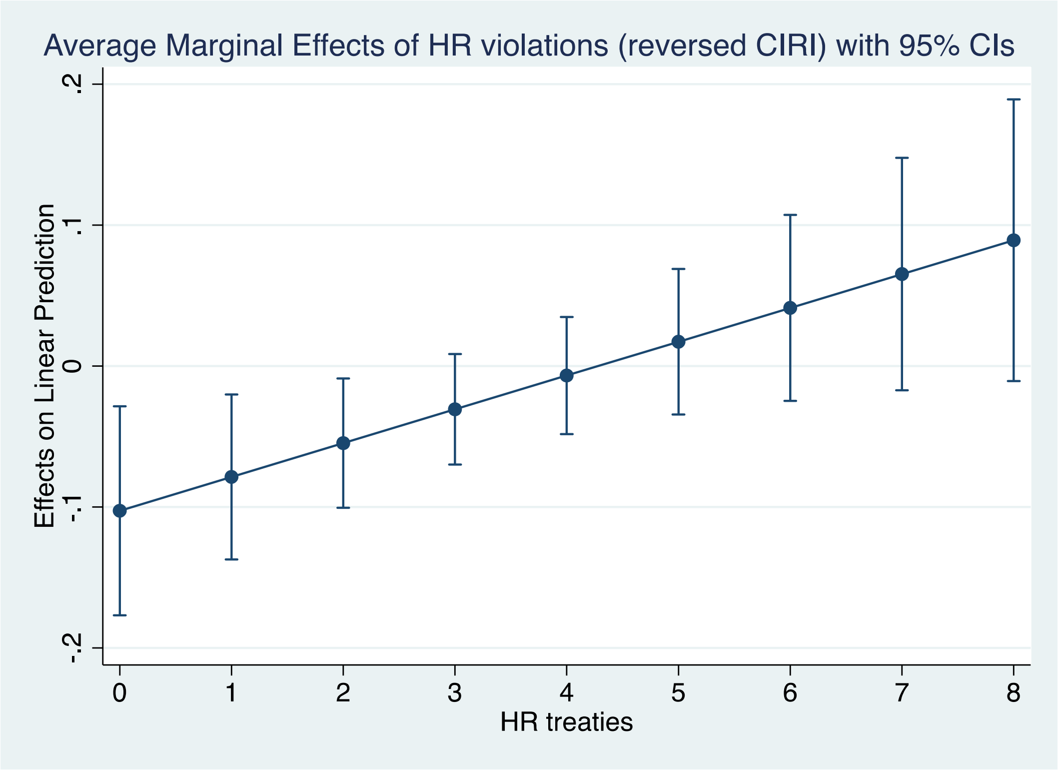
Hypothesis 3 states a conditional effect of HR. Therefore, model 3 includes an interaction term, multiplying Physical Integrity and the treaty count variable. As expected, ratifying HR treaties not only has a positive direct effect on FDI inflows, but this positive effect is greater in countries registering more HR violations. Figure 1 shows the marginal effect of ratifying an additional HR treaty by a country, depending on the country´s HR record. The coefficient associated with HR treaty is .14 in countries that did not register HR violations, but it is .33 in countries registering the highest levels of HR violations. These coefficients are significant at the .001 level. This suggests that the reputation argument (hypothesis 3) finds support, while the alternative hypothesis (information) does not.

FIGURE 1: COEFFICIENT ASSOCIATED WITH *HR TREATY COUNT* AT DIFFERENT LEVELS OF *PHYSICAL INTEGRITY*, BASED ON MODEL 6 (HYPOTHESIS 3)



As indicated by hypothesis 4, the positive interaction term also suggests that joining HR regimes has an indirect effect, curbing the negative impact of HR violations on FDI inflows. Figure 2 plots the marginal effect of HR violations at different levels of commitment to HR regimes. Once this indirect effect is taken into account, the total effect of HR violations on FDI appears to be statistically significant only for countries that have ratified less than four of the cited treaties. In other words, the HR record seems to matter only for countries with low levels of commitment to international HR regimes. The deterring effect of HR violations on FDI inflows is curbed by commitment to international HR regimes.

