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FDI and Human Rights

Do foreign direct investments increase respect for human rights?

Master's thesis

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Kunnskap for ei betre verd

Abstract

This study investigates the relationship between foreign direct investments (FDI) and human rights, in terms of state-led physical violence. The theoretical grounds are based on the consistent debate between liberal scholars arguing for positive effects of FDI, while dependency scholars have a more pessimistic approach. Resource curse scholars argue that FDI into resource-abundant countries, enrich despots contributing to their survival. This study is innovational in regard to the application of new data from 2019, applying FDI flows and stocks as explanatory variables. It has significant methodological contributions to the field of study, since both random- and fixed-effects estimators are applied. An essential finding of this study is that FDI seems to behave differently under different conditions. FDI flows are correlated with fewer human rights violations when it is investigated isolated. The conditional effects of FDI flows and stocks identify an increase in human rights violations. Electoral democracy and oil-abundancy is also applied as conditional effects. FDI flows in electoral democracies are related to increased human rights violations related to the liberalizing effects of democracy, allowing dissent. FDI stocks in oil-abundant countries are related to fewer human rights violations, suggesting that privatization of the oil sector providing positive effects on the institutions.

Sammendrag

Denne studien undersøker forholdet mellom utenlandske direkte investeringer (UDI) og menneskerettigheter, i form av statelig vold. Det teoretiske grunnlaget brukt i studien er basert på den pågående debatten mellom liberale teoretikere, som argumenterer for positive effekter av UDI, mens avhengighets-teoretikere forholder seg negativt rettet. Ressurs-krise teoretikere argumenterer for at UDI sendt til ressurs-rike land bidrar til å berike despoter og støtter opprettholdelsen av deres regime. Denne studien har flere innovative vinklinger, og benytter både investeringsstrømmer og historiske investeringer som forklaringsvariabel. Den har også et betydelig metodologisk bidrag, i form av å benytte både *random* og *fixed effects* estimatorer. Et viktig funn fra studien er hvordan UDI virker å oppføre seg under ulike forhold. Utenlandske investeringsstrømmer er korrelert med mindre grad av menneskerettighetsbrudd når den er brukt isolert. Når samme variable er lagt til i et samspill med historiske verdier så fører dette til mer menneskerettighetsbrudd. UDI er undersøkt i samspill med demokrati og olje-rikdom, for å måle den betingende effekten. Investeringsstrømmer i demokratier er relatert til en økning av menneskerettighetsbrudd. Historiske investeringer i olje-rike land relateres til mindre menneskerettighetsbrudd, som indikerer positive innvirkning av å privatisere oljesektoren.

Preface

Writing this thesis has been an exciting process, In which I have experienced both academic and personal growth. Primarily I will thank Indra de Soysa for his patience and his great endeavor in leading me through the process. Second, I will thank my mom and dad for supporting me through the last part of this master's degree, providing shelter when the university closed, and my dorm-room was too small for home office. Last but not least, a great thank goes to my boyfriend, Bård. I would not have made it through this process without your love, knowledge and technological support.

Nina M. Bjørge

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1 Introduction

Today, there is rising concern over the yawning gap in wealth between industrialized and less-developed countries. In a globalized world, the rich are no longer protected from the problems of poverty. From disease to terrorism and migration, the problems of the less-developed countries have also become the problems of the industrialized states. The widening inequality across countries is illustrated through the fact that an average Swiss person can spend in one month what a person in the Central African Republic can spend for seven years (Roser, 2020). This example illustrates how extreme the differences between industrialized and the less-developed countries are in 2017. The latter stay poor because they lack the capital and technology to meaningfully participate in the globalized world.

Comprehensive measures are taken by industrialized countries to help increase wealth in less-developed countries. Capital flows through foreign direct investments (FDI) has been a commonly used measure. FDI often go through multinational companies (MNC) and are made for long-term purposes with an abiding interest in the economy (UNCTAD, 2017:245). Investments across borders should initiate economic activities in the recipient country, which might contribute to economic growth and prosperity in the long run. The overall background of this study is whether FDI contributes to increased economic growth in the recipient country, or if the investments promote further inequality between the industrialized and less-developed countries. There are several conflicting arguments on the effects of these investments. Liberalists argue that FDI bring about wealth and prosperity in developing countries, while dependency and anti-globalist scholars argue the opposite. These two different conceptions builds the theoretical grounds for this study.

Liberalist scholars argue that the establishment of factories increases production efficiency in the recipient countries. Creating affiliates may lead to increased market competition, new job opportunities, and new tax incomes for the recipient countries. These are essential factors that eventually will lead to economic growth. Furthermore, liberalists also argue that creating affiliates belonging to MNC's transfers attitudes and skills that would not make it to these regions without the involvement of foreign actors. The spread of modern technology and leadership skills, and increased respect for democracy, and human rights are a few of the spillover effects the liberalists point to (De Soysa 2003:27; Richards, Gelleny & Sacko, 2001:222).

A counter-theory of liberalism is the dependency theory. Dependency theory presents a pessimistic view of the effects of FDI. They argue that the capitalist system is established

by and for the capitalist countries, to exploit the resources in the peripheral countries (De Soysa, 2003:35-36). The anti-globalists scholars argue that the establishment of foreign affiliates has adverse effects on the host institutions. On the hunt for profit, the MNC's are interested in low-cost countries, often with poor labor rights. Since MNC's is interested in low-cost countries, the government keeps wages and taxes low to continue attracting FDI. This practice is harmful to the institution, increasing inequality, dissatisfaction, and political instability. These scholars link this instability to less respect for human rights (Léonard, Pulignano, Lamare & Edwards 2014:174).

Some examples indicate that both theories might be applicable under certain conditions. One example is Lithuania. The country is mentioned as a success story and has attracted enormous amounts of investments after the dissolution of the Soviet Union. The economic zones around Lithuania's second-largest city, Kaunas, show particular signs of economic development. The area has become an attractive place for FDI, creating new job opportunities, and increasing demand for highly qualified employees (Stanev, 2018). Lithuania is a stable democracy, with well-established institutions that can take advantage of foreign investments (Nordea, 2016a).

A story far from successful is the many clothing factories across Asia that are exploiting workers making children and young adults work under horrific conditions. In 2013 The Rana Plaza factory building in Dhaka in Bangladesh collapsed. The building was hosting factories for several Western clothing brands, such as Walmart, Primark, and Zara. The previous day of the collapse, large cracks were discovered inside the building. Shops and banks on the lower floors were evacuated, while the factory workers continued working, based on orders from the owners. On the day of the collapse, 1134 lost their lives (Reinecke and Donaghey, 2015:720-721). The Rana Plaza collapse is an example of MNC's affiliates seeking low production costs for producing cheap clothes for Western consumers, allowing horrific labor conditions and causing harm and deaths upon their workers. The institutional framework of Lithuania is quite different from Bangladesh. Bangladesh suffers from less-development and weaker institutions with more corruption and a lack of transparency (Nordea, 2016b). The institutional conditions are particularly relevant for how countries can take advantage of foreign investments and is essential in this study. How natural-resource abundancy is a different conditional effect relevant to how a country takes advantage of the investments is also brought up throughout the study.

Since the main aim of the study is to investigate how FDI decrease inequality between industrialized and less-developed countries, it is necessary to study a phenomenon that is closely related to the inclusiveness of political and economic institutions. One determinant of inclusive institutions is respect for human rights (Acemoglu & Robinson, 2012). The particular human rights investigated throughout this study is physical integrity rights, in terms of freedom of torture and political killings. Thus, the research question is posed as

follows: *Do foreign direct investments increase respect for human rights?* The main aim is to investigate the overall effects of FDI on human rights by using a time-series cross-section (TSCS) analysis. The goal is to establish a broad image of how the two concepts are related, and how conditional effects such as institutions and resource-abundancy have specific impacts on the outcome.

Many studies investigate the relationship between FDI and human rights. Richards et al. (2001) suggest that foreign direct investments are related to increased government respect for two types of human rights; civil liberties and physical integrity rights (Richards et al., 2001:222). Specific types of FDI, such as mergers and acquisitions, are identified as favorable for the respect of physical rights, particularly in non-OECD countries (Kim & Trumbore, 2010:732). Kishi, Maggio & Raleigh argue the opposite side. This study identifies that large amounts of FDI stocks are related to securitization violence in Africa (Kishi, Maggio, & Raleigh, 2017). This study receives criticism from de Soysa (2019) for their conceptual and methodological grounds. His study shows that FDI reduces state militarization while investigating this for including data on the whole world. Bak & Moon (2016) argue that FDI contributes to revenue flows that lead to the survival of authoritarian regimes (Bak & Moon, 2016:1998). Other studies point to the importance of well-established institutions when it comes to receiving investments, and that this is essential to take advantage of them (Globerman & Shapiro, 2002; Romer, 1994). When it comes to the role of natural resources, one study reviewed relate foreign direct investments to the increase of protests and dissent in the mining industry (Christensen 2018:65-71). A different study by Weinthal & Jones (2006) relates private-owned companies in the natural resource sectors to easing the effects of the natural resource curse (Weinthal & Jones, 2006). The views are many and the literature points in different directions. Because of this, I find a further investigation of the relationship between foreign direct investments and respect for human rights necessary.

Through the literature review, I detected some overall weaknesses, which builds on the methodological grounds for this study. Several studies apply only one of the variables that measure FDI, and only a few of the articles I have reviewed include FDI flows and stocks. A different matter is related to the consistent use of the country fixed effects estimator. It is not the use of the FE-estimator in particular that surprises me, but it lacks the use of random effects estimators. This study is contributing to solving the overall question of whether FDI increases wealth in the recipient countries, by particularly answering whether FDI leads to more or less respect for human rights. While investigating this issue, I will solve the methodological gap detected in the literature by using both foreign investment flows and stocks, applying random and country fixed effects estimators to brand new data from 2019.

1.1 The contribution of this study

Most of the contributions of this study are related to methodological concerns detected in the literature review. In contrast, some of the contributions relate to the United Nations (UN) Sustainability Goals.

One essential contribution of this study is the use of both FDI flow and stock. Detected in the literature, most researchers use only one of these variables. FDI flows are newer incoming and outgoing investments, while stocks are the entire accumulated value of FDI sent a country (Kornecki & Raghavan, 2011:547). Since these variables measure foreign direct investments differently, I find it very important to apply both variables. This application will provide a thorough view of both the short- and long-term effects of FDI. The second contribution of this study is related to the use of two different estimators. In the literature review, it was a consistent use of country fixed-effects estimator (FE), which is an excellent choice for this type of analysis. After all, I think it is essential to apply the random-effects (RE) estimator since it uses the data more efficiently and might catch trends and interesting results that the FE-estimator is unable to detect.

Another original contribution of the thesis is the emphasis on the conditional effects. Certain country-specific conditions affect whether FDI works well or not in the countries receiving them. Conditional effects such as natural resources, electoral democracy, and historical stocks are included in the study while applying new data from 2019. The data are obtained from leading institutes across the world, which creates a solid foundation for the study.

The study brings up essential issues regarding UN sustainability goals. To be specific, the study does not promote any particular solutions to reach these goals but bring up important issues related to goal 8, 10, and 16. Goal number 8 promotes sustainable economic growth; goal 10 promotes reducing inequality within and among countries, while goal 16 promotes peaceful and inclusive societies while protecting the fundamental freedoms of all people (UN, 2015:14,25). This study investigates how the tool of capital flows (FDI) decreases the gap between industrialized and less-developed countries, explicitly expressed through less-developed countries' respect for human rights.

The paper proceeds as follows: Chapter 2 presents the relevant theories applied in this study. Liberal theory, dependency theory, and resource-curse theory are elaborated on, followed by empirical literature. Chapter 3 explains the methods and data used in the study. A thorough explanation of model specifications, variables, and different estimators applied are given here. Chapter 4 presents the result of the analysis. The results indicate that historical stocks in a country are particularly harmful, while FDI into electoral democracies increases human rights violations. FDI into the oil sector is related to positive respect for human rights. Chapter 5 presents a discussion of the results against the theory presented in chapter 2. The last section contains some concluding remarks and advice for

future research. Attached in the appendices are overview over excluded countries and the results from the robustness-tests.

2 Theoretical approach

This chapter explains the theory of foreign direct investments and state-led violence and provides clarification of the relationship between the two concepts. Scholars provide conflicting arguments on whether foreign direct investments have positive or negative effects on the host institutions. In the first section, the historical aspects of FDI are presented. In the second section, the liberal and institutional theory is explained as one approach towards FDI. The third section contains information about the dependency theory and anti-globalist theories, arguing against FDI. The third section presents additionally addresses how FDI affects countries that are resource abundant. The last section is an empirical literature review on the study of FDI and state-led violence. This study hopes to replicate the positive findings from the literature, but approach existing research critically.

2.1 Multinational companies and foreign direct investments

Companies originating from the Western hemisphere have long historical ties of engaging in foreign direct investments across the world. Such investments were closely connected to colonial rule, and the investors during this period got military and legal protection for investments in industries such as mining and plantation work. The British East India Company was one of the largest companies investing across borders during the 18th century. The economic philosopher, Adam Smith, criticized the company for its monopolistic character, increasing economic and political influence in the colonized countries (Claes, Hveem & Tranøy, 2017:192). Over 300 years after British East India's dominion over the colonial countries, similar companies today have affiliates abroad, and are important actors engaging in the host countries economy.

