



# Avoiding the Spotlight: Human Rights Shaming and Foreign Direct Investment<sup>1</sup>

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Nonstate actors, such as international non-governmental organizations (INGOs) and multinational corporations (MNCs), have attained an increasingly prominent role in modern world affairs. While previous research has focused on these actors' respective interactions with states, little attention has been paid to their interactions with each other. In this paper, we examine the extent to which the decisions of private actors seeking to invest abroad are affected by the reputational costs of doing business in countries publicly targeted by human rights activists. We find that "naming and shaming" by human rights INGOs tends to reduce the amount of foreign direct investment received by developing states, providing evidence that INGO activities affect the behavior of MNCs. An additional implication of our findings is that shaming by INGOs can impose real costs on targeted states in the form of lost investment.

The modern era has been defined by the rapid diffusion of information and capital, goods and services, technologies and culture across the globe—the result of which has been an historically unprecedented level of global interconnectedness. A consequence of, and contributor to, this process has been the growing role of nonstate actors, such as multinational corporations (MNCs), who are increasingly free to move their large stores of resources across national borders. Greater cross-national capital mobility has in turn been a cause for concern for some who worry about a competitive "race to the bottom" among states eager to attract the jobs, technology, and infrastructure that MNCs can provide (Parenti 1989; Grieder 1998). Others have concurrently praised increased capital mobility for its contributions to development (Friedman 2005; Bhagwati 2007). Similarly, some argue that these advancements have further empowered international non-governmental organizations (INGOs), whose global activism has been enhanced by developments in technology that improve their ability to gather and disseminate information concerning abuses of human rights and environmental integrity (Spar and La Mure 2003). The expanding presence of these nonstate actors has even contributed to the notion that, in this new era of globalization, the power and autonomy of the nation state are eroding (Vernon 1971; Strange 1996).

In addressing these claims, scholars have turned their attention toward evaluating the causes and consequences of nonstate actor activity. One area in particular that has received substantial attention has concerned the role of these actors in influencing the human rights practices of states. Contrary to popular belief, many studies have found that foreign direct investment (FDI) by MNCs and respect for human rights seem to positively reinforce each other (Richard, Gelleny and Sacko 2001; Blanton and Blanton 2007). Explanations for this relationship have focused on the idea that the high initial costs of directly investing in a foreign country force investors to balance their desire for short-term profit maximization with longer-term concerns, such as stability (Resnick 2001). The human rights conditions in a country, it is thought, may signal to potential investors the prospects for long-term domestic security and the credibility of government commitments (Blanton and Blanton 2007, 2009). Furthermore, it is thought that MNCs seek to preserve good brand image, which can be damaged by dealing with known human rights violators (Spar 1998, 1999; Blanton and Blanton 2007).

More recently, scholars have begun to examine the impact that INGOs' public shaming of human rights violations has on the behavior of state actors. With one notable exception (Hafner-Burton 2008), most research has found that, in the short term, INGO shaming is associated with improvement in the human rights practices of the targeted states, particularly when powerful third parties publicly reiterate such shaming efforts (Franklin 2008; Murdie 2009a,b). However, while there has been some research into the mechanisms by which INGO shaming may impose costs that are large enough to cause targeted states to change their behavior (Davis, Murdie

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and Steinmetz 2010; Murdie and Bhasin 2011), many potential mechanisms remain unexplored.

Though both literatures arose partly as a response to globalization, they have almost exclusively focused on the relationships between nonstate actors and the state. Few studies have addressed how the actions of one type of nonstate actor may influence the behavior of other nonstate actors (Spar and La Mure 2003). In this study, we focus on the relationship between INGOs and MNCs in the context of human rights, examining whether or not the shaming of states for their human rights practices has any discernible impact on direct investment in that country by MNCs. Human rights serve as a useful vehicle for this analysis for several reasons. First, debates concerning both INGOs and MNCs have frequently been lodged in the normative terms of human rights, often with contrasting expectations for their respective effects. Second, the general finding that FDI is associated with better human rights conditions has been partly attributed to the “spotlight phenomenon,” by which corporations, eager to maintain good brand image, respond to public anger over bad business practices by adopting more socially responsible reforms (Spar 1998). Third, this spotlight is often brought to bear by INGOs via “naming and shaming,” thus implying a possible direct relationship between the human rights activism of these organizations and foreign investment patterns by MNCs (Spar and La Mure 2003). Finally, this relationship would provide direct evidence of a cost that INGOs are capable of imposing on human rights violators through their shaming, that is, the loss of future foreign investment.

While some scholars have posited such a dynamic between INGOs and MNCs, no studies have yet subjected this relationship to rigorous quantitative analyses. As such, we argue that MNCs, deterred by the reputational costs of being brought under the scrutiny of the “spotlight,” will be inclined to avoid investing in countries that have been publicly shamed by INGOs for their human rights practices. Using data on shaming by over 400 human rights INGOs (Murdie and Bhasin 2011), we test this argument by examining the degree to which new FDI inflows are affected by the amount of shaming targeted at states for their human rights records. Our results demonstrate that INGO shaming does exert a robust negative effect on foreign investment flows into the shamed state, indicating that MNCs are indeed sensitive to the reputational costs that may be incurred through business dealings with states whose repressive practices have been actively publicized. This result is most pronounced for developing states.

The remainder of the paper proceeds as follows: First, we briefly review the recent literature on human rights shaming by INGOs. Second, we present our theoretical argument for how INGO shaming can affect the foreign investment calculus of MNCs, and in the process further unpack the general relationship between human rights and FDI as it is currently understood in the literature. Third, we discuss the data and methods used to test our argument. Finally, we conclude with a discussion of the results and suggestions for future research.