FIGURE 2: COEFFICIENT ASSOCIATED WITH *PHYSICAL INTEGRITY* AT DIFFERENT LEVELS OF *HR TREATY COUNT*, BASED ON MODEL 6 (HYPOTHESIS 4)



Models 4 to 7 reproduce previous models adding different controls. Results hold when I include the past values of the dependent variable.[25] Model 5 includes *IO participation*, the number of non-HR international regimes in which the country participates in a given year. *IO participation* does not achieve statistical significance and does not alter the main results, suggesting that participation in HR regimes (a) sends a signal of a different nature to investors and (b) it does not absorb some underlying state propensity to participate generally in international regimes that could have positive effects on investors' assessment of the country.

Model 6 incorporates a series of controls for indirect ways in which a country's HR record could affect FDI. As expected, both *Property Rights* and *Human capital* have a positive and significant effect on FDI inflows. Although the coefficients associated with *Naming and shaming* (and alternative variables controlling for this effect, not reported) and *Conflict* are negative, neither of them achieves statistical significance. Model 7 includes all controls, and reproduces the results described above.

Robustness checks

I re-run the models replacing *HR treaty count* (both as independent variable and as component of the interaction term) with *HR treaty percentage* and *HR weight.* In spite of differences in the construction of these variables, the results generally hold.[26] Figures 3 and 4 plot the marginal effects of *HR treaty percentage* and *HR weight* after running models with controls shown in model 6 (best fit). As described when using *HR treaty count*, additional treaties are associated with more FDI. The only instance in which the marginal effect does not achieve statistical significance is in models using *HR treaty percentage* when there are no HR violations. The rest of the curve, however, is significant at the 99.9%. This provides support for hypothesis 3. Similarly, figures 5 and 6 reproduce figure 2, changing the operationalization for commitment to HR regimes. These results also indicate that HR violations are associated with less FDI at lower levels of commitment with HR. Particularly, the negative association between HR violations and FDI is significant for countries that have ratified less than 20% of the treaties opened for adhesion, and for countries that are below .2 in the weighted index of HR treaty ratification.

[25] High levels of collinearity make this model not preferred.
[26] Results are reported in appendix 5, available online.

FIGURE 3: COEFFICIENT ASSOCIATED WITH *HR TREATY PERC* AT DIFFERENT LEVELS OF *PHYSICAL INTEGRITY*, BASED ON MODEL 6 (HYPOTHESIS 3)