A multinational company is an enterprise operating in two or more national jurisdictions, having their leadership located in several of these nationalities (Claes et al., 2018:190). During the 1990, around 37,000 multinational companies were operating throughout the world, with approximately 170,000 foreign affiliates. The number of MNC's has increased drastically and almost doubled in 2014, with 77,000 multinational companies and 770 000 foreign affiliates (Leonard, Pulignano, Malare, Edwards, 2014:173-174).

Multinational companies employ millions of people across the world, creating opportunities for people across the world. Thus, their size and influence on society have become an unavoidable matter. MNC's have become powerful global actors with large social responsibility. This responsibility is spoken of as corporate social responsibility (CSR), developed by the UN and OECD. CSR means that businesses are expected to act responsibly in how they impact people, the environment, and societies in which they

operate. Specifically, CSR covers four areas regarding the areas of climate change, human rights, workers' rights, and anti-corruption. Multinational corporations should respect the established rules, laws, and practices in the countries they operate in. Internationally recognized human rights need to be followed in their practices and apply to activities that affect the population (OECD, 2011:19). The activities should be in close correspondence with the local communities, encouraging human capital through employment, health practices, safe labor, and taxation policies (OECD, 2011:19). According to Fortunes ranking of Global 500 from 2019, Walmart is the leading multinational company (Fortune, 2019). Walmart is criticized for poor work ethics in the U.S. How is a company with lousy labor practices in their home country, encouraged to uphold the CSR in their activities abroad?

After the huge increase in multinational companies, their structure has become more and more complicated. These firms have gone through extensive financialization, in which financial flows and profits have become highly prioritized issues. Financialization is defined as new ways to run firms, with a more dominant role established to maximize the shareholder's value. Markets profoundly influence these firms' strategies and push them to make different decisions based on profitability. The large focus on financial flows might not necessarily be a negative issue, but it might cause MNC's to prioritize profit over human rights. After all, the process of financialization has made MNC's a lot more potent in terms of moving capital across borders, acquiring production and activities in other countries, and transferring profit from one country to another. The presence of MNC's has become an unavoidable issue to investigate, due to their control over enormous capital flows, their increased global power, and social responsibility (Léonard et al. 2014:177).

2.1.1 Foreign direct investments

Together with foreign portfolio investments (FPI), foreign direct investments make up large parts of the world's capital flows (Claes et al., 2017:189). FDI is defined by UNCTAD (2017) as investments made for long-term purposes, reflecting a lasting interest in the economy. The investor belongs to one economy while the investments are made in a host economy. Such investments might be undertaken by individuals as well as multinational companies, even though the latter is the most common. To be considered an FDI, the investor has to control a minimum of 10 percent or more of the foreign asset. Investors' of FDI often seek to control and own considerable amounts of the assets (UNCTAD, 2017:245; Claes et al., 2018:189-191). Foreign direct investments are structured in many various ways and can be equity capital, reinvested earnings, and intracompany loans. Equity capital is a foreign direct investor's purchase of shares in a foreign country. Reinvested earnings are retained earnings reinvested in the affiliates, while intracompany loans are borrowing and lending of funds between the investors and the affiliates (UNCTAD, 2017:245-246).

Dunning (2000) distinguishes between four different types of FDI, which differ in

what they seek to gain and in how they affect the economy. The first type of FDI is the market seeking investment, which seeks to satisfy a specific foreign market, establish markets abroad, or establish specific demands to meet in the foreign markets. The second type of FDI is the resource seeking FDI, seeking to gain control over natural resources such as agricultural products, minerals, or unskilled labor in a foreign country. Efficiency seeking investments are the third type of FDI, seeking to promote more efficient labor or specialization of an existing asset. The fourth and last distinction is the strategic asset seeking investment, which seeks to protect or increase the advantages of the investing firm, and to reduce the advantages for competitor firms (Dunning, 2000:164-165). As stated, these investments may vary depending on what the mother company wants to gain and may also affect the economy in various ways. This study does not investigate specific types of FDI but uses variables that cover general foreign investments. The resource seeking FDI is although of particular interest and brought up for discussion while testing FDI in a conditional effect with oil rents.

2.2 Human rights violations as an extractive institution

As mentioned in the introduction, the background of this study is how international capital flows affect development in recipient countries. And how these investments contribute to close the gap between industrialized and less-developed countries. Many scholars within the field of international political economy relate inclusive institutions directly to successful economic growth. Because of this, I find it beneficial to measure the institutions' inclusiveness with their respect for human rights.

Acemoglu and Robinson distinguish between two kinds of institutions, inclusive and extractive institutions. The structures of institutions create the rules for the political game and decide how state leaders gain and execute their power. Inclusive political institutions distribute power broadly in society, resting on a broad and plural coalition. These institutions restrict state leaders from gaining too much executive power. Another essential trait is a centralized and robust state that can uphold the monopoly of legitimate violence in society. The state must be strong enough to maintain law and order, and it is essential to uphold the security of its citizens. To uphold the security of its citizens can be a variety of different tasks, but a primary one is avoiding abuse of the state's monopoly of violence. Inclusive leadership also removes economic institutions that extract resources from the communities and suppress markets, which only benefits the few. Inclusive political institutions are because of this codependent with inclusive economic institutions and economic growth (Acemoglu & Robinson, 2012:80-81).

The counterpart of inclusive institutions is extractive institutions. In these institutions, there is often a small elite running the country, with no executive power restrictions. The security of citizens is not upheld in the same ways as in the inclusive

regimes. Political violence might be executed as a means of control or abuse of citizens. The economic institutions are constructed to extract resources from the community to enrich the incumbent and his closest allies. The extractive economic institutions are severely crucial for the incumbent. Losing control of the revenue flows might cause catastrophic consequences, meaning the incumbent's loss of power (Acemoglu & Robinson, 2012:79-81).

As explained above, human rights violations are part of extractive political and economic institutions and are less common in countries with inclusive institutions. Human rights violations are beneficial measures on the level of prosperity and are applied as the independent variable of this study.

2.3 Arguments for FDI

As presented in the introduction, there are theoretical approaches both for and against foreign direct investments, regarding whether they lead to more or less economic growth. In this section the arguments for FDI are elaborated on.

2.3.1 Neoiberal approach

Neoliberal scholars tend to be in favor of FDI, arguing that developing countries benefit from the input of international capital flows. In this approach, FDI is considered to be one of the best measures for Western countries to contribute to close the gap between industrialized and less-developed countries. Foreign direct investments are capital flows from rich to poor areas. The returns to capital investments are higher in less-developed countries and should benefit these countries (De Soysa, 2003:27). Neoliberal scholars argue that FDI further creates spillover effects such as new jobs, new technology, leadership strategies, and marketing competence in the host countries. This kind of competence would not be available for developing countries without involvement from abroad. These scholars see FDI as the most efficient way to transfer knowledge and technology to other countries and play a crucial role in economic growth (Richards et al. 2001:221, De Soysa, 2003:28).

The presence of MNC's is by liberal scholars argued to be agents of change in the host countries. These firms may serve the host country's developing industry with alternatives to traditional value systems and social attitudes. The attitudes presented by MNC's encourage politicians to reshape traditional policies to continue to attract investments. Such practices can be to set up the rule of law, establish nondiscriminatory policies, protect vulnerable citizens, and invest in social service and infrastructure (Richards et al., 2001:222).

For liberal scholars, foreign direct investments are argued to be an efficient measure to decrease the gap between the rich and poor countries. According to these scholars, FDI

will lead to the development of inclusive political and economic institutions, and countries receiving FDI should have low levels of human rights violations. The hypothesis that will be tested in regards to neoliberal theory is the following: *H1: FDI flows decrease human rights violations in developing countries.* Since liberal scholars emphasize capital flows as important for economic growth, the FDI flows variable is applied in testing this hypothesis.

2.3.2 Modern liberal approach

Modern liberal scholars argue that it might not be as easy as the neoliberal scholars argue and that the basic institutional framework needs to be in place to get the positive spillover effects of foreign direct investments. Paul Romer, a Nobel prize-winning scholar, argues that neoclassical liberalism alone is not enough to explain economic growth. He criticizes the neoliberalist view on free markets, and that these markets will lead to economic growth in itself. Instead, Romer presented "The Endogenous Growth Theory". Here, he emphasizes human capital, such as knowledge, qualifications, and abilities of the populations as reasons for economic growth. He argues that the focus needs to be on how private and public sectors make choices for the economy and the population, and how leadership uses investments and human capital. (Romer, 1994:3). When several people start searching for gold or diamonds or experiment with bacteria to cure diseases, more valuable innovations are discovered (Romer, 1994;13).

Based on Romer's theory, if FDI are sent to countries with human capital, with a basic institutional framework and fundamental values of democracy settled, the FDI leads to the positive spillover effects, spreading technology, knowledge, and greater prosperity for the populations in the host countries. The state is then robust enough to take advantage of the investments and exploit the country's human capital for further growth and prosperity. These actions generate new ideas, new inventions, new technology, and incentives to establish property rights. Due to the appreciation of human capital, and the interest of upholding citizen's security, human rights violations should occur less in states with these primary institutions in place (Romer, 1994).

This theory differs from neoliberal scholars, who argue that economic growth follows a country receiving FDI independent of the institutional framework. This theory also differs from the inclusive institutions, which are more thoroughly developed established institutions, compared to the institutions Romer speaks of. Thus, the conditional effects between FDI flows and electoral democracies are applied to the dependent variable. The electoral democracy measure is applied for testing what Romer presents as a basic institutional framework. Regarding this theory, the following hypothesis is tested: *H2: FDI flows decrease human rights violations in developing countries conditional on basic democratic institutions.* As above, it is the investments flows that is included.

2.4 Arguments against FDI

In the following part I will explain the theories against foreign direct investment as a means to decrease the gap between industrialized and less-developed countries. These theories surround the negative effects of globalization and the presence of multinational companies in other countries.

2.4.1 Dependency theory

The dependency view is far more pessimistic towards foreign direct investments and argues that such investments do not contribute to close the gap between rich and poor countries. The dependency view focuses on the structure of the international hierarchy, which was established by and for the capitalist countries (De Soysa, 2003:35-36). They argue that the industrial and social development in the West cannot be imposed on other parts of the world in the liberal argument. There are various versions of dependency theories, but all argues that international capitalism is organized around the exploitation of the less industrialized by the highly industrialized countries (Richards et al., 2001:223).

An essential and prominent contribution to the dependency theory is Immanuel Wallerstein's "World System Theory" distributed in 1974. The World System theory separates the world into two distinct parts: A core and a periphery. Wallerstein suggests that the world's capitalist system emerged around the 15th century, to structure the interaction and cooperation among the modern states. The structure was established by Western Europe, North America, and Australia, in which he refers to as core countries. The periphery consisted of all other countries. In this system, the core countries upheld their wealth and prosperity at the expense of the poorer peripheral countries. The underdevelopment happened in several ways but was highly determined by the capital-abundancy of the core countries, and by the exploitation of resources and workforces in the periphery.

The exploitation of peripheral countries had roots in colonial rule, in which markets and rules were decided upon by the former colonial powers. Even when the colonial rule was formally over, similar rules continued to apply. The capitalist system continued to favor the core countries, and unequal exchange between former colonial powers and the formerly colonized states was established (De Soysa, 2003:35-36). This structure, established hundreds of years ago to enrich the core countries, continues to affect the gap between industrialized and less developed countries. In this argument, sending more FDI into these countries do not help to close the gap, but maintain the structures made by the colonial rule; to exploit the resources of the poor world.

2.4.2 Anti-globalist approach

In this study, the exploitative practices are taken over by rich and powerful multinational companies, exploiting the less-developed countries. Due to this kind of dependency relationship and the firms' exploitative policies, the less-developed countries remain weak, unstable, and unable to establish good economic institutions (Richards et al., 2001:223; De Soysa, 2003:35).

Rodrik (1997), a prominent scholar within the anti-globalist field, emphasizes several negative consequences of a globalized world with trade and commerce across borders. The international integration of markets, goods, and services challenges what people are used to as traditional and start to resist the new structure of the international society (Rodrik, 1997a:1). Most importantly, Rodrik emphasizes three main challenges of international trade and commerce. First, the new situation divides workers into groups of those that can compete in the international job markets and those who cannot. Educated people can move across borders and enjoy the perks of globalization, while uneducated people with poorer living standards do not experience the same benefits. Thus, because of globalization, a distinct division between people belonging to different socioeconomic classes becomes visible.

The second argument surrounds the increased level of conflict and competition between countries on attracting as much trade as possible, leading to regime-shopping for many multinational companies. Large multinational companies often operate in various institutional contexts and can decide on the institutional context that best fits them. Due to the profit-seeking nature of multinational companies, they might choose places with low taxes and cheap labor. If firms are dissatisfied with the situation in current host countries, they can quickly move production to more profitable places. These practices encourage institutions to maintain low wages and low taxes to continue to attract investments from MNC's. The institutions of the countries are held hostage to market forces and are worsened to attract more investments. This is emphasized as a *race to the bottom* regarding labor rights, wages, and social welfare rights, causing dissatisfaction (Richards et al. 2001:223, Rodrik, 1997b:5-6).