### INGO Shaming

A growing literature has been dedicated to the topic of INGO shaming for human rights violations.<sup>2</sup> Evaluating

shaming by Amnesty International, as well as the shaming that takes place in the United Nations Commission on Human Rights and in the media (in particular, the news magazines *Newsweek* and *The Economist*), Hafner-Burton (2008) found that shaming seems to have no discernable impact on government human rights abuses. However, her measures, which focus solely on a few sources of shaming, are less than optimal for gauging the total effect of shaming on human rights practices. There are over 400 human rights INGOs in the world (Murdie and Bhasin 2011), but Hafner-Burton’s measure of INGO shaming used only the most famous of these organizations, Amnesty International. Indeed, focusing on seven Latin American countries from 1981 to 1995 and shaming by several different INGOs, religious groups, foreign governments, and intergovernmental organizations, Franklin (2008) finds that human rights criticism reduces repression for a short period.<sup>3</sup> At the international level, Murdie (2009a,b) has shown that INGO shaming is associated with improved human rights practices, particularly when it is paired with a domestic INGO presence and/or foreign third-party support.

If shaming by INGOs is indeed associated with better human rights practices, why is it so? The most common argument given in the literature is Keck and Sikkink’s (1998) “boomerang effect.” According to Keck and Sikkink, when internally based NGOs are denied redress for their grievances within their own state, they turn to an international network of INGOs that are focused on their particular grievance—which, in this case, is government repression. This international network of INGOs publicizes the target government’s human rights violations to foreign governments, media outlets, and intergovernmental organizations, all of which apply pressure on the target state to change their human rights practices, thus increasing the cost of repression.

The boomerang effect has received some support in the empirical literature. Murdie (2009b) finds that the most effective INGO shaming is that which also results in shaming by foreign governments, who can quickly increase the international costs associated with human rights violations—by reducing foreign aid to the target state, for example. The external pressure applied by international actors also seems to affect the domestic costs of repression in the target state. Davis et al. (2010) find that, in repressive states, the level of government repression is typically underestimated by the population of the state unless that state is a target of shaming by INGOs; given such shaming, public opinion seems to be much more consonant with the reality of their government’s repression. Furthermore, Murdie and Bhasin (2011) find that human rights INGO activities can lead to increased levels of both violent and nonviolent protest within the target state. Thus, international shaming of repressive governments cannot be seen as a purely aspirational, non-strategic activity. Rather, INGO shaming seems to have concrete effects on the politics of target states and on public opinion both within and outside of the targeted states’ borders.<sup>4</sup>

However, far less attention has been paid to the effect that shaming by INGOs has on the behavior of other nonstate actors, such as foreign investors. This gap leaves us with a number of questions: Do nonstate actors, such

<sup>2</sup> By shaming, we mean the denunciation and publicizing of human rights violations by INGOs, such as Amnesty International or Human Rights Watch.

<sup>3</sup> Franklin’s (2008) results indicate that this is typically <6 months.

<sup>4</sup> For a more fully developed explanation of this theoretical process, see Keck and Sikkink (1998) and Ron, Ramos and Rodgers (2005).

as MNCs, respond to the actions of INGOs in a similar fashion to the states that are being shamed? To put it differently: What are the broader effects of the dynamics at work between INGOs and the states they shame? Furthermore, once we account for the mechanisms by which reputational costs may be incurred—that is to say, the extent to which poor human rights practices are publicized—what is the actual impact of human rights conditions themselves on the investment decisions of MNCs? In the next section, we will expand more fully upon the theoretical mechanisms through which INGO shaming can be expected to influence the investment decisions of MNCs.

### INGO Shaming and FDI

As with activism, modern advancements have provided for a transnationalization of production processes far more extensive than had been achieved in previous eras of globalization, facilitated in large part by multinational firms (Brooks 2005). In an effort to explain this phenomenon, scholars have spent considerable energy in refining theoretical and empirical models of FDI. Much of this work has stemmed from the analytical framework established by Dunning (1981), which identifies three primary forces driving the decision by a firm to directly invest in a foreign market: Ownership, Location, and Internalization. A sizeable literature in economics has evaluated the potential advantages motivating foreign ownership and internalization of production processes, getting at the “why” questions concerning the decision by firms to invest abroad. What remains once these conditions are met, however, is the “where” question—the particular locational advantages that make some potential host sites more attractive investment destinations than others. It is this puzzle that has induced a growing body of research by political scientists and others who have argued that, once accounting for the specific economic traits sought by foreign investors, other various sociopolitical conditions may play a key role in determining the geographic distribution of foreign investment.

On this front, considerable disagreement has defined the debate. The critical perspective has held that big business, with its overt preference for profit maximization, will naturally be more inclined to invest in those places least politically and socially developed, where corrupt and authoritarian regimes maintain the flexibility necessary to allow them profitable, but unfair advantages, such as monopolization of local markets and the repression of human and worker rights (O'Donnell 1978; Parenti 1989; Oneal 1994). Indeed, foreign production is popularly associated with the exploitation of workers and the environment by profit-seeking MNCs operating overseas factories, propelling the notion that freeing expansive corporations from the confines of national borders is inherently at odds with the advancement of global environmental, human, and workers' rights standards (Strange 1996; Garrett 1998; Grieder 1998).