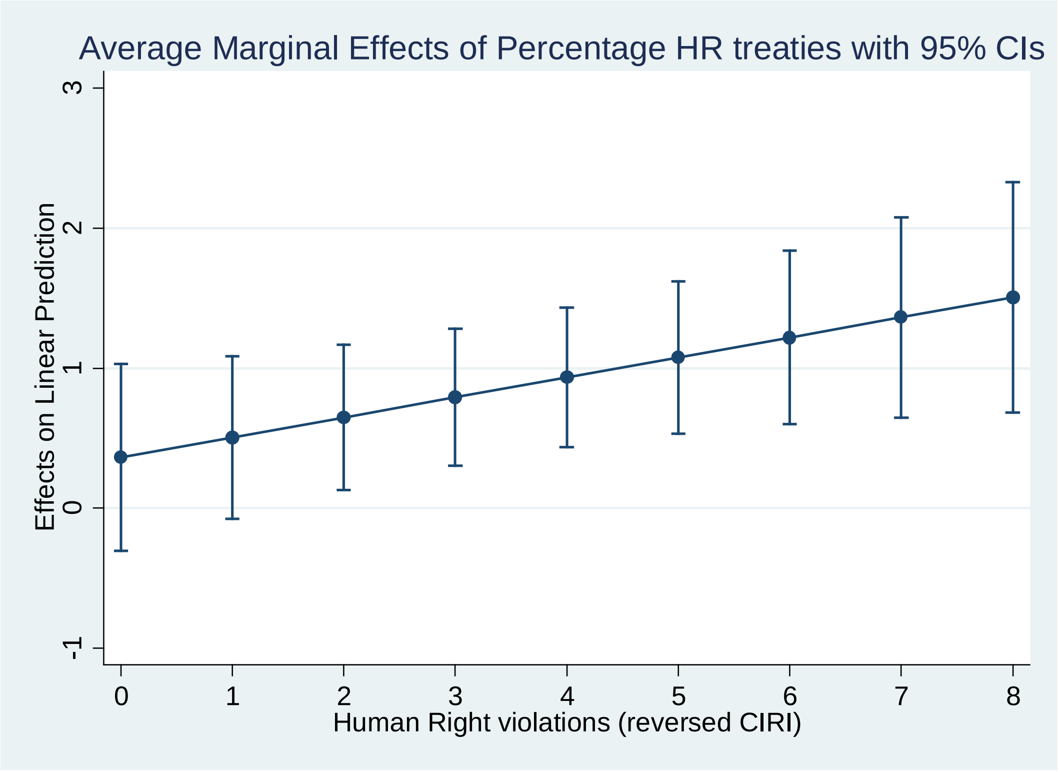


FIGURE 4: COEFFICIENT ASSOCIATED WITH *HR TREATY WEIGHT* AT DIFFERENT LEVELS OF *PHYSICAL INTEGRITY*, BASED ON MODEL 6 (HYPOTHESIS 3)

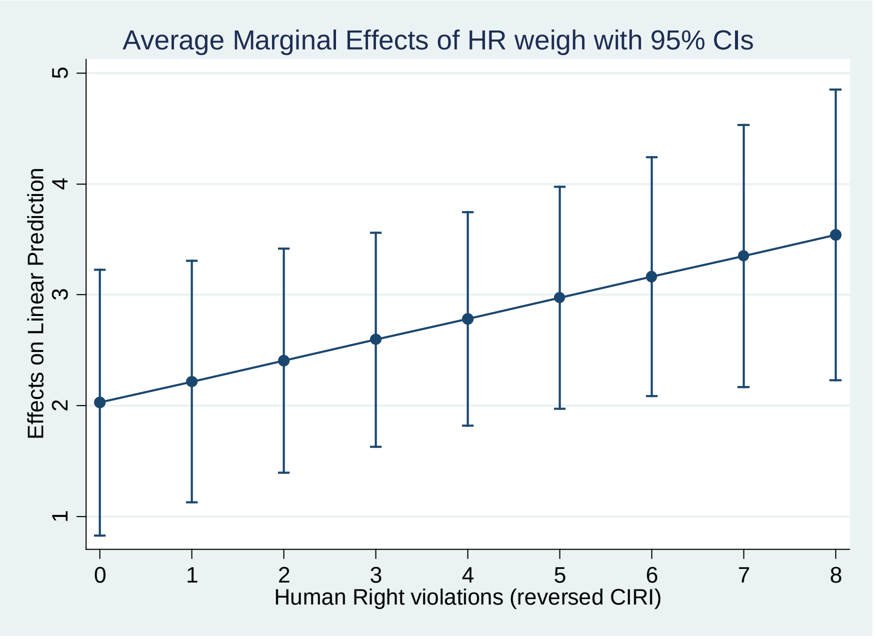


FIGURE 5: COEFFICIENT ASSOCIATED WITH *PHYSICAL INTEGRITY* AT DIFFERENT LEVELS OF *HR TREATY PERC*, BASED ON MODEL 6 (HYPOTHESIS 4)