The welfare states suffer severely, and it becomes harder for states to maintain a safety net for the population. Traditionally states have been able to spare their citizens from market forces. Today with open and vulnerable economies, the risks are higher for the individuals. This issue leads to an increase in state expenditures on income transfers for parts of the populations that are directly affected by outsourcing and unfair exchange. The regime shopping multinational companies do weaken worker rights, harm legal institutions, and the increased expenditures on income transfers are seen in relation to cheaper labor in production abroad (Rodrik, 1997b:5-6).

The focus MNC's on cheap production and profitability is known as financialization. Financialization, introduced in chapter 2.1, is defined as a new way to run firms, with an aggressive and dominant role established to maximize the shareholder's value. Anti-globalist scholars argue that because of the new structure, MNC'a owns large amounts of capital and can buy into, and control large parts of unregulated markets in developing countries. This issue may cause some firms to gain extensive power over markets, in which there is a higher chance of creating monopolies. Monopolies block competition and make the economy static. With little competition in the markets, firms are positioned to continue to enrich themselves, with no concern about labor rights or work ethics.

A multinational company may also have an organizational structure with offshore bank accounts, subsidiaries, and offices abroad. This kind of organizational structure differs from national companies. The leadership of multinational firms has to work within different mandates than that of the national firms, which open up for variations of rights, wages, and work-ethics for workers within the same country (Léonard et al. 2014:174). These practices contribute to differences within one population, which affects discontent and dissatisfaction within countries receiving FDI.

Anti-globalist scholars argue that the increased trade and investments across borders leads to stagnation in the economy because of the creation of monopolies and social dumping of the workers. According to these scholars, foreign direct investments do not lead to economic growth and prosperity. Instead, contributing to economic stagnation and dissatisfaction in the population. The hypothesis tested in regard to these theories are the following: H3: *FDI stocks increase human rights violations in developing countries.* In regard to the dependency theory, FDI stock is applied due to the scholar's emphasis on the historical effects of FDI.

2.5 The role of natural resources

Many of the countries expected to go through economic growth are developing countries with vast amounts of natural resources. These countries have excellent prerequisites to go through economic growth because of the enormous amounts of capital related to the trade of oil, diamonds, and other resources. Multinational companies have contributed to this process and invested a lot in, for instance, the oil and mining industries throughout Asia and Africa.

Most countries that survive off oil and diamonds become addicted to the revenue flow from selling these resources. Some countries that depend on oil-revenue are prosperous in handling the oil-addiction addiction, in which Norway is the most prominent example (Wenar, 2016:12-14). Other resource-dependent states such as Turkmenistan, Nigeria, and Equatorial Guinea, did not have stable institutions before they started extracting oil, and suffered addiction-related disorders affecting their political and

economic institutions, causing stagnation and kleptocracy. This disease is known as the resource curse and explains the underperformance of resource-abundant economies. The vast reserves of resources should, in theory, bring on earnings to stimulate the economy and start the process of economic growth. Instead, the revenue flows are a root cause of the dysfunctional political and economic institutions developed in these states. Developing countries experiencing resource-abundancy have been proven to be much more prone to poor economic performance, unbalanced growth, corruption, and income inequality. The incumbent enriches himself and his closest allies with the money earned from natural resources-trade while neglecting and repressing the rest of the civil society (Weinthal & Jones, 2006:36-37, Wenar, 2016: 7-11).

Since large parts of the world's supply chains are related to the extraction of natural resources, multinational companies contribute to the unethical trade chains. Multinational companies engage with brutal dictators to import and redistribute minerals such as petroleum and diamonds, focusing on private wealth and profits. While doing so, Wenar argues that companies legitimate the human rights violations and theft of resources from the population in the autocratic regimes (Wenar, 2016). Foreign direct investments from multinational companies are argued to be one of the primary revenue flows autocratic leader survives off (Bak & Moon, 2006:1998). This argument is rooted in Bueno De Mesquita & Smith's selectorate theory, which explains the most important rules for dictators to survive. An essential tool is to control all revenue flows, such as income from fees and taxes. If FDI goes to dictators and autocratic regimes, the incumbent can position itself creating specifications, taxes, and fees as he pleases, to secure the revenue flows from the investments. The incumbent must not collect too much taxes since the MNC's will choose to leave for another country with fewer taxes. Instead, the incumbent can lower work ethics and wages to offer multinational companies cheap labor. To secure and maintain power, the incumbent pays its key supporters with private goods and services for them to stay loyal, preventing them from looking for other suitable replacements. Since foreign direct investments enrich the incumbent, it helps the ruler to survive in office for a longer time than without these revenue flows (Bueno De Mesquita & Smith, 2014, Bak & Moon, 2006:2000).

Scholars propose several solutions to solve the problem of trade with brutal dictators. Wenar proposes The Clean Trade Act, which is based on popular resource sovereignty instead of efficiency. In this system, autocratic leaders are disqualified if they do not uphold fundamental civil and political rights for their population. If the autocratic leaders still want to sell their natural resources, they would have to change suppressive policies, and offer its population a basic set of rights. Eventually, the system would lead to a fairer trade regarding natural resources. Autocratic leaders excluded from the international market have a harmful effect on their rule. These leaders survive off the revenue flows from natural

resources, and without them, they cannot uphold their rule (Bueno De Mesquita & Smith, 2014). This kind of system would encourage authoritarian leaders to promote civil liberties and human rights (Wenar, 2016:107-114).

Erika Weinthal and Pauline L. Jones (2006) present another method to combat the resource curse. A significant problem in countries suffering from the resource curse is the handling of income revenue. In most cases, the state authorities control the revenue and take away any incentive for authorities have to create proper institutions. Their study indicates that domestic private ownership of natural resource companies fosters institutions that could more efficiently restrict state leaders of robbing their citizens. A clear line between the state sector and a company conveying mineral revenue is necessary since the state cannot convey the resources and the revenue on its own. The scholars emphasize that the development of robust institutions are the outcome of supply and demand. If a separate company is conveying these resources, the state needs to make sure that it also earns money on the resource-trade. Therefore, it is an excellent chance for the authorities to establish proper institutions with regulation and taxations system, with little corruption, to secure some state revenue. (Weinthal & Jones, 2006:42).

According to the theories mentioned above, foreign direct investments into resource-abundant countries indirectly support violations of human rights and repression. Buying minerals and resources from dictators contribute to legitimate their actions. Wenar, Weinthal and Jones present two different solutions to the resource-curse, in which the latter scholars suggests that domestic privatization of the natural resource sector should lead to better institutions. The third purpose of this study is to investigate whether long historical ties of FDI cause harm to the institutions and increase human rights violations. This issue is tested in the following hypothesis: H4: *Increasing FDI stock in natural resources-abundant developing countries decreases human rights.*

2.6 Previous literature

As shown above, there are many theories regarding FDI. Some theories expect economic growth, while others expect stagnation and instability in the recipient countries. The first part of the empirical literature presents the determinants of FDI. In the second part, empirical studies on FDI and human rights violations are presented. The last part of the previous literature links the issue to natural resources and presents how resource-abundancy plays a significant role on the effects of FDI.

2.6.1 Determinants of FDI

There are many determinants of FDI, as demonstrated by Globerman and Shapiro (2002). The study investigates the importance of governance infrastructure as a determinant of

foreign direct investments flows from the United States between 1994-1997. A pooled analysis was applied, focusing on non-OECD countries. When the scholars speak of governance structure, they refer to legislation, regulation, and legal systems that condition freedom of transacting, secure property rights, and transparency of the governments' legal processes (Globerman & Shapiro, 2002:2). The first stage of the study estimates countries' probability of receiving FDI. The results of this stage indicated that countries which fail to uphold a minimum level of effective governance, are not likely to receive any investments at all. The second stage of the analysis investigates the countries which receive FDI from the U.S. In this step, the results indicate that governance infrastructure plays a crucial role in the volume of FDI sent across borders. Countries with favorable government structures attract more significant amounts of foreign direct investments than countries without these structures (Globerman & Shapiro, 2002:23).

A study by Asiedu (2006) studies the determinants of investments in Sub-Saharan Africa. The study assesses three questions regarding the determinants of FDI and the relevancy of natural resources. The author investigates whether natural resources attract FDI, or if countries without resources also receive large amounts of investments. The last part of the study investigates which of the determinants of natural resources or economy and the market size is most important in attracting FDI. Asiedu's result suggests that large local markets, natural resources, states with efficient legal systems, and good infrastructure are those determinants that attract FDI (Asiedu, 2006:63, 74). These results confirm Globerman and Shapiro's study. Efficient institutions seem to attract investment, while political instability and corruption do not. This issue is relevant for countries without natural resources as well. Asiedu states that countries without natural resources may attract FDI as well, but that efficient institutions need to be in place for MNC's to make investments. After all, Asiedu concludes that FDI does not necessarily cause improved economic growth in countries receiving investments (Asiedu, 2006:63,74).

2.6.2 FDI and human rights

In this section, empirical studies on FDI and human rights are presented. Richards et al. (2001) investigate how foreign economic penetration affects the respect for human rights. This study applies a broad measure of foreign economic penetration, including foreign direct investments, portfolio investments, debt, and official development assistance. It takes on the two different theoretical approaches, testing whether the liberal or the dependency theory is applicable for explaining the effects of FDI. The statistical method applied in the study is an ordered logit analysis on a cross-national sample consisting of 43 developing countries from 1981 to 1995. This study shows a relation between foreign economic penetration and increased governmental respect for two types of human rights. The two types of rights are physical integrity rights and civil and political liberties. The

findings related to FDI show similar results and are associated with increased respect for human rights (Richard et al., 2001:220,231).

Kim and Trumbore (2010) find similar results while investigating foreign economic penetration and human rights. A specific contribution to their study is the use of the FDI variable. Instead of lumping all FDI together, they use only one indicator, investigating the effects of transitional mergers and acquisitions (Kim & Trumbore, 2010:723). Mergers occur when two or more companies merge into one large business. At the same time, acquisitions are the purchase of existing shares issued by another company for increasing ownership by the acquiring company (OECD, 2012:197). Kim and Trumbore investigate the impact of cross-border mergers and acquisitions, on a span of the last 25 years. The results of their study show that mergers and acquisitions, in particular, have a positive impact on human rights. This effect was in their study, specifically present in non-OECD countries. Kim and Trumbore conclude that physical integrity rights where improved in countries receiving these types of FDI. With increased respect for physical integrity right, this type of FDI is also improving worker's rights, women's economic rights, and empowerment rights (Kim & Trumbore, 2010:732).

The studies above show relations between FDI and increased respect for human rights. A study by Kishi, Maggio and Raleigh (2017) detects that FDI stock is correlated with increased securitization violence. The scholars investigate whether foreign direct investments push regimes to use securitization violence in Africa. Securitization violence is state-led violence to limit opposition, unrest, and to harm areas and resources. The methodological strategy applied is OLS with country fixed effects controlling for time-invariant unobserved variables. Their main argument is that states with low regard for civil liberties and economic stagnation may rely on state securitization more than healthy economies. Their results show that the relationship between FDI and securitization violence is not direct but that states with low regard for civil and political liberties may use access to external resources to engage in conflict against political opposition in the country. This means that FDI is related to securitization violations in ways that the regime uses external financial resources to execute their power through violence (Kishi et al., 2017).

De Soysa (2019) responds to this study and criticizes their argument on conceptual and methodological grounds. This study applies both flow and stock and criticizes Kishi et al. for only applying FDI stock. A second critic towards Kishi et al. is their application of African countries. De Soysa argues that their article does not provide a representative selection. Instead of only applying African countries, de Soysa applies all countries in the world and tests similar data. His results suggest a different story and finds that FDI stock relative to GDP reduces state militarization (De Soysa, 2019:2).

Depending on the variables applied and methods used, it seems that scholars are getting different results. A study by Bak & Moon (2016) argues that foreign direct

investments cause authoritarian leaders to survive and is in line with Kishi et al. (2017). Bak & Moon approaches how foreign direct investments, both stock and flow, are related to the survival of the leaders. The results confirm their assumptions. Foreign direct investments lead to authoritarian leaders' private provision and contribute to their survival. Sending FDI into these regimes also causes commitment-problems between the elites and the authoritarian regime, making a change in power a lot more costly (Bak & Moon, 2016:2017).