Though the profit motive is undeniable, others have tempered this stark view, noting nuances in the processes by which direct investment, and ultimately profit, actually occur. FDI, by definition, entails the acquisition of a lasting managerial interest in a foreign enterprise (OECD 2008), implying that, though such capital is highly mobile *ex ante*, it ceases to be *ex post*. In other words, the endless rat-race for immediate profits is typically less plausible than those most critical of capital mobility have often

assumed. It further implies that MNCs risking such investment face considerable up-front costs that, once sunk, require stable and predictable productivity over time to be made actually worthwhile and profitable. As such, foreign investors' bottom lines remain sensitive and vulnerable to the political conditions in the host site for some duration following investment (Vernon 1971).

For this reason, many scholars have argued that, although there are certainly instances of harmful business dealings abroad (the oft-cited and notorious case of United Fruit's repressive reign in Guatemala, for example), most modern investors prefer the long-term guarantees of having their property rights respected, and other market-friendly policies preserved, over immediate profitability (Chan and Mason 1992; Li and Resnick 2003; Büthe and Milner 2008). The empirical record tends to bear this out, as numerous studies show that MNCs often seem willing to forgo the short-term advantages that may be provided by autocrats for the longer-term stability and greater transparency provided by democratic institutions (Jensen 2006, 2008; Li 2006). Blanton and Blanton (2007, 2009) extend this line of reasoning and argue that, contrary to conventional wisdom, FDI may often be attracted to host governments who have demonstrated a greater respect for the human rights of their citizenry. They suggest that human rights conditions serve as an indicator to investors of, among other things, domestic stability, which can also be important to the long-term productivity and profitability of an investment (Resnick 2001; Jensen and Young 2008). In short, direct investors' interests extend well beyond the short-term, often giving preference to those hosts offering the best long-term prospects.

One of these long-term considerations that may factor into a MNC's investment calculus is its own reputation. How well a brand name is perceived among consumers, shareholders, and business partners could have important implications for that brand's profitability over time. Though there are many things that can shape brand image (for example, product/service quality, customer service), association with poor human and worker rights conditions in overseas production sites has become increasingly salient in recent years (Spar 1998, 1999). Some companies exposed for engaging in unsavory business practices have paid the price, often taking swift and public action to separate themselves from such abuses in the future. Reebok, for example, established a new system of independent monitors to watch over its manufacturing operations in Pakistan after having been publicly criticized for employing child labor in that country, going so far as to attach new labels stating that their products were “made without child labor” (Spar 1998). The Gap similarly committed itself to third-party monitoring of its foreign facilities after facing public backlash (Spar 1998).

This mechanism by which large and powerful MNCs are compelled to rein in their overseas operations in order to maintain a positive brand image—perhaps to the detriment of short-term profits—has been referred to as the “spotlight phenomenon” (Spar 1998; Blanton and Blanton 2007). Advancements in telecommunications and information technologies, coupled with the growth of activist NGOs eager to use such channels, have expanded the scope and intensity of the “spotlight” (Spar 1999; Spar and La Mure 2003). The Free-Burma Coalition, for example, was an INGO that, between 1995 and 2002, was able to draw enough widespread attention to the gross human rights abuses of the Burmese government, and

the companies who were operating there, to pressure thirty or more of those firms (including the likes of Wal Mart and Levi Strauss) to pull their investments out (Spar and La Mure 2003). Likewise, the Sudan Divestment Task Force encouraged several companies (including 3M and Siemens) to pull their investments out of, or alter their business dealings with, Sudan by encouraging individuals, universities, and governments to divest from companies that did business in Sudan during the war and genocide in Darfur (Patey 2009; Soederberg 2009). Such reputational costs, it would seem, are simply too high for MNCs interested in keeping their good name, and the “spotlight” seeks to exploit that vulnerability. As Spar puts it: “The spotlight does not change the morality of...multinational managers. It changes their bottom-line interests” (Spar 1998).

Such anecdotes, however, only demonstrate the effectiveness of the “spotlight” when directly applied, that is, the effect on companies that have been actually caught and publicly criticized for their business practices or relations. What these examples are unable to demonstrate is the effect of the spotlight as a deterrent of such associations in the first place. Insofar as MNCs have acknowledged the power of the “spotlight phenomenon,” and would prefer to avoid the reputational consequences it can bring to bear, we should expect that savvy MNCs will be more cautious about investing new capital in those countries that have been recently publicly denounced by INGOs, thereby reducing the risk that they themselves will be specifically targeted or otherwise caught in the cross-fire. In other words, companies should be less likely to take the risk of investing in countries already under the scrutiny of activist organizations.

Blanton and Blanton (2007, 2009) have recognized this as one of the possible mechanisms underlying their general finding that greater respect for human rights tends to associate with larger FDI inflows into developing countries. However, this is only taken as one possible explanation among others and is not independently tested. This is problematic for two reasons: (i) We are unable to draw from their results the extent to which the reputational costs of doing business with known human rights violators actually influence locational investment decisions, as distinct from the other causal pathways one may tie between human rights and FDI, and (ii) it overlooks the fact that INGO shaming is strategic and does not necessarily target states in direct proportion to their level of abuse, but rather those states where INGOs believe their efforts will have the greatest impact (Ron et al. 2005). We seek to address these problems here. Given the logic that we have laid out above, we posit the following hypothesis:

**Hypothesis 1:** *Countries that have been subject to greater rates of NGO shaming will receive less FDI inflows.*

Although hypothesis 1 reflects our general expectations, we believe that a more nuanced account of the relationship between INGO shaming and FDI flows is possible. There is strong reason to suppose that the effects of shaming will be different depending on whether our focus is on developing states or developed states. For example, the states that are most heavily shamed in our data are the US and the UK—both consolidated democracies that tend to display relatively high respect for both private property rights and the human rights of their citizens. When these states are shamed, it

is often on a different basis than the shaming of those states that have a far worse human rights record.