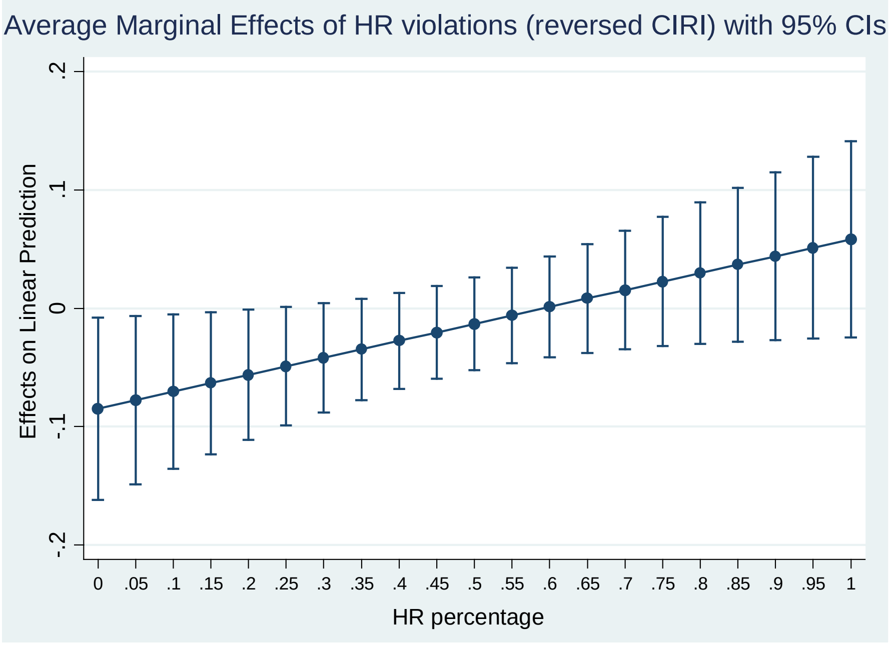
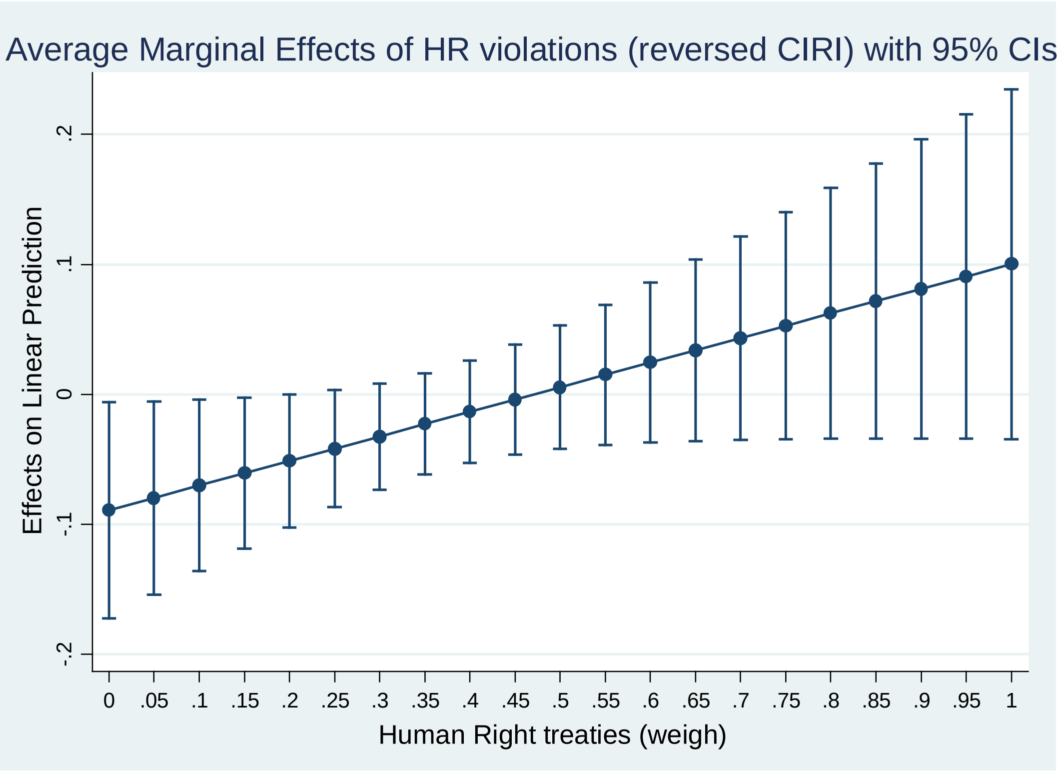


FIGURE 6: COEFFICIENT ASSOCIATED WITH *PHYSICAL INTEGRITY* AT DIFFERENT LEVELS OF *HR TREATY WEIGHT*, BASED ON MODEL 6 (HYPOTHESIS 4)



Results hold with a different measure of regime type (Polity), in spite of the different indicators used in the Freedom House and in the Polity projects. It is worth noting the two "roles" that Freedom House and Polity play in the literature on FDI and on HR. In the FDI literature, these are regular controls that attempt to account for the effect of democratic institutions on a country's credibility or commitment capacity (Jensen 2006, 2008), and in some cases, for the enforcement of rights (Li and Resnick 2003). However, another literature uses measures of regime type (the Freedom House scores) as an indicator of respect for political rights and civil liberties (e.g., Adam and Filippaios 2007; Busse 2004; Harms and Ursprung 2002; Kucera 2002; Rodrik 1996). In this paper, I focus on physical integrity rights; therefore, the regime type variables work as controls commonly used in the FDI literature. That explains the similar results for the coefficients associated both to Freedom House and Polity in these models.