Studies also detect relations between FDI and the increase of strikes and upheaval. Roberston and Teitelbaum (2011) investigate the relationship between foreign direct investments, regime types, and strikes. The scholars examine FDI flows and the effect visible in developing countries. Their main argument is that FDI causes social tension and opportunities for protests, which can lead to a high level of industrial conflict. Industrial conflict occurs when workers are dissatisfied with the situation in the workplace, such as disagreements and conflicts. In the long run, disagreements might lead to action such as strikes and demonstrations (Cambridge Dictionary, 2020). Robertson and Teitelbaum explain how affiliates of MNC's are often located in cities or special economic zones in developing countries. Most of the workers in these zones may be recent or temporary workers who have left their families and friends to work in factories. These workers are extremely vulnerable and easy to exploit, and since they have little to lose, Robertson and Teitelbaum argue that they are more likely to engage in strikes. Multinational companies may have international reputations to uphold, and human rights organizations that closely watch them. Because of this, multinational companies have higher thresholds for repressing their workers and instead let them strike and protest freely (Robertson & Teitelbaum, 2011:667-668). Their result also shows that democracy in less developed countries may lead to higher levels of social protest. The authors also emphasize that foreign direct investments are correlated with a higher level of protest, but the effects of these protests decrease as a country becomes democratic (Robertson & Teitelbaum, 2011: 672-675).

A study by Janz (2018) investigates the effect of repression across different industrial sectors. The results here indicate violence varies based on which sector the investments are in. The study applies FDI stock to 121 countries. The first sector applied is the extractive sector, such as oil and mining. The second sector included is the manufacturing sector, such as food, fabricated metals, chemical, electrical, machinery, and transport equipment. The last sector includes wholesale trade and depository institutions. The main results indicates the crucial difference between high-skilled and low-skilled work sectors. Investments in high- and medium-skilled work sectors with advanced technology present there have little evidence of state repression. The presence of multinational companies in

sectors with low skilled work and little technology, correlate with increased levels of state-led violence in these places (Janz, 2018:177-178).

2.6.3 Extractive FDI

The low skilled sector investigated by Janz (2018) can largely be tied to the natural resource sector. Investments seeking control of natural resources can be quite hurtful to the country's political situation. Flows of foreign direct investments to Africa exceeds the foreign aid flows, and much of the investments have been in extractive industries that aim to tap the region's mineral wealth. Many African states are not able to exploit their resource endowment's full potential, and thus allow foreign firms into this business generates economic activity. Although this generate some economic activity, a study by Christensen (2018) indicates that after the start of commercial mining investments in sub-Saharan Africa, the chances for protests and riots are doubled compared to earlier. The study applies geospatial data and survey-data, investigating mining and the increase of protest. Christensen argues that reasons for protests are related to the mining industry and the incomplete access of information for the workers. These reasons are often related to strikes in many industrial settings. Christensen also mentions that strikes can be related to the resource curse (Christensen 2018:65,71,85). A consensus between scholars was established during the 1990, stating that developing countries experiencing resource-abundancy are much more prone to poor economic performance, unbalanced growth, corruption, and income inequality. The vast reserves of resources should, in theory, bring on earnings to stimulate the economy and start the process of economic growth. Instead, the revenue flows are a root cause of the development of dysfunctional political and economic institutions (Weinthal & Jones, 2006:36-37).

Vadlamannati, Janz, and deSoysa argue that the link between extractive FDI and human rights violations in the host country are related to the location-bound effect, in which their investments are bound to specific places and regions. The multinational companies are not free to move to other regions that are not rich in natural resources. Vadlamannati et al. argue that this effect creates a status quo bias among extractive MNC when it comes to supporting oppressive rulers. They have no other choice than to negotiate with these rulers, which is the main reason why they often are seen as supportive of authoritarian regimes (Vadlamannati, Janz & De Soysa, 2020:29). In other situations, when the FDI is in non-extractive sectors such as services and manufacturing, the FDI is not correlated with human rights violations. For these companies, it is easier to leave countries with repressive regimes since they do not require particular resources located in specific regions. Further on, the scholars state that the importance of democratic institutions is crucial, and can condition the harmful effects of extractive FDI on human rights (Vadlammannati et al. 2020:29).

A study by Berman et al. (2017) investigates the link between mining extraction and conflicts. The scholars apply geofenced data on mining extraction from 1997-2010 to identify how this is related to conflicts across Africa. Their results suggest that the rise in mineral prices explains 25% percent of the average level of violence across Africa. They bring up the corporate social responsibility of firms, suggesting that CSR can build viable resistance to the resource curse. If the multinational companies which run the mines comply with the responsibility, the mine has less risk of fueling violence. (Berman, Couttenier, Rohner, and Thoenig, 2017:1564, 1599, 1601). This study emphasizes the great importance of multinational companies' social responsibility. The firms working in mining and resource extraction have a great responsibility to promote human rights and uphold the rules of the CSR. If they do not, the mines are much more prone to violence.

First of all, present there is no established agreement on whether FDI causes increased economic wealth in the countries receiving them. Significant variances in the research exist, dependent on how the researchers measure the foreign direct investments in terms of FDI flow or stock. Some scholars apply foreign investment flows, while others prefer to apply the accumulated stock. Whilst scholars may apply both of these variables, but more frequently apply only one. Because of the two different measurements of FDI, studies limited to only one variable might provide biased results. FDI flows are new investments, while stocks are the entire amount of accumulated investments. The structure of measurement differs significantly, and to provide a comprehensive image on the effects of FDI, the application of both values is necessary.

Another quite significant contribution regarding this thesis is the application of random and fixed effects estimators. Most of the studies explored only apply country fixed effects estimator. It is a natural choice of application since the main focus is on changes within a country. My argument is that applying random effects estimator is equally important since its efficient treatment of the data. A causal relationship cannot be established with the random effects estimator, but it can still present valuable information for the analysis. With brand new data, using FDI flow and stock, applying the Newey-West robust standard errors, and random and fixed effects estimator, the methodological grounds will of this thesis will be of particular importance into the field of international political economy.

2.7 Summary of hypothesis

Based on the theoretical discussion above, it has been settled various views and expectations on the presence of multinational companies in states. Depending on which of the schools of thought the scholars belong to, and what kind of studies they do, various "realities" and expectations come up around the effects of FDI on human rights. According to the liberal perspective, more foreign direct investments into a country leads to positive

spillover effects, with economic growth and prosperity. The positive spillover effects of MNC investments contribute to inclusive institutions and increased respect for human rights. These assumptions are built on the first hypothesis tested in this study, and is presented as follows: *"H1: FDI flows decrease human rights violations in developing countries."*

Modern liberal scholars argue that foreign direct investments not necessarily will have positive spillover effects under all institutional conditions. Paul Romer has developed a theory, arguing a basic institutional framework for economic growth need to be in place for economic growth. The state needs to take advantage of its human capital before taking advantage of investment flows from foreign countries. When the country has a basic institutional framework in place, FDI will create positive spillover effects and spread technology, knowledge, and attitudes. These spillover effects will eventually cause inclusive political and economic institutions and lead to economic growth and prosperity. A conditional effect between FDI and electoral democracy is applied, in which the hypothesis is formally expressed here: *"H2: FDI flows decrease human rights violations in developing countries conditional on basic democratic institutions."*

On the contrary, dependency and anti-globalist scholars argue the opposite of liberal scholars. Dependency theory argues that the capitalist system was created by and for the Western countries. It is build up around rich countries exploiting less-developed countries for natural resources and labor. Anti-globalist scholars argue that the presence of MNC's in a country is destabilizing, causing poor labor rights, creating inequality and dissatisfaction. The hypothesis tested in regard to these theories is the following: *H3: FDI stocks increase human rights violations in developing countries.*

The last theories are regarding how foreign direct investments affect human rights violations in resource-abundant countries. The resource curse suggests that countries with vast reserves of resources suffer from a resource curse, which is the root cause of the development of dysfunctional political and economic institutions. Weinthal and Jones argue that increased privatization of the oil sector will ease the resource curse's effect. A conditional effect between FDI and oil rents is applied, in which the following hypothesis are tested: *H4: Increasing FDI stock in natural resources-abundant developing countries decreases human rights.*

3 Methods and data

The following chapter explains the methods applied to test the hypotheses developed in the previous chapter. The first chapter describes the model specifications, including information on all the variables. In the second chapter, the time-series cross-section analysis is explained, elaborating on the random and country-fixed effects estimator. The

last chapter presents robustness tests applied to the models, ensuring robust and well-developed models.

3.1 Model specification

The hypotheses from chapter 2, are somewhat suited to the data and the methods available. The dataset has a time-series cross-section (TSCS) structure and measures each variable annually. TSCS is a subgroup of panel data and consists of comparable time-series data observed on a variety of units (Beck, 2008:475). This study applies a panel data set for 192 countries. The so called WENAO-countries (Western Europe, North America, and Oceania) are dropped from the analysis. These countries are industrialized democracies, and not convenient to include in an analysis regarding less developed countries, see Exhibit A in appendix for list of countries excluded in the sample. The variables applied in the analysis, are gathered from different sources, such as the World Bank and the United Nations. Because of this, the structure of the dataset is slightly unbalanced. Not all variables are covered for all years and all countries in the dataset. Nevertheless, the structure of the data allows us to test the hypotheses using regression analysis (Longhi & Nandi, 2015:6). My dataset covers the period from 1970-2018, and all models are run for the entire period. In Table 4, model 5, a regression for the period 1990-2018 was applied to confirm the results from model 4.

The analysis contains six different tables, in which the dependent variable is continuously the Physical Violence Index. First, Table 2 includes the use of FDI flow as the independent variable. Second, Table 3 includes the use of FDI stock as the independent variable. Further on, Table 4 presents an interaction term of FDI flow and FDI stock. Table 5 shows the interaction term between FDI flow and electoral democracy. The last, but not the least is Table 6, presenting an interaction term between FDI stock and oil rents in percentage of GDP.

Table 1 below shows descriptive statistics of all variables applied in the study. Since many of the variables were log-transformed while preparing the models, the log-transformed variables are also attached. All dependent variables and control variables where also lagged by one year.

Table 1.

Descriptive statistics for all variables

Variables	Mean	Std. Dev.	Min	Max	Observations
Political Violence Index	-5,7	3,1	-9,87	13	9591
FDI flow per capita in US$	0,14	2,9	0	135,3	8635
FDI flow per capita in US$ (log)	-13,5	4,8	-20,7	4,9	8635
FDI stock per capita in US$	114856	2,31	0	7,89	7244
FDI stock per capita in US$ (log)	1,32	8,9	-20,7	4,9	7244
GDP per capita in US$	11740,3	18508,8	132,3	193 745,60	9243
GDP per capita in US$ (log)	8,3	1,5	4,8	12,1	9243
Electoral democracy (0-1)	0,42	0,28	0,008	0,94	9533
Trade share of GDP	78,1	52,7	0	860,8	8440
Trade share of GDP (log)	4,1	0,67	-3,86	6,7	8439
Civil War (Dummy: 0 for no conflict)	0,14	0,35	0	1	9628
Peace Years	17,6	16,3	0	57	9628
Resource rents in percent of GDP	7,009	11,31	0	89	8348
Resource rents in percent of GDP (log)	1,33	1,18	0	4,499	8348
Oil rents in percent of GDP	3,88	10,14	0	88,86	7578
Oil rents in percent of GDP (log)	0,63	1,1	0	4,49	7578

3.1.1 Dependent variable

The dependent variable in this study is human rights violations, using an inverted version of the Physical Violence Index (PVI) developed by the Varieties of Democracy Institute (V-Dem). As stated in the theory section, human rights are a descriptive measure of the level of inclusive institutions. Human rights violations belong to extractive political and economic institutions and are less common in countries with inclusive institutions. By applying this variable it can be measured whether MNC's have promoted inclusive or extractive institutions, through particularly looking at their respect for human rights (Acemoglu & Robinson, 2013:80).

When applying human rights violations as the dependent varaiable, it is V-Dem dataset 9 that is applied. The index is formed by point estimates from a Bayesian factor analysis, based on indicators of freedom from torture and freedom from political killings by state authorities. The opposite of the PVI is physical integrity and is explained as freedom from political killings by government associates. The Physical Violence Index is structured as an interval on a scale from low (0) to high (1), but as mentioned above, the variable was inverted (Coppedge et al., 2019:263). Figure 1. shows the development of

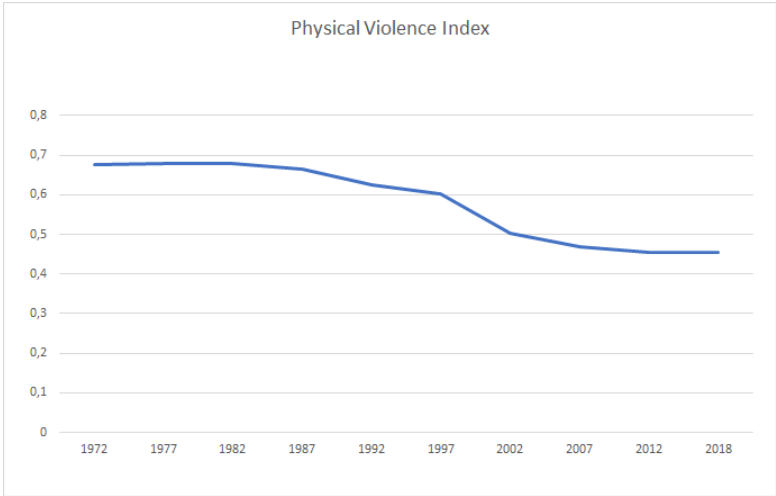Physical Violence from 1972 to 2018, in which the figure includes value-excerpts from every fifth year.

Figure 1

The development of Physical Violence Index from 1972 to 2018, made with an excerpt from every fifth year.