For example, the United States was heavily shamed in 2001, receiving the most shaming of any country in our sample. In that year, Amnesty International (2002b) released nine individual reports on the United States. Of those nine reports, three primarily referred to U.S. actions against non-citizens, four focused on the use of the death penalty, one described poor prison conditions, and one discussed homophobic abuse by Chicago police officers. On the other hand, Egypt was also heavily shamed in 2001, receiving the most shaming of any non-OECD state in our sample. Amnesty International (2002a) released three individual reports on Egypt in that year: One focused on the widespread use of torture, another describing the political imprisonment of human rights activists, and another relating the common torture and imprisonment of those suspected of homosexual orientation. While both states clearly faced important human rights issues, the issues brought up in the Egyptian reports indicate violations that affect a much broader cross-section of the country’s citizenry than those discussed in the United States’ reports. While such differences are certainly not absolute, we believe that the content of shaming will generally evoke very different responses from activist organizations, consumers, and investors depending on whether or not the shaming is directed at developed or developing states. By extension, multinational investors’ concern about suffering reputational costs for doing business with repressive states may be more acute when choosing among potential hosts in the developing world.

Similarly, some scholars have noted that the nature of foreign investment itself is quite varied—especially in regard to the underlying differences between investment in economically developed states versus investment in less-developed countries (Blonigen and Wang 2005; Büthe and Milner 2008). Though FDI in the developing world has increased considerably in recent years, the bulk of global investment flows is still between the most advanced states, where relative market stability and predictability provide for much greater investor confidence. Additionally, there may be sizeable differences in the type of investment activities pursued by MNCs across these different markets. Whereas much of the investment flows into developed countries are seeking specialized R&D, highly skilled labor, and direct access to wealthy consumer markets, investment flows into developing countries are more often geared toward resource extraction and lower-cost manufacturing and service production, some of which is for the purpose of exporting back to the developed world (UNCTAD various years). These industries have historically been the ones associated with poorer worker and human rights conditions. As such, international investors may be more likely to be seen as complicit in human rights abuses in these cases.

These factors, combined with the differences in the shaming content between developed and developing states, lead us to posit the following:

**Hypothesis 2:** *The substantive impact of shaming on FDI flows should be greater for developing states than for developed states.*

Although we isolate the publicity of a state’s human rights practices (the “spotlight phenomenon”) as the causal linkage of chief theoretical interest, it is only one

of the components that inform the theoretical case for a positive relationship between respect for human rights and FDI and thus should not alone account for that empirical relationship. Poor respect for human rights may indicate that there is a greater likelihood of instability and violent conflict (Blanton and Blanton 2007). Additionally, a government's willingness to violate human rights may signal that it would also be more willing to violate business and property rights, regardless of the terms struck with investors *ex-ante* (Vernon 1971). As is the case with the "spotlight" effect, we believe that these other components can also be analyzed distinctly from human rights, and from each other. Thus, whereas previous studies have treated human rights as a catch-all proxy for these conditions, we will account for both domestic instability and respect for property rights directly.

In keeping with existing theory, MNCs should be wary of those states that are characterized by domestic unrest, protests, rebellions, or war (Nigh 1985; Resnick 2001; Jensen and Young 2008). These conditions can pose threats to the long-term efficiency of an investment, especially if they result in physical damage to facilities, dislocation of workers, interference with transactions, or, in the extreme, outright expropriation. As such, we hypothesize:

**Hypothesis 3:** *Higher levels of instability are negatively associated with FDI inflows.*

Multinational corporations should also be less inclined to invest in states that have demonstrated an unwillingness to enforce property rights or other market-friendly policies (Li and Resnick 2003; Jensen 2008). Democratic institutions (Olson 1993; Jensen 2006; Li 2006), and participation in trade agreements (Büthe and Milner 2008), have been argued to serve as credible signals of political commitment to maintaining a favorable investment climate. However, investors can also look directly at prospective hosts' track records in these areas, and should shy away from those states that have actively engaged in restricting property rights. Alternatively, investors should be more willing to invest in states that have demonstrated that foreign assets will remain secure. Thus, we derive the following hypothesis:

**Hypothesis 4:** *Greater respect for property rights is positively associated with FDI inflows.*

By distinctly analyzing the various factors that have been argued to account jointly for the positive effect that government respect for human rights exerts on FDI (for example, the avoidance of negative publicity, the presence of domestic stability, and the assured protection of private property), we may be able to better identify which theoretical mechanisms are really driving this oft-observed empirical relationship. Moreover, it allows us to more closely scrutinize the remaining independent effect—if any—of human rights conditions themselves. As theorizing about this is beyond the scope of this paper, we do not venture any specific hypothesis concerning the relationship here. Nonetheless, we do believe it to be worthy of attention, insofar as it prompts continued research on the topic.

### Modeling Foreign Direct Investment

Ideally, our dependent variable would be a measure of the investment flows by the major brand-name multinational companies—the Nikes, Wal-Marts, and GEs of the

world—whose high visibility has most informed the theoretical link between public image and the according deterrent effect of the "spotlight phenomenon." Unfortunately, such data are not available. Thus, following custom, we utilize an aggregate measure of FDI inflows, as reported in millions of US dollars for each country-year.