I re-run models 3 and 6 changing the specification in the following ways. First, I include decade dummies. Both sets of dummies are statistically insignificant; however, the main results presented in table 2 do not change. I add a *Post-conflict* variable indicating the 5-year period after a conflict (as defined above) (Garriga and Phillips 2013). To separate the effect of actual HR violations from the naming and shaming effect, I replace *Physical integrity* with either *HRO shaming* (Barry et al. 2012) or the number of mentions of HR violations in the New York Times (Nielsen Forthcoming), both alone and interacting with HR treaty count. Neither the naming and shaming variables nor the interaction terms are statistically significant. Furthermore, the main results reported here do not change. Finally, I run models including the *WTO dummy* variable, and the number of bilateral investment treaties that a country has signed with an OECD country (*BITs*). The data comes from Barry et al. (2012). Although both variables are statistically significant, they do not alter the results I reported above. Additional specifications include decade and year dummies.

Conclusions

This paper analyzes the legitimizing effects of HR regimes in the eyes of investors: Do international HR regimes have an effect on FDI inflows? As a preliminary step, the paper explores the existence of a negative direct effect of HR violations on FDI inflows and argues that the mechanism linking HR violations to FDI is investors' reputational concerns. However, because participation in HR regimes has a positive effect on countries' reputations, ratification of HR treaties attracts FDI independently from their level of violations, and this positive effect is especially strong in countries with the worst HR records.

Analyzing the reactions of investors to countries' HR violations and to their commitment to HR regimes is important because governments want FDI to finance themselves, and they are willing to implement policy changes in order to attract investment. If investors avoid HR violators, one might hope that the competition for FDI could lead to more respect for HR. However, if investors perceive commitment to HR regimes as a positive signal, independently from the level of HR violations, then countries would have a less costly policy (adhering to an international regime) producing similar effects.

What does the evidence suggest? The statistical analysis provides support for the idea of reputational mechanisms at work. First, there is evidence supporting the idea that violations of physical integrity rights deter FDI. However, this effect characterizes FDI in countries with relatively low levels of commitment to HR regimes. This result is robust to different specifications. It is noteworthy that (a) this effect does not disappear when controlling for naming and shaming and, (b) that the naming and shaming variables do not achieve statistical significance in these models. However, once the indirect effect of HR regimes ratification is taken into account, the results show that this negative effect appears only in countries with relatively low levels of commitment to international HR regimes.

Second, investors seem to reward countries' commitment to HR regimes whether they care about the reputation, or because they can use that reputation to deflect responsibility in front of others. The hypothesis suggesting a positive effect of commitment to HR regimes on FDI is supported using different measures of participation in global HR regimes. The countries' propensity to adhere to international treaties does not absorb the HR regimes' effect on investment. Furthermore, the positive effect of HR regimes on FDI flows is more important for countries with worse HR records. Given the consensus in the literature regarding the lack of a significant effect of HR convention ratifications on states' behavior, it seems reasonable to interpret this effect as a reputational effect. FDI could be also an intermediary variable explaining, for instance, why governments who participate in HR treaties survive longer in office than those who do not participate (Hollyer and Rosendorff 2011).

Finally, the empirical analysis also suggests an undesirable effect of HR treaties on investors' punishment of HR violations: ratification of HR conventions curbs the negative effect of HR violations on FDI. This effect could explain some mixed evidence regarding a direct effect of HR on FDI.

APPENDIX 1. EXCERPT OF THE HUMAN RIGHTS ASSESSMENT OF GOLDCORP'S MARLIN MINE (ON COMMON GROUND CONSULTANTS INC. 2010) P. 21

Table 1.3: Guatemala's Score on Protection of Human Rights

The scale used attributes a lower number for better performance.

Human Rights Compliance	Overall Score (0 to 8)	Specific Indicators
Formal acceptance of human rights	0 (high level of compliance)	Ratification of all fundamental human rights conventions and other conventions.
Compliance with civil and political rights	6 (low)	Systematic violations in extrajudicial killings/disappearances; torture and ill-treatment; unfair trial; denial of freedom of expression; discrimination. Incidents of detention without charge or trial; denial of freedom of association.
Compliance with economic, social and cultural rights	2.5 (relatively high)	High compliance for highest attainable health (under five and infant mortality); right to education (net primary enrolment); right to housing (clean water). Medium compliance for right to housing (sanitation) and right to food (under-weight children under 5). Low compliance for right to food (proportion of under-nourished).
Women's rights	6 (low)	Medium score for ratio of girls to boys in primary and secondary educations. Medium level of women's rights violations. Low score for percentage of women at ministerial level. No national action plan for women.