The V-Dem dataset draws on methodological expertise and facts form government records, to produce objective and reliable data. This project develops a variety of political indicators and takes on an original approach to measure democracy. To ensure the indicators are as accurate as possible, the institute improves the variables each year and launches new datasets with improved indicators (Coppedge et al. 2019:1). The dataset provided is a multidimensional and disaggregated dataset, which reflects the complexity of the concepts of democracy (V-Dem Institute, 2020a). About half of the indicators are factual indicators, established through official documents such as constitutions and government records. The other half of the indicators are based on subjective assessments from country experts. The PVI is based on subjective assessments, and are based on the opinion of up until five different experts and cannot entirely be regarded as factual evidence (V-Dem Institute, 2020b;Pemstein et al. 2019). The production of indicators brings about an epistemological problem. Are the indicators produced based only on empirical research on human rights violations of the country experts, or are the indicators based on thoughts and imagination about human rights violations from these experts as well? (Johannessen, Tufte and Christoffersen, 2016:51). The epistemological problems might lead to a considerable variation between countries, and that the variable measures the conceptual idea of human rights violations, rather than the actual occurrence of such violence. I cannot do anything about these epistemological matters, other keep them in mind throughout the study. The dataset is also free of charge and works for a transparent assessment, making their project reliable and trustworthy. Regardless of this, I choose to trust the V-dem Institute and its

experts' assessments and apply the dataset to test the hypotheses of the study (V-Dem Institute, 2020b).

3.1.2 Independent variables

The independent variable of this study is foreign direct investments stocks and flows. The spread of firms to other continents far away from their home country has undoubtedly affected the host institutions. Either it is the spread of democratic practices or the spread of poor labor rights and exploitation of workers. This study's main objective is to investigate what kind of effects the presence of multinational companies leads to. Foreign direct investments are often regarded as a proxy to the presence of MNC and international capital. It also gives a particular measure of how open the country is to international trade and commerce. To investigate how a country's institutions are affected by multinational companies' presence, foreign direct investments are expedient as an independent variable.

Reading through previous literature, it seems to be a bias among researchers in only applying one measure of FDI. Since FDI flows and stocks are measured quite differently, a more convenient approach is to apply both of these variables. By applying flows and stocks, this research influences the literature in positive ways, providing a better distribution between the use of flows and stocks, preventing biased research.

Foreign direct investment flows and stocks differ in the way each variable measures FDI. The flow variable measures new investments entering a country for a given year and represent year-by-year transfers of FDI (OECD, 2018b, Kornecki & Raghavan, 2011:547). The stock variable represents historical investments and represents the total level of FDI owned by foreign actors of all time in the country (OECD, 2018a, Kornecki & Raghavan, 2011:547). If countries have large amounts of FDI stock, the country might have colonial relations and may cause a static economy. Large amounts of FDI inflows should indicate a dynamic economy, open to international trade and commerce. This study wants to shed light on the effect of historic FDI, as well as the influence of newer FDI.

The independent variables are obtained for the UN Conference on Trade and Development data and present information on foreign investment flows and stock from 1970 to 2018. The variables grasp country reported FDI in US dollar Anno 2018. The FDI variables are divided on the population to capture the effects of FDI relative to the country-size. FDI flow per capita and FDI stock per capita are the two independent variables applied in the thesis. Some countries receive large amounts of investments, while other countries do not. Countries receiving large amounts of FDI does often have resources or historical ties to colonialism, which causes certain skewness in the data. The FDI flow and stock variable are because of this logarithmically transformed.

The dataset attained from the UNCTAD is reliable for several reasons. First, the data belongs to a sub-organization of the United Nations. The UN is a trustworthy source,

aspiring to produce and disseminate the best possible statistical data. Second, the variables are processed from large amounts of data and collected from various national and international sources, which makes the data well-documented. UNCTAD emphasizes transparency, making it easy to question if the information seems to be off. This dataset is also free of charge, with no provider pushing for desired results (UNCTAD, 2020).

3.1.3 Variables

Numerous variables have been detected in the previous literature, that affects the level human rights violations occurring in a country. Relevant control variables need to be applied to control for underlying effects influencing the phenomenon investigated (Skog, 2015:41).

Kishi et al. (2017) present several crucial determinants of political violence in a country. The structure of political institutions is brought up as a reliable indicator of the likelihood for a regime to use violence against its population (Kishi et al., 2019). Therefore, it is likely to assume that the level of democracy affects the level of human rights violations. It is sufficient to add a variable that controls the basic effects of democracy. The V-Dem's polyarchy measure seems to be a good fit and is applied to all models in this study, except models investigating the interacted effect between FDI and electoral democracy. Here, it is applied as an explanatory variable. The variable grasps the minimum definition of electoral democracy and is based on Robert Dahl's definition of polyarchy. This variable measures the level of electoral democracy in a country, in which specific criteria need to be upheld. To qualify as an electoral democracy, political and civil society organizations can operate freely, and state leaders have achieved power through electoral competition. There must be extensive suffrage, in which elections are free and fair, having a real impact on regime change. The variable is an interval ranging from low (0) to high (1) (Coppedge et al., 2019:266).

According to Kishi et al. (2017), financial flows and income structure in a state widely affects how a state engages with its citizens. Their study indicates that countries experiencing intense fiscal deficits are more inclined to use securitization violence against citizens. In this situation, a state is more inclined to experience a conflict with an opposition, using securitization violence, than to negotiate with them (Kishi et al. 2017). These findings suggest that GDP- and trade-variables should be added as control variables and as such, GDP per capita- and trade per capita are applied to control. The GDP per capita controls for fiscal and other economic deficits, and how high or low GDP affects state-led violence. Trade per capita indicates the economy's openness and control for the effects of financial flows and other income flows and is controlling for their effect on the dependent variable. These variables are obtained from the World Development Indicator

(WDI) distributed by the World Bank. The World Bank is a trustworthy source that should serve good quality data (World Bank, 2019a).

Christensen (2018) argues that foreign direct investments sent to the natural resource sector double the number of strikes after foreign direct investments (Christensen 2018:65-71). Kishi et al. (2017) elaborates on this and presents that extractive economies are likely to have higher rates of political violence than other economies. These findings might be related to the resource curse, explained in chapter 2. It is essential to add a control variable controlling for the underlying effects of natural resources. This study applies Oil rents in percentage of GDP as a control variable. In the interacted effects between FDI stock and oil-abundancy, the variable is applied as an explanatory variable. This variable is also attained from the WDI (World Bank, 2019c).

Conflict within a state is mentioned by Kishi et al. (2017) as correlating with more state securitization violence. They present in the results that FDI into areas with a high level of conflicts leads to more securitization violence. It is likely to assume that civil war also affects state-led violence in a country, thus essential to control for. The civil war variable is obtained from the UCDP Conflict Termination. A civil war is defined as a conflict between a state and organized armed groups, where at least 25 deaths have occurred. Since it is suggested that peaceful countries suffer from fewer human rights violations, it is also expedient to add peace years as a variable. The peace years variable measures the number of years since an armed civil conflict was active within the country. The civil war and peace years variables are both obtained from the UCDP/PRIO project. UCDP and PRIO are experts within their field, and their dataset should be a reliable source to obtain variables from (Gleditsch et al., 2002).

Some of the control variables are economic variables, which makes it legitimate to assume that variations are large between countries. Extreme values might lead to skewness and outliers in the regression, breaching with linear regression assumptions. GDP per capita, Trade per capita and Oil rents in percent of GDP are logarithmical transformed to avoid skewness. As well are FDI flows and stocks (Skog, 2015:248-249).

3.1.4 Stationarity in the data

A problem with the TSCS data is non-stationarity. Non-stationary data might cause problems with statistical interference. If non-stationarity is present, two unrelated series that both have the same time-trend produces a false statistical relationship. This leads to a false significance caused by spurious relationships (Mehmetoglu & Jakobsen, 2017:252-253). Whether the data suffers from non-stationarity, the Dickie-Fuller test (1979) is applied to the models. By applying this test, it detects some non-stationarity caused by unit roots in my data. A lagged version of the dependent variable is applied in the models, to investigate how serious the non-stationarity seems to be. While comparing the model

containing a lagged dependent variable to the model with the regular dependent variable, the coefficients do not change very much. Since the coefficients do not change much, I interpret the unit-root issues to be of little importance. Thus, I keep the original regression, to keep the data as uncomplicated as possible for proper interpretation of results (Mehmetoglu & Jakobsen, 2017:253-258).

3.2 Estimation method in TSCS

3.2.1 Newey-West robust standard errors

After explaining the dataset, it is time to elaborate on the statistical analysis performed in the study. In this study TSCS analysis is applied using Newey-West estimator with robust standard errors. TSCS is a subgroup of panel data and consists of comparable time-series data observed on a variety of units. (Beck, 2008:475). TSCS measures the same values on a variety of units over several years. Due to this nature, the TSCS analysis is vulnerable for first-order autocorrelation. To detect autocorrelation, the Woolridge-test is applied to the models (Woolridge, 2010). The test confirmed that my data suffers from autocorrelation, and due to the autocorrelation detected linear regression would be inappropriate to use (Skog, 2015:248). Therefore, I choose to apply the Newey-West estimator with robust standard errors, robust for autocorrelation and heteroskedasticity (Newey-West, 1987). Homoskedasticity makes sure variations around the regression line is similar for both high and low values of the independent variable (Skog, 2015:246). By testing the various models applying different measures of FDI (flow and stock), heteroskedasticity is also detected, which again supports the use of the Newey-West estimator. A forced lag is required while using the Newey-West. A one year lag is also applied, making sure the x is measured before y (Newey-West, 1987). The time lag is also quite expedient since it takes time to see the full effects of FDI (Mehmetoglu & Jakobsen, 2017:254).

Foreign direct investments are not distributed randomly by multinational enterprises, and as shown in the literature, certain conditions such as democracy and well-developed institutions attract more foreign direct investments than other conditions. To check for selection bias in the distribution of models, the Heckman selection model is used. Applying this to the two different models, the Mills Ratio was not significant. Because of this I cannot prove any systematic patterns of selection bias in the distribution of foreign direct investments and therefore apply the regular Newey-West linear regression for the ease of interpretation of results (Longhi & Nandhi. 2015:175-179).

3.2.2 Random and fixed effects estimators

For the statistical analysis, random and fixed effects estimators are convenient to use. Throughout my literature review, I found few articles using the random effects estimator.

Because of this, and how it differs from fixed effects, I found it useful to apply both random and fixed effects estimators.

Random effects estimator (RE-estimator) treats all the observed variables in the models. The estimator treats time-invariant data similar to the time-variant data. It is expedient to apply the RE-estimator when there is little covariation between the independent and dependent variables. This estimator takes into account and measures the between-country and within-country effects, estimating a matrix-weighted average of the BE and the WE. The random effects estimator is expedient when it is assumed that both the within-effects and between-effects influence the dependent variables (Petersen, 2004:340-341).

A challenge with the RE-estimator is the undetermined effect. The uncertainty about whether the effects come from within or between effects is challenging, and the specific causal relationship some might search for is not possible to establish. Another challenge with the RE-estimator is the inability to control for the effects of omitted time-invariant variables. Regardless of this, the RE-estimator establishes a correlation between the observed variables necessary for the discussion. Nevertheless, whether the estimator picks up between-country or within-country effects - or both, the results are still meaningful for the analysis. The positive aspect of using the RE-estimator is the efficient treatment of the data. The estimator is more efficient than both pooled OLS and the fixed effects estimator, taking into account both time-variant and time-invariant variables (Petersen, 2004:340-341).

Fixed effects estimator (FE-estimator) measures only within-country effects, including only time-variant variables (Petersen, 2004:337). The fixed effects estimator used in the study is not the regular FE-estimator. Instead, it is the FEM, argued for by Wilson & Butler (2007). The scholars investigate a variety of different articles that have applied TSCS. In these cases, the scholars have applied the regular OLS, in which Wilson & Butler criticizes. They argue that researchers use OLS on data pooled from different units and assume that unobserved local factors do not exist. Wilson & Butler argue that units differ in ways not explained by the unobserved independent variable, and therefore argue for the need to check for unit-level fixed effects. The unit effects (i.id) are capturing the heterogeneity, and the time-invariant variables can, therefore, be controlled for (Wilson & Butler, 2007:104).

A drawback of the FE-estimator is that it only picks up variables that change over time, such as gender or background. Since the estimator only treats data that changes over time, countries with little change over time do not contribute to the analysis. With fewer units contributing to the analysis, the size of the N becomes smaller. Therefore, the FE-estimator uses the data less efficiently due to not including data that stays the same. Regardless, the estimator does something none of the other estimators does. It provides

specific within-country results explaining the dependent variable when the independent value increases. This estimator can also establish causal relationships between x and y (Petersen, 2004:338). Scholars differ on which of these estimators are better than the other. As such, it is convenient to apply both estimators, considering that they report on different aspects of the data (Petersen, 2004).

3.3 Robustness-tests

Robustness tests are applied to investigate whether the estimated models are robust and providing reliable results. In section 3.1, the models were prepared for the principal analysis. The models were tested for heteroskedasticity, autocorrelation, and skewness. Several measures were taken to make the models robust to these issues. Variables with detected outliers were logarithmical recoded, to avoid issues of skewness. The Newey-West robust estimator was applied as the primary estimator to be robust against heteroskedasticity and autocorrelation.