By the standard definition, new investment is constituted as FDI when an enterprise owns 10% or more of the voting stock in another enterprise located in a state outside the investor's own (OECD 2008:48). Though, as acknowledged, this is not a perfect measure to suit our particular theoretical demands, the considerable size of the investment required in order to be counted as FDI does imply that much of what is observed in the data represents the foreign acquisitions and mergers of major firms (Vernon 1971; Strange 1996).<sup>5</sup> As such, if the hypothesized relationship does in fact exist, it should still be picked up here. These data were obtained from the United Nations Conference on Trade and Development FDI Statistics database (UNCTAD 2010), and are logged to account for skewness.<sup>6</sup>

Our independent variable of primary interest is a measure of human rights shaming by INGOs. This measure, taken from Murdie and Bhasin (2011), uses information from the Integrated Data for Event Analysis project (Bond, Bond, Oh, Jenkins and Taylor 2003; King and Lowe 2003) on the number of times in a year that the Reuters Global News Service reported shaming directed at a state by one of 432 human rights INGOs, as identified in the *Yearbook of International Organizations* and coded by Murdie and Davis (2012). These data represent an improvement over previous human rights INGO shaming measures, which have typically focused either on shaming by only one organization, Amnesty International (Hafner-Burton 2008), or have been limited to a single region of the globe (Franklin 2008). Furthermore, unlike previous measures, which have tended to treat INGO shaming and the media coverage of human rights abuses as separate issues, the measure utilized here focuses particularly on those INGO shaming events that were publicized by a widely read news service—Reuters. Thus, we believe this to be a suitable indicator of how well publicized a state's human rights violations are, as each such report is picked up by many media outlets around the developed world.<sup>7</sup>

An additional aim of this paper is to parse the various other theoretical mechanisms attributed to the general empirical effect of human rights conditions on FDI (Blanton and Blanton 2007, 2009). Thus, to further test the robustness of this relationship, extended models include two additional variables that may serve to more directly account for the stability and credibility of the long-term investment environment. The domestic instability variable is an index, which was constructed by summing the average magnitude measures associated with

<sup>5</sup> It may be the case, however, that investment in smaller states or emerging markets may not necessarily constitute such large sums of money. Corporations seeking to profit from rapidly growing markets may find a number of competing alternatives, thereby offering them a chance to invest in budding operations at comparatively low cost.

<sup>6</sup> Seventeen cases in our sample for which there are reported negative inward flows—indicating net aggregate divestment for the given country-year—are dropped from our analyses. This is primarily for two reasons: (i) as the data are highly skewed, we take the natural log of the measure, which necessarily excludes the negative values, and (ii) we suspect that there are very different things happening in these few cases that our model is not designed to explain.

<sup>7</sup> For a more extensive discussion of this variable and its construction, see Murdie and Davis (2012).

each of the four types of instability events identified by the Political Instability Task Force, including revolutionary and ethnic conflicts, adverse regime changes (drops of six or more points on the Polity scale within a 3-year period), and genocide/politicide (Marshall, Gurr and Harff 2003b). These average magnitude measures are each ordinal scales that range from 0 to 4, except for that associated with genocide/politicide, which ranges from 0 to 5, with higher values indicating greater destabilizing effects.<sup>8</sup> We expect domestic instability to exert a negative effect on new FDI inflows (Resnick 2001; Jensen and Young 2008).

The other is a measure of property rights, for which greater values indicate the extent to which these rights are protected and respected by the state. The variable is taken from the Economic Freedom of the World index, made available by the Fraser Institute (Gwartney, Hall and Lawson 2010).<sup>9</sup> Greater protection of property rights should associate positively with FDI (Li and Resnick 2003).

Alongside each of these, we also include the CIRI physical integrity rights index (Cingranelli and Richards 2011). This variable ranges from 0 to 8, with the former indicating no government respect for the rights to be free from torture, extrajudicial killing, political imprisonment, and disappearance, and the latter indicating full government respect for each of these rights. For those models in which we distinguish the effects of negative publicity, domestic instability, and property rights, we are agnostic as to the remaining independent explanatory power left to human rights.

The control variables used to fill out the rest of the model represent a fairly standard set of economic and sociopolitical factors that have been commonly identified in the existing literature as important determinants of FDI inflows (Jensen 2003, 2006; Li and Resnick 2003; Blanton and Blanton 2007; Büthe and Milner 2008). Domestic wealth is often believed to be important to foreign investors—especially among those whose primary motivation for investing abroad is to gain more direct access to local markets—as it is indicative of domestic consumer demand, capital market activity, and quality of infrastructure (Blanton and Blanton 2009). To capture this, we include an indicator of the level of national development, measured as the natural log of GDP/capita (PPP), and expect it to associate positively with FDI inflows. Many have also found higher rates of economic growth to be followed by greater FDI flows. Such growth may send positive signals about future prospects for profitability, which would certainly seem important to MNCs' long-term interests. We thus include economic growth, measured as the percentage change in GDP from the previous year (Blanton and Blanton 2007). The data for both of these variables were obtained from the World Bank's (2009) World Development Indicators.