Source: Danish Institute for Human Rights provides summary information on country human rights compliance in Guatemala. Scoring is based on statistics and indicators from 2000 to 2002.

APPENDIX 2. 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)
Torture	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 *frequently* 1: torture was practiced *occasionally* 2: torture did *not* occur.
Extrajudicial Killing (EK)	Killings by government officials without due process, or by private groups if instigated by government.	0: frequent EK 1: occasional EK 2: EK did *not* occur.
Political Imprisonment	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 (e.g., ethnic or racial group).	0: *many* people were imprisoned for these reasons. 1: *few* people were imprisoned for these reasons. 2: *no* persons were imprisoned for these reasons.
Disappearance	Cases in which people have disappeared, the victims have not been found, and political motivation appears likely.	0: *frequent* occurrence of disappearances 1: *occasional* occurrence of disappearances 2: *no* disappearances.

APPENDIX 3: DESCRIPTIVE STATISTICS

VARIABLE	OBS	MEAN	STD. DEV.	MIN	MAX
FDI	2145	19.13328	2.155992	8.498189	25.62578
PHYSICAL INTEGRITY$_{T-1}$	2145	3.404662	2.111486	0	8
HR TREATY COUNT$_{T-1}$	2145	3.332867	1.976109	0	7
HR TREATY PERC$_{T-1}$	2145	.4785759	.2709175	0	1
HR TREATY WEIGHT$_{T-1}$	2145	.358527	.1829924	0	.770297
MARKET SIZE$_{T-1}$	2145	23.2382	1.740576	19.20632	28.82059
EC. DEVELOPMENT $_{T-1}$	2145	3.204427	4.531013	.1254835	29.41763
GDP GROWTH $_{T-1}$	2145	4.1767	4.886827	-50.24807	37.75626
TRADE$_{T-1}$	2145	81.03156	49.35918	6.320343	437.3865
CAPITAL OPENNESS$_{T-1}$	2145	-.1555831	1.428909	-1.831187	2.500014
FDI$_{T-1}$	1976	19.13309	2.093612	8.498189	25.62578
FREEDOM HOUSE$_{T-1}$	2145	3.120746	1.706239	0	6
POLITY2$_{T-1}$	2031	1.667651	6.719967	-10	10
POLITICAL INSTABILITY$_{T-1}$	2145	1.835431	3.546789	0	41
IO PARTICIPATION$_{T-1}$	2053	3.80906	1.235669	1	7
PROPERTY RIGHTS$_{T-1}$	1660	4.877939	1.420987	1.02	9.274
HUMAN CAPITAL$_{T-1}$	2127	65.86017	10.60002	29.116	82.9
NAMING AND SHAMING$_{T-1}$	2145	.365035	1.335888	0	25.5
CONFLICT$_{T-1}$	2145	.1692308	.3750431	0	1
HRO SHAMING$_{T-1}$	1037	.3423337	1.251822	0	15
WTO DUMMY	2135	.7456674	.4355874	0	1
BITS	1587	4.908003	4.715792	0	19