However, I decided to add particular robustness-tests to investigate whether the results stay robust while changing estimators. To test for spatial dependence the Driscoll and Kraay robust standard errors are applied in models 1-3. As a second robustness-test the models are run only applying data after 1990.

The Driscoll and Kraay (1998) robust standard error estimator is applied to correct for spatial dependence. Spatial dependence might occur in panel data analysis applying geographical and international economic units and might occur due to lack of random sampling of units. Spatial dependence may cause spurious results. Further on, the scholars suggest simple modifications of the existing estimator to correct for the spatial dependence (Driscoll and Kraay, 1989:449-450). If the results from this robustness test remain similar to those in the original Newey-West estimator, which is the main estimator applied for this thesis, the results can be considered robust. The Driscoll and Kraay robust standard error are applied for models 1-3. The robustness-results are presented in chapter 4.2, and the results are attached in Table 8 in the appendix.

In the next step of the robustness-section, the models are tested only containing data after 1990. All of the models are applied using data only after 1990 to confirm the robustness of the original models. Before the year of 1990 large parts of foreign direct investments were invested strategically from the US or USSR to gain allies and geopolitical power across the world. Many of the investments were then sent to dictators and other authoritarians. The investments before 1990 have had tendencies to go to regimes with a high level of human rights violations. These trends stagnated after the end of the cold war, and it is interesting to investigate the same hypotheses after 1990. If similar results are possible to attain, it is again evidence to argue that the results obtained in the original results are robust.

4 Results

4.1 Main results

In Table 2 I investigate how FDI flows affects the Physical Violence Index, to see how the state violence is affected by foreign investment flows. Both random and fixed effects estimators are applied, in which only the RE-estimator is significant. This establishes an association between FDI flows and the decrease in a state-led violence. The control variables are all significant, as expected. The real-life impact or the substantive effect of this regression is estimated to be 5,5 percent. Numbers above 10 are seen as a decent effect, and all numbers beneath are regarded to have low substantive effect.

Table 2

	Model 1.	
	RE	FE
	Physical Violence	Physical Violence
VARIABLES	Index	Index
FDI Flow per capita in US$ (log)	-0.04***	-0.00
	(0.01)	(0.01)
GDP per capita US$ (log)	-0.21***	-0.14
	(0.04)	(0.10)
Electoral democracy (Scale 0-1)	-7.02***	-8.15***
	(0.18)	(0.25)
Trade share of GDP (log)	-0.56***	-0.23***
	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.81***	0.67***
	(0.09)	(0.08)
Peace Years	-0.02***	-0.00*
	(0.00)	(0.00)
Oil rents in percent of GDP (log)	0.03	0.14**
	(0.04)	(0.06)
Constant	0.78	-0.97
	(0.65)	(0.71)
Observations	4,664	4,664

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In the next step of the analysis the FDI flow variable is changed with FDI stock, to see how the two variables might have different effects on human rights violations. First, the model is run with particular control variables, shown in Table 3; model 2. The stock

are causing an increase in human rights violations within a country. When the oil rents in percent of GDP is added to model 3 shown in Table 3, FDI stock is no longer significant. It is important to control for the effects of resources, before establishing a causal relationship between FDI stock and human rights violations. After applying the oil variable, FDI stock becomes insignificant, and the negative effects of FDI stock is ruled out.

Table 3

	Model 2.		Model 3.	
	RE	FE	RE	FE
VARIABLES	PVI	PVI	PVI	PVI
FDI Stock per capita in US$ (log)	0.00	0.02**	-0.00	0.01
	(0.01)	(0.01)	(0.01)	(0.01)
GDP per capita US (log)	-0.23***	-0.29**	-0.29***	-0.30**
	(0.04)	(0.12)	(0.04)	(0.12)
Electoral democracy (Scale 0-1)	-6.96***	-7.76***	-6.66***	-7.72***
	(0.17)	(0.28)	(0.19)	(0.29)
Trade share of GDP (log)	-0.54***	-0.21***	-0.50***	-0.21***
	(0.09)	(0.08)	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.84***	0.68***	0.83***	0.67***
	(0.10)	(0.08)	(0.10)	(0.08)
Peace Years	-0.02***	-0.00	-0.02***	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Oil rents in percent of GDP (log)			0.13***	0.12*
			(0.04)	(0.06)
Constant	2.57***	0.43	4.01***	1.79**
	(0.87)	(1.00)	(0.44)	(0.72)
Observations	4,197	4,197	4,167	4,167

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In Table 4 an interaction term between FDI flow and FDI stock is applied. This next step is applied to investigate how newer flows of investments (flow) affects country's with large amounts of historic investments (stock), and what kind of effects this have on state led physical violence. In Table 4 two different models are presented, model 4 and 5. These models differs in the time period they are measured. Model 4 has the same time period as of the other models included in this thesis, while model 5 are results only after 1990. The results from model 4 are hard to interpret just by approaching the table. I have included a marginsplot of the fixed effects estimator of both models. According to Ai & Norton (2003), an interaction term cannot be interpreted only due to the coefficients and significance, and therefore the marginsplot for the FE-estimator is attached. (Ai & Norton,

2003:129). The control variables stay mostly significant. Peace years and oil rents suffer of less significance.

Table 4		Model 4 1970 - 2018		Model 5 1990 - 2018	
		RE	FE	RE	FE
VARIABLES		PVI	PVI	PVI	PVI
GDP per capita US$ (log)		-0.23***	-0.41***	-0.32***	-0.55***
		(0.04)	(0.12)	(0.04)	(0.15)
Electoral democracy (Scale 0-1)		-6.79***	-7.79***	-6.48***	-6.17***
		(0.19)	(0.29)	(0.21)	(0.38)
Trade share of GDP (log)		-0.43***	-0.20**	-0.34***	-0.03
		(0.09)	(0.08)	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)		0.83***	0.65***	0.72***	0.58***
		(0.10)	(0.08)	(0.11)	(0.10)
Peace Years		-0.01***	-0.00	-0.02***	-0.01**
		(0.00)	(0.00)	(0.00)	(0.00)
Oil rents in percent of GDP (log)		0.09**	0.11*	0.17***	0.10
		(0.04)	(0.06)	(0.05)	(0.07)
FDI Flow per capita US$ (log)		0.01	-0.04**	-0.03	-0.05***
		(0.02)	(0.02)	(0.02)	(0.02)
FDI Stock per capita US$ (log)		-0.13**	0.13***	-0.01	0.16***
		(0.05)	(0.05)	(0.06)	(0.05)
FDI flow per capita US$ (log) * FDI Stock per capita US$ (log)		-0.01***	0.01**	-0.00	0.01***
		(0.00)	(0.00)	(0.00)	(0.00)
Constant		3.75***	1.67**	0.50	-0.82
		(0.56)	(0.79)	(0.60)	(0.89)
Observations		4,107	4,107	3,348	3,348

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 2 presents a within-country effect of FDI flows and FDI stock. It shows that large amounts of FDI stock while receiving new investments increases human rights violations within a country. Low amounts of FDI stock leads to less human rights violations. These results are confirmed in model 5, which are measurements after the year 1990.
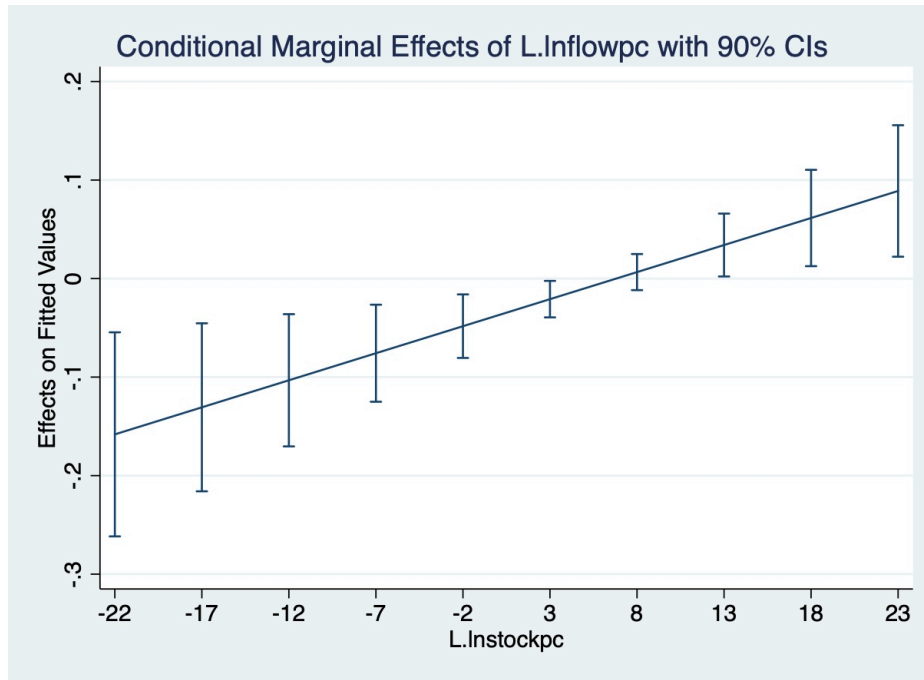
Figure 2

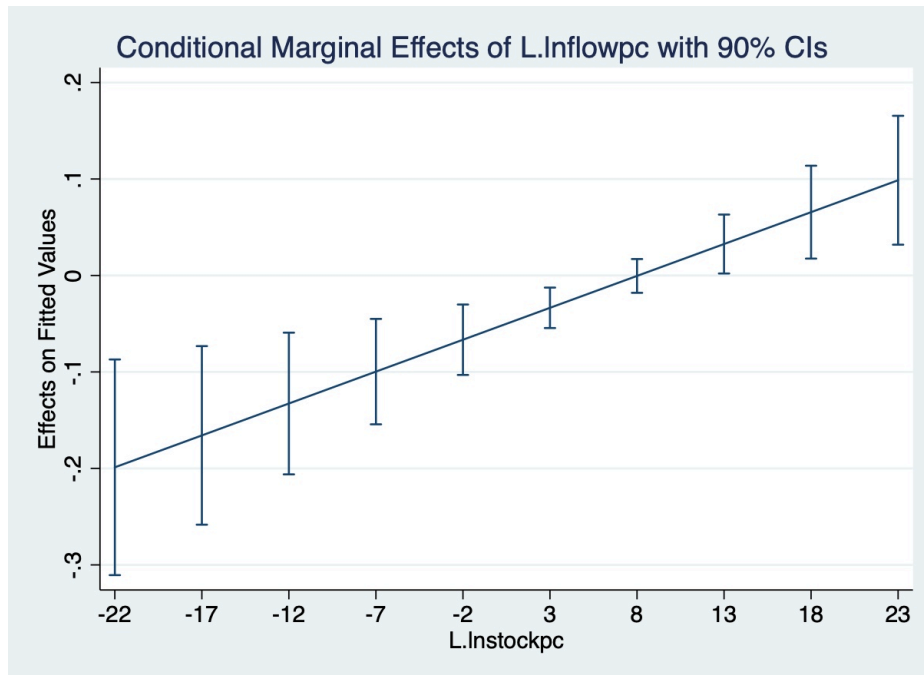Interaction term between FDI Flow and FDI Stock from the Fixed Effect estimator from 1972-2018

Figure 3

Interaction term between FDI Flow and FDI Stock from the Fixed Effect estimator from 1990-2018.

Table 5 shows the coefficients from the interacted effect between FDI flows and electoral democracy, in which the results are significant in the random effects estimator.

In the RE-estimator of model 6, all the control variables are significant, expect oil rents. Peace years also suffers from slightly less significance.