Traditionally, FDI was often used as a means of skirting trade barriers and protectionist sentiment (Maxfield and Nolt 1990; Cox 1994). But today's MNCs are, by their very

nature, highly integrated in the global production structure and often rely on international trade channels to facilitate the movement of goods and services to and from other firms, and within their own multinational networks (Brooks 2005; Friedman 2005; UNCTAD Various Years). Thus, trade openness should exert a positive net effect on FDI flows. As customary, this variable is measured as the sum of total imports and exports, divided by the state's GDP (Jensen 2006; Blanton and Blanton 2007). This variable was obtained from the World Bank and is logged to account for skewness. Just as trade openness is thought to be important to foreign investors, so is openness to capital movement. We should expect that major firms operating internationally will prefer, and perhaps even require, the ability to move their capital around as they see fit. We include the Chinn-Ito Financial Openness Index, which measures the extent to which countries have liberalized cross-border financial flows (Chinn and Ito 2008).<sup>10</sup>

Foreign direct investment for the purpose of exploiting natural resources, though a much smaller proportion of total direct investment activity today than in generations past (Frieden 1994; Blanton and Blanton 2009), is still the primary aim for those companies in the extractive industries. As such, the total amount of resource wealth available in a country should serve to invite greater levels of FDI, all else equal. This is operationalized as the total share of national exports attributable to ore/metal and fuels. In contrast, a larger proportion of modern foreign investment is geared toward the production of manufactures for the purpose of export, or toward the sale of goods and services in the host market. In either of these cases, we should expect that investors will be attracted to countries with larger urban populations, which can serve to support the investors' demand for labor or consumption (Crenshaw 1991; Chan and Mason 1992). To capture this, we include the size of the urban population, logged to account for skewness.<sup>11</sup> Data for both of these variables were also taken from the World Bank's (2009) World Development Indicators database.

Recent research has demonstrated that, along with economic factors, sociopolitical considerations are also important to foreign investors. Deficit spending by governments is often thought to be unattractive to foreign investors, as it can have destabilizing macroeconomic consequences over the long term and can serve to crowd out private access to finance in domestic credit markets. As such, we expect government spending, measured as total government consumption relative to GDP, to exert a negative effect on FDI inflows (Jensen 2006). However, not all government spending is necessarily viewed as "bad," so long as it contributes to the advancement of available human capital (Blanton and Blanton 2007). Noorbakhsh, Paloni and Youssef (2001) find that greater human capital, in terms of educational attainment within a society, is

<sup>8</sup> Genocide/politicide is never actually observed within our estimable samples. As such, any non-zero value on the index variable indicates either revolutionary conflict, ethnic conflict, adverse regime change, or some combination of the three.

<sup>9</sup> More specifically, this is the chain-linked index for Area 2 of the EFW index, which pertains to the legal structure and security of property rights. Prior to 2000, this variable was only measured every 5 years. As such, values for all intervening country-years within these 5-year periods are linearly interpolated.

<sup>10</sup> Recent work has suggested that a state's integration into international institutions that promote greater economic openness can also have a positive effect on FDI flows. Thus, we conducted robustness checks to account for the potential effects of WTO membership, preferential trade agreements, and bilateral investment treaties on FDI inflows (Neumayer and Spess 2005; Büthe and Milner 2008). Our results remain substantively unchanged when including these variables. These tests can be found in the online appendix.

<sup>11</sup> Previous studies have alternatively used either total GDP (Li and Resnick 2003; Jensen 2006; Blanton and Blanton 2007) or total population (Chan and Mason 1992; Büthe and Milner 2008) to capture market size. As such, we conducted several robustness tests that include these measures in our models. Our findings remain unchanged. These robustness tests can be found in the online appendix.

attractive to foreign investors, as it indicates a skilled work force capable of efficiently learning and using the technologies associated with a given production process (Borensztein, De Gregorio and Lee 1998). Unfortunately, a considerable proportion of data on educational attainment across the broad selection of countries included in our analyses here is missing. We instead use the female life expectancy at birth as a proxy for the level of human capital in a society, in accordance with previous large cross-sectional studies (Blanton and Blanton 2007).<sup>12</sup> Both measures were obtained from the World Bank (2009).

Among the existing studies concerning the political determinants of FDI, political institutions have largely dominated the debate (Jensen 2003; Li and Resnick 2003; Li 2006). However, there has been considerable disagreement over the expected relationship between democracy and foreign investment inflows. On the one hand, autocrats enjoy the political flexibility to offer much larger concessions to prospective investors than can their democratic counterparts (O'Donnell 1978; Oneal 1994). On the other, democratic institutions can serve to greatly increase the long-term credibility of government commitments to maintain market-friendly policies, thus reducing uncertainty about the future (Olson 1993; Jensen 2006). Empirical findings have also been occasionally mixed, particularly when taken alongside direct indicators of respect for property rights (Li and Resnick 2003). As such, we do not adopt any strong directional expectations here. However, given its importance in the literature, we do include the Polity scale as a measure of democracy. We also include a measure of regime durability that captures the number of years since a change of three points or more on the Polity scale (Marshall, Jaggers and Gurr 2003a).

Lastly, we include a measure of existing FDI stock in the host economy, as well as a measure of total world FDI flows in a given year. The former is used to account for some of the time dependence in FDI flows resulting from both reinvestment by firms already established within a given country and the observed "follow the leader" tendencies in investment. The latter has often been used to control for the fluctuations in global business cycles, as well as the technological advancements, which affect the prospects for foreign investment across all countries (Li and Resnick 2003). Both measures were taken from the UNCTAD (2010) FDI Statistics database and are expected to associate positively with new FDI inflows.