APPENDIX 4: CORRELATION MATRIX

	Physical Integrity$_{T-1}$	HR treaty count$_{T-1}$	HR treaty perc$_{T-1}$	HR treaty weight$_{T-1}$	Market size$_{T-1}$	Ec. develop.$_{T-1}$	GDP growth $_{T-1}$	Trade$_{T-1}$	Capital Open.$_{T-1}$	FDI$_{T-1}$
Physical Integrity$_{T-1}$	1.0000									
HR treaty count$_{T-1}$	0.1189	1.0000								
HR treaty perc$_{T-1}$	0.1369	0.9627	1.0000							
HR treaty weight$_{T-1}$	0.1176	0.4575	0.4377	1.0000						
Market size$_{T-1}$	0.3812	0.0305	0.0315	0.1400	1.0000					
Ec. development $_{T-1}$	-0.2221	-0.1364	-0.1364	-0.1364	0.2574	1.0000				
GDP growth $_{T-1}$	-0.0047	0.1126	0.0705	-0.0132	0.0716	-0.0084	1.0000			
Trade$_{T-1}$	-0.3501	-0.0688	-0.1123	-0.1716	-0.2121	0.4193	0.1040	1.0000		
Capital Openness$_{T-1}$	-0.1931	0.1437	0.0887	0.0582	0.0655	0.3047	0.0841	0.3177	1.0000	
FDI$_{T-1}$	0.1597	0.1888	0.1492	0.1894	0.7381	0.2832	0.1387	0.1029	0.2437	1.0000
Freedom House$_{T-1}$	-0.3724	0.2257	0.2212	0.2579	0.0007	0.2359	-0.0152	0.0768	0.1431	0.1218
Polity2$_{T-1}$	-0.1738	0.3501	0.3293	0.3720	0.1066	0.0772	0.0118	0.0030	0.1531	0.1700
Political instability$_{T-1}$	0.3772	-0.0064	0.0291	0.0498	0.2953	-0.0081	-0.0996	-0.2413	-0.0854	0.1007
IO participation$_{T-1}$	-0.0070	0.1815	0.1502	0.1769	0.0757	-0.0561	0.0118	-0.0242	0.1200	0.1098
Property rights$_{T-1}$	-0.3776	-0.0279	-0.0901	-0.0910	0.2403	0.5190	0.1529	0.4151	0.2658	0.4027
Human capital$_{T-1}$	-0.1410	0.1258	0.1042	0.2020	0.3989	0.4900	0.0852	0.2536	0.2983	0.4739
Naming and shaming$_{T-1}$	0.2725	0.0482	0.0649	0.0582	0.2992	-0.0111	0.0234	-0.1366	-0.0575	0.2460
Conflict$_{T-1}$	0.5502	0.0473	0.0807	0.0266	0.1841	-0.0764	-0.0244	-0.2305	-0.1136	-0.0135
HRO shaming$_{T-1}$	0.2238	0.0011	0.0011	0.0419	0.1888	0.0274	0.0202	-0.0806	-0.0106	0.1190
WTO dummy	0.0263	0.3492	0.3038	0.3570	0.3842	-0.0537	0.0681	0.0094	0.2362	0.4447
BITs	-0.0309	0.1395	0.1321	0.1836	0.0266	0.0236	-0.0462	-0.0309	0.0428	0.0185

APPENDIX 4: CORRELATION MATRIX (CONT)

	FREEDOM HOUSE$_{T-1}$	POLITY2$_{T-1}$	POLITICAL INSTABILITY$_{T-1}$	IO PARTICIPAT.$_{T-1}$	PROPERTY RIGHTS$_{T-1}$	HUMAN CAPITAL$_{T-1}$	NAMING & SHAMING$_{T-1}$	CONFLICT$_{T-1}$	HRO SHAMING$_{T-1}$	WTO DUMMY	BITS
FREEDOM HOUSE$_{T-1}$	1.0000										
POLITY2$_{T-1}$	0.8675	1.0000									
POLITICAL INSTABILITY$_{T-1}$	-0.0123	0.1090	1.0000								
IO PARTICIPATION$_{T-1}$	-0.0738	-0.0961	-0.0874	1.0000							
PROPERTY RIGHTS$_{T-1}$	0.2592	0.1302	-0.2316	0.0066	1.0000						
HUMAN CAPITAL$_{T-1}$	0.4033	0.3626	0.0673	-0.1378	0.3970	1.0000					
NAMING AND SHAMING$_{T-1}$	-0.1467	-0.0585	0.2323	-0.0840	-0.0589	0.0692	1.0000				
CONFLICT$_{T-1}$	-0.1190	-0.0190	0.3074	-0.0855	-0.2718	-0.1241	0.1448	1.0000			
HRO SHAMING$_{T-1}$	-0.1659	-0.1193	0.0446	0.0415	-0.0554	-0.0138	0.2608	0.1539	1.0000		
WTO DUMMY	0.0752	0.1490	0.0097	0.1262	0.1865	0.3535	0.2221	-0.0423	0.0889	1.0000	
BITS	0.2415	0.2511	0.0716	0.3900	0.0504	-0.1276	-0.1016	0.0124	-0.0069	0.0393	1.0000

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