Table 5	**Model 6**	
	RE	FE
VARIABLES	PVI	PVI
GDP per capita in US$ (log)	-0.22***	-0.14
	(0.04)	(0.10)
Trade share of GDP (log)	-0.56***	-0.23***
	(0.10)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.79***	0.67***
	(0.09)	(0.08)
Peace Years	-0.02***	-0.00*
	(0.00)	(0.00)
Oil rents in percent of GDP (log)	0.05	0.14**
	(0.04)	(0.06)
FDI Flow per capita in US$ (log)	-0.09***	-0.00
	(0.02)	(0.01)
Electoral democracy (Scale 0-1)	-5.20***	-8.07***
	(0.49)	(0.52)
FDI Flow per capita US $ (log) * Electoral Democracy (Scale 0-1)	0.14***	0.01
	(0.03)	(0.03)
Constant	0.07	-1.00
	(0.67)	(0.75)
	4,664	4,664

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 4 shows the conditional effects between FDI flow and electoral democracy. FDI flows in electoral democracies are related to increased human rights violations. As shown in figure 4 the confidence interval stays the same across the entire plot, seeming a bit more significant on the middle level of electoral democracy.
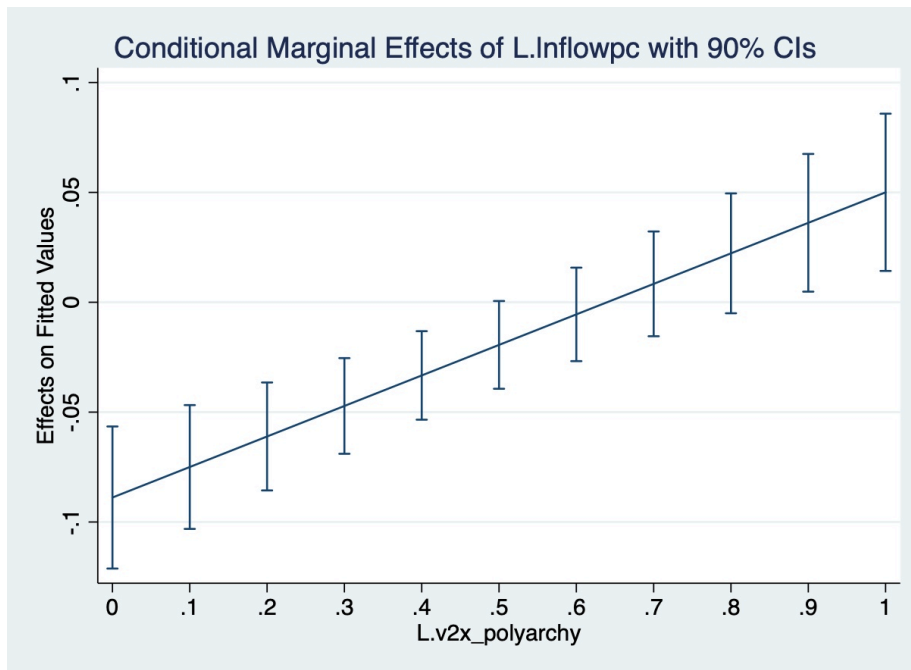
Figure 4

Interaction term between FDI flow and electoral democracy in random effects estimator.

In the next part of the analysis, an interaction term with natural resources and oil rents in percent of GDP is applied in Table 6. As mentioned in table 3, FDI stock becomes insignificant when controlling for oil. Based on this, it is necessary to investigate how FDI stock interacts with human rights violations in resource-abundant states. The result of the interaction term is visibe in Table 6, showing only significant results for the random effects estimator. The marginsplot of the interaction visible in figure 5 shows a correlation between FDI stock and oil abundancy, and that the human rights violations decreases. The confidence interval is larger when oil is abundant, which indicates uncertainty about the high values of oil.

Table 6   **Model 7**

VARIABLES	RE PVI	FE PVI
GDP per capita US$ (log)	-0.29***	-0.30**
	(0.04)	(0.12)
Electoral democracy (Scale 0-1)	-6.75***	-7.72***
	(0.20)	(0.29)
Trade share GDP (log)	-0.52***	-0.22***
	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.81***	0.67***
	(0.10)	(0.09)
Peace Years	-0.02***	-0.00
	(0.00)	(0.00)
FDI Stock per capita in US$ (log)	0.01	0.02
	(0.01)	(0.01)
Oil rents in percent of GDP	0.17***	0.12*
	(0.04)	(0.06)
FDI stock per capita in US$ * Oil rents in percent of GDP	-0.01***	-0.01
	(0.01)	(0.00)
Constant	4.30***	1.97***
	(0.46)	(0.75)
Observations	4,167	4,167

Standard errors in parentheses
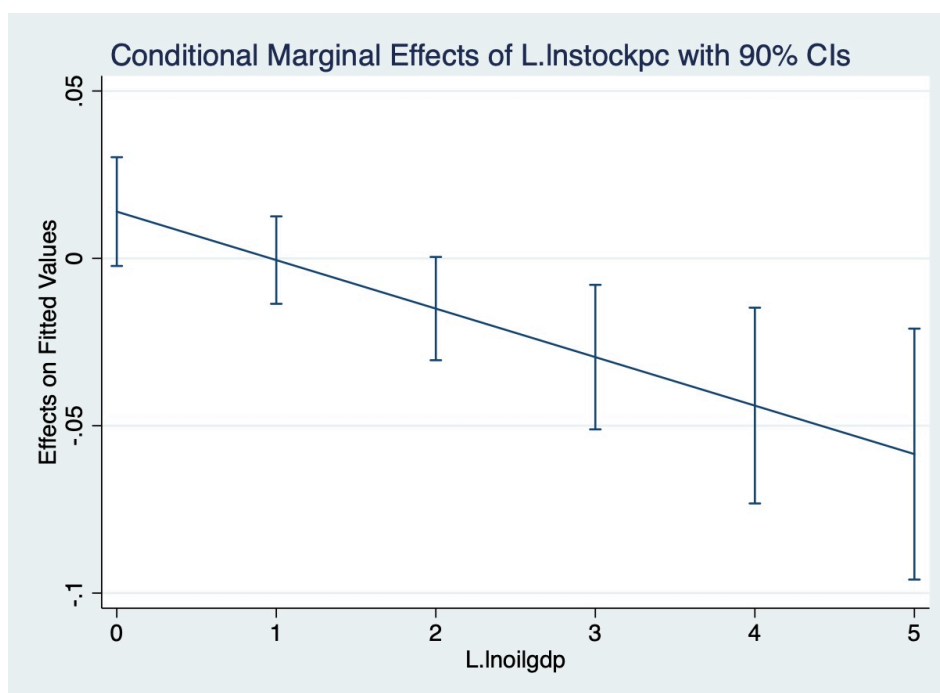*** p<0.01, ** p<0.05, * p<0.1

Figure 5

Interaction term with FDI stock and oil rents per GDP in random effects estimator.

4.2 Robustness results

The Driscoll and Kraay robust standard error are applied for models 1-3. This estimator checks for spatial dependence. The results referred to here, are only applied as a robustness test, and are applied in Table 7 in the appendix. Table 8 shows that the results of Model 1, containing FDI flow as the independent variable, stay similar to the original table. Model 2 and 3 as well, stays similar to the original data. The FE results of FDI stock are less significant, but the coefficient shows similar results. The Driscoll and Kraay robust standard error shows that the data in my models suffer from little spatial dependence, and the results can be regarded as robust.

In the second robustness test, only data from 1990 is applied. The results from using data after 1990 are very ensuring, and is attached in Table 8 and 9 in the appendix. Model 1 provides slightly weaker results than the original model. The rest of the models show a similar effect to the first results. Model 3 shows significant effects of FDI stock, even after controlling for oil rents. The rest of the models show the same effects and detects several significant results for the within-country effects not established in the original models. These results confirm that the effects detected of FDI in the original analysis from 1970-2018, have similar effects only using data after 1990. The original results can, therefore, be regarded as robust and trustworthy.

5 Discussion

In this part I will discuss the results with theoretical approaches and previous literature presented in chapter 2.

5.1 Flows are good and stocks are bad

H1: FDI flows decrease human rights violations in developing countries.

In Table 2, the FDI flow is measured against the Physical Violence Index with control variables. In this case, the random effects estimator finds a significant relationship between FDI flows and a decrease in human rights violations. Since the FDI flow only measures new investments, and do not take into account the accumulated stocks in the country, the results indicate a short-term effect. These short-term effects of FDI seem to be positive. These results support the liberal theory, arguing that FDI will have great spillover effects for the countries receiving investments, leading to inclusive political and economic institutions. The results from Table 2 suggests that Hypothesis 1, should be accepted, although I would not like to conclude on this due to some uncertainties.

The challenge with these results, regarding the use of the random effect estimator, is the inability to make particular causal claims due to potential omitted variables bias. It is difficult to rule out that some higher-order variables might explain both the x and y variables. The results are also from the RE-estimator, and the uncertainty of what this estimator measures enable us to make any causal explanation. It is likely to assume that the variations are significant between countries, or that it shows a measured matrix estimating the within- and between-country effects. Moreover, it might be the difference between countries receiving FDI flows, and those not that are visible in the RE-estimator results (Mehemtoglu & Jakobsen, 2017).

The results might also be a result of the fact that well-established institutions and democracies are of importance when a multinational company decides on the locations of investments. Globerman and Shapiro (2002) identify several determinants of FDI, in which legislation, regulations, and well-developed legal systems are essential determinants for governments to attract investments. Therefore, the results might indicate that foreign direct investment flows primarily go to countries with little human rights violations.

The results point to the direction of fewer human rights violations in countries receiving FDI flows. However, as discussed above - this correlation might be correlated with omitted variables or that new investment flows go to countries with well-established institutions that have little state-led violence present. The results point into the direction of that H1 should be accepted, but is something I avoid to conclude on fully.

H3: FDI stocks increase human rights violations in developing countries.

In the next section, a discussion around H3 is presented. Here, the FDI flow variable is changed with FDI stock. The change of the dependent variable is to investigate how the two different measurements of FDI affect the results. FDI stocks capture the historical value of MNC's investment in countries and can identify the long-term effects of foreign direct investments. Table 3 shows that after controlling for oil rents in percent of GDP, a direct causal relationship between FDI stock and increased human rights violations cannot be established, and the effects are ruled out.

Instead, Table 4 demonstrates that new flows of investments conditioned with large amounts of historical stocks cause increased human rights violations in the recipient countries. Here, both the random and fixed effects estimators are significant. The marginsplot of the fixed effects are applied in figure 1. This conditional effect was applied to investigate the effects of new investment flows into countries with large amounts of historical investments. If a country has little accumulated FDI stocks, human rights violations seem to be lower. The confidence interval is most significant at each extreme, and due to this, the results for high and low values of FDI are more uncertain. Model 5

presents the results after 1990 and confirms the result from model 4. It seems like countries with large amounts of FDI stock are stuck in bad policies with high levels of human rights violations. Even though new investment flows are correlated with fewer human rights violations in Table 2, it seems to have a negative effect when it hits countries with large FDI stock.

Since FDI stock only captures the historical value of MNC's investments, interacting flow and stock give us information about the dynamic effect of FDI in an economy. A country with large amounts of FDI stocks might have a static economy, with firms controlling large parts of the markets, not allowing new investments into the country. Large amounts of FDI flows into a country should indicate a dynamic economy, providing more competition. Regardless of this claim, flows do not seem to improve the bad policies of the economies it flows to. The large amounts of stocks seem to have harmed the institution's ability to take advantage of the new investment flows that come into the country. It seems like the long-term investments have caused particular harm to the institutions and that the countries suffer from traits of extractive institutions leading to human rights violations.

These results indicate that the anti-globalist theory is applicable regarding the long-term effects of foreign direct investments. The state institutions might have been held hostage to the market forces for a long time, and not developed inclusive political and economic institutions. The development in the countries with long-term FDI might have stagnated and not developed into prospering economies, not even after receiving newer FDI flows. Instead, these investments have led to less respect for human rights (Richards et al., 2001:223). It is likely to assume that countries with large amounts of FDI stocks have old investments, linking them to the colonialism. Practices established during the first FDI through colonialism, such as corruption, violence, or slavery, might have particular effects on how a country's institutions are formed today (Acemoglu & Robinson, 2012). Due to the insignificant results in Table 3, I cannot prove hypothesis 3. However, I can suggest a clear link between countries receiving new flows, having large amounts of old stocks, and that these conditional effects lead to increased human rights violations.

5.2 FDI and democracy

H2: FDI flows decrease human rights violations in developing countries conditional on basic democratic institutions.

The conditional effects in Table 5 are applied to measure how FDI flows are conditioned with electoral democracy and effects on human rights. Having a basic institutional framework settled within a country should, in theory, lead to the country's ability to take advantage of FDI and create positive spillover effects (Romer, 1994). Figure 3 shows result

from the random effects estimator and indicate that electoral democracies receiving FDI are more prone to human rights violations. A causal claim cannot be established since it is unknown whether the effects measured are between-country effects of within-country effects.

The effects identified in figure 3 might be related to the fact that electoral democracies tolerate large amounts of dissent. If the populations experience unfairness, they can express this through strikes and upheaval. According to Robertson and Teitelbaum (2011) FDI are in developing democracies correlated with a high level of social protest due to liberalizing effects of democracy (Robertson & Teitelbaum, 2011:675). People may strike and demonstrate freely to a certain degree. However, it seems like this kind of dissent might be met with state-led violence in electoral democracies.

A correlation between FDI, democracy, and state-led violence might indicate that foreign direct investments create inequality in society, causing dissatisfaction. Rodrik (1997) argues that MNC's presence leads to dissent and dissatisfaction due to the damage on the welfare state and increased inequality. The countries receiving FDI compete on attracting investments, which leads to fewer regards for labor rights and work ethics in the multinational companies' affiliates (Rodrik, 1997). The aggressive financialization of firms and their focus on low taxes and wages might be a driving force for the protest mentioned in the previous paragraph. The population might feel poorly treated compared to other affiliates in different countries with higher wages or better rights. Such unfair treatment and the dissent in the population might become visible through strikes and protests (Rodrik, 1997, Léonard et al. 2014:177). When the dissatisfaction becomes visible through strikes and protests, democracies allow them to happen before they eventually respond with violence or other forms for repression, shown in the interaction term.

Because of the result presented above, FDI are related to an increase in human rights violations in electoral democracies. These results points in the direction of a dismissal of H2. Since this is RE-estimator results, I cannot fully dismiss hypothesis 2, due to possible omitted variable bias and uncertainty in the causal relationship.