With the exception of global FDI flows, all independent variables are lagged 1 year in our actual analyses. This serves as a means of dealing with possible endogeneity between FDI and the independent variables we are using to predict it, as well as to account for the time that elapses between when an MNC is shopping around for a potential host site and when it actually makes the new investment. Though the use of FDI as a dependent variable clearly calls for a linear model, previous studies have employed a variety of statistical techniques aimed at addressing the numerous problems that are often associated with using

cross-sectional time-series data.<sup>13</sup> Similarly, we adjust for heteroskedasticity and contemporaneous correlation of the disturbances using panel-corrected standard errors (PCSE), as suggested by Beck and Katz (1995). We also correct for any remaining first-order serial correlation not accounted for by the inclusion of the FDI stock and global FDI flows variables via Prais–Winsten transformation.<sup>14</sup>

### Analysis and Discussion

Table 1 displays the results of our three preliminary models of FDI inflows, as observed annually across all countries for 1994–2004. Model 1 serves as our base model, including only those measures that have typically been used to predict FDI (including human rights). The human rights variable is positive and significant, which is in line with the findings of previous scholars such as Blanton and Blanton (2007). Other control variables also perform as expected. Economic growth, development, and trade are all positive and significantly associated with higher levels of FDI inflows. Larger urban populations, human capital (proxied by female life expectancy), and democracy also seem attractive to MNCs. Finally, both the state's existing stock of FDI and total world flows of FDI are positive and significant predictors of new investment, as expected.

Model 2 expands upon the base model by adding our primary variable of theoretical interest—INGO human rights shaming. In accordance with our first hypothesis, INGO shaming is negatively correlated with FDI inflows and significant at the .01 level. More specifically, FDI into a state is estimated to decrease by about 4.4% with every publicized instance of human rights shaming. Interestingly, the human rights variable remains highly significant and positive, although the substantive effect has diminished slightly from the previous model. This seemingly supports the possibility that, even once we control for the spotlight effect, actual human rights conditions remain strongly and positively correlated with higher FDI inflows. Other control variables in the model perform in essentially the same way as in Model 1.

Model 3 builds further still upon the base model by including the shaming variable as well as measures of domestic instability and protection of property rights. While shaming continues to exert a significant negative effect on FDI inflows, the estimated size of this effect is actually larger once directly controlling for instability and property rights protection, with the model predicting that a 1 unit increase in shaming is associated with an approximate decrease of 5.2% in foreign investment. To better illustrate this effect, Figure 1 plots the predicted level of logged FDI inflows against INGO shaming events, as estimated across all countries using the estimates in Model 3 in Table 1 and setting all independent variables aside from shaming to their respective means. The line of prediction stops at 27, which is the highest value on the shaming variable in our data. Clearly, there is a negative slope, indicating that the more a state is shamed by a human rights organization, the less FDI they will receive in the following year. Indeed, our model predicts that an average state that is not shamed will receive approximately \$785 million in FDI the following year. However,

<sup>12</sup> Female life expectancy correlates with enrollment in secondary education at .85 across those observations for which data are available.

<sup>13</sup> For example, Jensen (2003, 2006) includes a lagged dependent variable on the right-hand side of the equation to account for serial autocorrelation; Blanton and Blanton (2007) use a random-effects estimator, and Büthe and Milner (2008) fixed-effects, to account for omitted country-specific factors; and Li and Resnick (2003) adjust for heteroskedasticity using PCSE in conjunction with AR(1) correction for serial correlation.

<sup>14</sup> We have checked the robustness of our results against many of the alternative methods utilized in other studies noted above, finding no identifiable difference in the performance of our variables of interest. These robustness checks are reported in the web appendix.

TABLE 1. Foreign Direct Investment (FDI) Flows—All Countries, 1994–2004

	(1)	(2)	(3)
	<i>FDI Inflows</i>	<i>FDI Inflows</i>	<i>FDI Inflows</i>
INGO Shaming		-0.0440 (0.0119)***	-0.0523 (0.0148)***
Physical Integrity Rights	0.0804 (0.0305)***	0.0790 (0.0295)***	0.0344 (0.0287)
Instability			-0.175 (0.114)
Property Rights			0.115 (0.0455)**
Capital Account Openness	0.0367 (0.0318)	0.0361 (0.0317)	0.00942 (0.0321)
GDP Growth	0.0272 (0.0101)***	0.0267 (0.0101)***	0.0240 (0.0118)**
ln Development	0.139 (0.0682)**	0.136 (0.0657)**	0.0767 (0.0515)
ln Trade	0.740 (0.178)***	0.729 (0.174)***	0.695 (0.154)***
ln Urban Population	0.633 (0.0745)***	0.635 (0.0746)***	0.627 (0.0769)***
Resources Exports	-0.000399 (0.00251)	-0.000499 (0.00247)	0.00161 (0.00264)
Government Consumption	-0.0137 (0.00885)	-0.0137 (0.00876)	-0.0194 (0.0134)
Female Life Expectancy	0.0191 (0.00961)**	0.0183 (0.00960)*	0.0291 (0.00717)***
Polity	0.0291 (0.0124)**	0.0288 (0.0123)**	0.0336 (0.0119)***
Regime Durability	-0.000313 (0.00230)	0.000404 (0.00237)	0.00101 (0.00138)
ln FDI Stock	0.529 (0.0663)***	0.535 (0.0654)***	0.494 (0.0595)***
World Flows	0.000314 (0.000133)**	0.000279 (0.000124)**	0.000430 (0.000139)***
Constant	-14.32 (1.739)***	-14.24 (1.727)***	-14.33 (1.624)***
Observations	1194	1194	1006

Panel-corrected standard errors in parentheses.

\* $p < .1$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$ .