5.3   FDI and natural resources

H4: *Increasing FDI stock in natural resources-abundant developing countries decreases human rights.*

As mentioned in section 5.1, Table 3 shows significant within-country estimates that FDI stock leads to an increase in human rights violations. After applying the control variable for oil rents in percent of GDP, the stock effect on human rights violations is no longer significant. Instead, the increase in human right violations seem to be related to the oil

rents and not the FDI stocks. These results confirm that the resource curse is a problem, and not necessarily that FDI lead to more human rights violations. As mentioned in the theory section, the paradox of the plenty harms and stagnates political and economic institutions.

During 1990 scholars agreed that those countries with vast reserves of natural resources did not experience the economic growth expected with enormous capital flows. Instead, the vast reserves of resources negatively affected the institutions, causing dysfunctional political and economic institutions, with economic stagnation and political instability (Weinthal & Jones, 2006:36-37). Further on, present scholars argue that multinational companies contribute to unethical trade chains with brutal dictators, and that capital flows like FDI lead to the survival of despots and dictators (Wenar, 2016: Bak & Moon, 2016).

However, the results from Table 6 indicate that FDI in resource-rich countries is not as bad as expected. In this table, the conditional effect between FDI and oil rents in percent of GDP is correlated with a decrease in human rights violations. The result is significant in the random effects estimator and presented in figure 4. Due to being random-effects estimates, a causal mechanism cannot be established in this case either. According to these results, it may seem like privatization of the natural resource sector through FDI might ease the resource curse's effects. This is somewhat in line with Weinthal and Jones's (2006) study, regarding good ways to combat the resource curse. Their solution is based on domestic private ownership of the natural resource sector. This hinders state authorities from controlling the entire revenue flows. Instead, leaders are encouraged to create good and thorough institutions, would improve legislation, diminish corruption, and regulate taxes and fees to secure parts of the revenue related to resource-trade.

Based on the results from Table 6, it seems like FDI to natural resource-abundant countries have contributed to some of the positive aspects of privatization spoken of by Weinthal and Jones. The results might also be related to the increased attention towards corporate social responsibility, that large firms to a certain degree are required to follow. Berman et al. (2017) suggest that corporate social responsibility, regarding climate change, worker's rights, anti-corruption, and human rights, can build significant resistance towards the resource curse. The scholars bring up the example of mine extraction in Africa and argue that there is less risk of conflict in areas where MNC's are following the CSR.

Although I have not studied the CSR in particular in this study, it might seem like MNC's have started to follow the CSR, resulting in fewer human rights violations in oil abundant countries. However, this is not something I can conclude on but would be interesting topics for future studies. The findings from Table 6 is not a causal claim, but the results point in the opposite direction of H4. Again it is important to emphasize the

nature of the RE-estimator; due to omitted variables bias and uncertainty about the causal mechanism, a full conclusion cannot in regards to H4.

5.4 Summarized discussion and further research

Studying a variety of conditional effects of FDI, many interesting results have been detected. Some of these results are in line with established theories, while others are not.

This study implies that particular conditions of the surroundings while receiving FDI are of essential matter, and needs to be taken into consideration when investigating FDI. While newer investment flows are investigated isolated, the results indicate increased respect for human rights. While newer investment flows are investigated with older investments, it is related to increased human rights violations. FDI in basic democracies are related to increased human rights violations as well, due to the liberalizing nature of democracies. In natural resource-abundant countries, the privatization of resources through MNC's implies to decrease human rights violations, which might be related to firms' concern for corporate social responsibility, wanting to have a good impact on the societies around. The conditional effects applied in this study are an original contribution to the literature, identifying exciting matters for further research.

Different results based on different independent variable are also of interest, supporting my choice of adding both FDI flows and stocks. If similar studies were made only applying flow or stock, parts of the exciting results would not be included.

Using the random effects estimator is a strength of this study. Many of the exciting results concerning the conditional effect would not be detected without applying this estimator. However, a drawback with the RE-estimator is the inability to correct for omitted variable bias. This matter makes it hard to detect any causal mechanism, which might be one of the limitations of this study. Many interesting results are detected, but few of them can be accepted as part of a causal mechanism. Speaking of limitations, this study is also lacking particular case-perspectives. Instead, the study provides an overall investigation of FDI on human rights.

When it comes to the overall background for this study, investigating whether FDI increases or decreases the economic gap providing inclusive political and economic institutions, is hard to determine. Parts of the results point in different directions, suggesting that it is more to it than only FDI, such as particular conditions and mechanisms that may affect the effects of the investment in the recipient country.

An interesting result from this study is the decrease in human rights violation in resource-abundant countries. A further investigation of Weinthal and Jones's theory on the privatization of the resource sector should be further investigated in relation to FDI. It might also be fruitful to investigate MNC's work to uphold corporate responsibility in relation to human rights violations, taking on all kinds of affiliates, and not only mining as

done by Berman et al. (2017). Particular case studies of FDI into less-developed countries might also be expedient, to gain insight and knowledge about particular cases.

6 Concluding remarks

This study is examining whether foreign direct investments cause increased respect for human rights, using TSCS analysis. For the statistical analysis, the Newey-West robust standard error is applied using random and fixed effects estimators. An important contribution with this study is the conditional effects applied, suggesting that FDI might behave different under different circumstances.

Seen isolated, FDI flows are correlated with the decrease of human rights violations. Seen as a conditional effect with historical investments, FDI are related to fewer respects for human rights. These different effects might be related to different consequences of long and short-term FDI. The conditional effect of FDI flows and electoral democracies are related to an increase in human rights violations, related to the liberalizing effects of democracy, allowing citizens to show dissatisfaction through dissent. The conditional effect of FDI stocks and oil-abundancy are related to fewer human rights violations, suggesting that privatizing of the resource sector might provide better institutions in the long run.

A second important emphasis of this study is the application of the two different variables of FDI stock and flows. Applying only one of these measures might cause a particular bias, depending on the matter of investigation. Applying both these variables prevent this type of bias. The third essential contribution of this study is the use of the random effects and fixed effects estimator. Though random-effects estimates prevent this study from establishing causal claims, it identifies fruitful results for the discussion.

The most important findings identified in the study is that FDI seems to behave differently under different conditions, based on characteristics of the surroundings. As demonstrated in this study these effects point in various direction. However, if FDI leads to economic growth in less-developed countries, providing inclusive political and economic institutions is hard to determine based on these findings. These issues need to be investigated further, through case studies or comparative regional studies, determining the effect of FDI under different conditions.

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8 Appendix

8.1 Exhibits

Exhibit A.

Industrialized democracies dropped from the dataset. All
other countries are included in the analysis.

Australia

Austria

Belgium

Canada

Denmark

Finland

France

Germany

Greece

Iceland

Ireland

Italy

Japan

Liechtenstein

Luxembourg

Monaco

Netherland

Norway

New Zealand

Portugal

Spain

Sweden

Switzerland

United Kingdom

Unites States

8.2 Robustness test with Driscoll Kraay (1989)

Robusntess-test with Driscoll Kraay (1989) standard errors, applied in model 1-3 form the original results.

Table 7.	Model 1		Model 2		Model 3	
	RE	FE	RE	FE	RE	FE
VARIABLES	PVI	PVI	PVI	PVI	PVI	PVI
FDI flow per capita in US$	-0.05***	-0.01				
	(0.01)	(0.01)				
GDP per capita in US$ (log)	-0.13**	-0.25***	-0.20***	-0.42***	-0.24***	-0.43***
	(0.06)	(0.09)	(0.03)	(0.10)	(0.05)	(0.10)
Electoral democracy (Scale 0-1)	-7.56***	-9.11***	-7.29***	-8.87***	-7.12***	-8.81***
	(0.30)	(0.25)	(0.14)	(0.41)	(0.24)	(0.39)
Trade shar GDP (log)	-0.62***	-0.25***	-0.59***	-0.24***	-0.57***	-0.24***
	(0.12)	(0.06)	(0.11)	(0.06)	(0.12)	(0.05)
Civil War (Dummy: 0 for no conflict)	0.73***	0.65***	0.79***	0.66***	0.78***	0.65***
	(0.10)	(0.06)	(0.09)	(0.07)	(0.10)	(0.07)
Peace years	-0.02***	-0.00	-0.02***	-0.00	-0.02***	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Oil rents in percent of GDP	-0.04	0.11**			0.07	0.07
	(0.06)	(0.05)			(0.05)	(0.04)
FDI stock per capita in US$ (log)			-0.00	0.01*	-0.01	0.01
			(0.01)	(0.01)	(0.01)	(0.01)
Constant	0.91**	1.07*	1.80***	2.31***	1.83***	2.32***
	(0.37)	(0.55)	(0.36)	(0.60)	(0.29)	(0.60)
Observations	4,664	4,664	4,197	4,197	4,167	4,167
R-squared	0.671		0.658		0.658	
Number of groups	134	134	133	133	133	133

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

8.3 Robustness-test: After 1990

The original result from Newey-West estimator showed in chapter 4 are applied underneath, to check how robust the models appear to be measuring only data after 1990. In Table 8 the results from model 1 through 4 are presented beneath (Model 5 is not included. Model 4 shows the same results, due to only including years after 1990 in the original model 5).

Table 8	Model 1		Model 2		Model 3		Model 4	
	RE	FE	RE	FE	RE	FE	RE	FE
VARIABLES	PVI	PVI	PVI	PVI	PVI	PVI	PVI	PVI
FDI flow per capita in US$ (log)	-0.02*	-0.01					-0.03	-0.05***
	(0.01)	(0.01)					(0.02)	(0.02)
GDP per capita in US ($)	-0.32***	-0.50***	-0.25***	-0.40***	-0.35***	-0.44***	-0.32***	-0.55***
	(0.04)	(0.14)	(0.04)	(0.14)	(0.04)	(0.14)	(0.04)	(0.15)
Electoral democracy (Scale 0-1)	-6.47***	-6.20***	-6.90***	-6.03***	-6.42***	-6.16***	-6.48***	-6.17***
	(0.21)	(0.38)	(0.19)	(0.38)	(0.21)	(0.38)	(0.21)	(0.38)
Trade share GDP (log)	-0.35***	-0.03	-0.41***	-0.06	-0.37***	-0.05	-0.34***	-0.03
	(0.09)	(0.08)	(0.10)	(0.08)	(0.09)	(0.08)	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.73***	0.60***	0.78***	0.59***	0.75***	0.58***	0.72***	0.58***
	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.11)	(0.10)
Peace years	-0.02***	-0.01**	-0.02***	-0.01**	-0.02***	-0.01**	-0.02***	-0.01**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Oil rents in percent of GDP	0.17***	0.10			0.20***	0.12*	0.17***	0.10
	(0.05)	(0.07)			(0.04)	(0.07)	(0.05)	(0.07)
FDI stock per capita in US$ Iog)			0.00	0.03***	-0.00	0.02**	-0.01	0.16***
			(0.01)	(0.01)	(0.01)	(0.01)	(0.06)	(0.05)
FDI flow per capita in US$ (log) * FDI Stock per capita in US$ (log)							-0.00	0.01***
							(0.00)	(0.00)
Constant	0.52	-0.51	0.89*	-0.77	1.13**	-0.53	0.50	-0.82
	(0.58)	(0.87)	(0.47)	(0.87)	(0.44)	(0.87)	(0.60)	(0.89)
Observations	3,393	3,393	3,395	3,395	3,377	3,377	3,348	3,348

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 9 shows the results for Model 6 and 7

Table 9	Model 6		Model 7	
	RE	FE	RE	FE
VARIABLES	PVI	PVI	PVI	PVI
GDP per capita in US$ (log)	-0.33***	-0.52***	-0.35***	-0.44***
	(0.04)	(0.14)	(0.04)	(0.14)
Trade share GDP (log)	-0.33***	-0.02	-0.39***	-0.05
	(0.09)	(0.08)	(0.09)	(0.08)
Civil War (Dummy: 0 for no conflict)	0.70***	0.60***	0.72***	0.58***
	(0.11)	(0.10)	(0.10)	(0.10)
Peace years	-0.02***	-0.01**	-0.02***	-0.01**
	(0.00)	(0.00)	(0.00)	(0.00)
Oil rents in percent of GDP	0.19***	0.10	0.26***	0.12*
	(0.05)	(0.07)	(0.05)	(0.07)
FDI flow per capita in US$ (log)	-0.09***	-0.05**		
	(0.03)	(0.02)		
Electoral democracy (Scale 0-1)	-4.58***	-4.93***	-6.51***	-6.16***
	(0.57)	(0.61)	(0.21)	(0.38)
FDI flow per capita in US$ * Electoral democracy (Scale 1-0)	0.15***	0.09**		
	(0.04)	(0.04)		
FDI stock per capita in US$ (log)			0.02*	0.02*
			(0.01)	(0.01)
FDI stock per capita in US$ (log) * Oil rents in percent of GDP			-0.02***	-0.00
			(0.01)	(0.00)
Constant	-0.40	-1.01	1.22***	-0.53
	(0.66)	(0.91)	(0.45)	(0.87)
Observations	3,393	3,393	3,377	3,377

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1