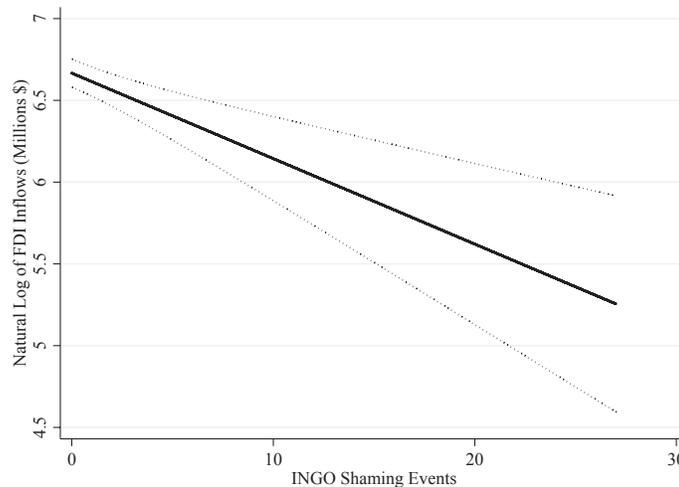


FIG 1. Predicted Effect of International Non-Governmental Organization (INGO) Shaming on Foreign Direct Investment (FDI) Inflows for All Countries, 1994–2004; 90% Confidence Intervals Shown.

if that same state is shamed once, it is predicted to receive about \$745 million in FDI; if it is shamed five times, it is predicted to receive approximately \$604 million in FDI; and if the state is shamed ten times, it is predicted to receive approximately \$466 million in FDI. Thus, it would seem that the decreases being predicted by our model are quite substantial indeed.

Instability itself does not exhibit a significant impact on FDI, but property rights are significant and positive at the .05 level, supporting our hypothesis that states who actively enforce the rights of private business will be more inviting to foreign enterprise. Perhaps the most interesting finding from Model 3 is that the human rights variable fails to attain statistical significance. The results indicate that once we specifically control for instability and the protection of property rights, respect for human rights weakens considerably as a direct determinant of

FDI. As a robustness check, we ran Model 3 once more with the instability and property rights variables, but without the shaming variable. These results show that human rights remains non-significant, and indicate that it is indeed the property rights and instability measures that are responsible for washing out the effect of human rights.<sup>15</sup> All other control variables continue to perform as in previous models.

To address the possibility that the effects of shaming on FDI will vary depending on the investment environ-

<sup>15</sup> Recognizing that the addition of our domestic instability and property rights measures results in a slight reduction in the number of observations, we also ran Models 1, 2, and 3 from Table 1 as nested models using only the observations capable of being included in all three specifications. The findings discussed above still hold; INGO shaming remains highly significant and negatively related to FDI inflows and physical integrity rights are significant and positively related to FDI in Models 1 and 2, but not in Model 3.

TABLE 2. Foreign Direct Investment (FDI) Flows Disaggregated by Development, 1994-2004

	<i>Models 1-3</i>			<i>Models 4-6</i>		
	<i>Developing States (Non-OECD)</i>			<i>Developed States (OECD)</i>		
INGO Shaming						
Physical Integrity Rights	0.0817 (0.0366)**	-0.0897 (0.0172)***	-0.118 (0.0260)***	0.110 (0.0458)**	-0.000627 (0.0129)	0.00336 (0.0130)
Instability		0.0784 (0.0349)**	-0.206 (0.120)*		0.112 (0.0457)**	0.0357 (0.0483)
Property Rights			0.159 (0.0818)*			-0.335 (0.168)**
Capital Account Openness	0.0429 (0.0373)	0.0419 (0.0376)	0.0370 (0.0430)	0.0465 (0.0843)	0.0452 (0.0829)	0.221 (0.0747)***
GDP Growth	0.0227 (0.0102)**	0.0215 (0.0101)**	0.0148 (0.0117)	0.0468 (0.0172)***	0.0468 (0.0173)***	0.0138 (0.0802)
In Development	0.152 (0.0684)**	0.148 (0.0639)**	0.0729 (0.0496)	-0.0812 (0.405)	-0.0835 (0.346)	0.0415 (0.0160)***
In Trade	0.672 (0.206)***	0.661 (0.203)***	0.475 (0.176)***	0.899 (0.227)***	0.895 (0.223)***	-0.470 (0.404)
In Urban Population	0.653 (0.0805)***	0.654 (0.0813)***	0.649 (0.0910)***	0.587 (0.156)***	0.583 (0.155)***	0.898 (0.220)***
Resource Exports	-0.000952 (0.00256)	-0.00112 (0.00252)	0.00132 (0.00288)	0.00331 (0.00526)	0.00325 (0.00523)	0.577 (0.146)***
Government Consumption	-0.0188 (0.0101)*	-0.0184 (0.0102)*	-0.0286 (0.0164)*	0.0474 (0.0187)**	0.0473 (0.0184)**	0.00338 (0.00473)
Female Life Expectancy	0.0213 (0.0109)*	0.0208 (0.0110)*	0.0300 (0.00914)***	-0.0218 (0.0381)	-0.0216 (0.0385)	0.0384 (0.0179)**
Polity	0.0258 (0.0114)**	0.0251 (0.0115)**	0.0384 (0.0131)***	-0.0663 (0.0675)	-0.0679 (0.0670)	-0.0132 (0.0420)
Regime Durability	-0.00189 (0.00614)	-0.00125 (0.00617)	0.00788 (0.00323)**	0.00280 (0.00149)*	0.00279 (0.00147)*	-0.0705 (0.0714)
In FDI Stock	0.527 (0.0722)***	0.535 (0.0715)***	0.501 (0.0745)***	0.580 (0.132)***	0.584 (0.131)***	0.000878 (0.00146)
World FDI Flow	0.000192 (0.000165)	0.000134 (0.000149)	0.000277 (0.000166)*	0.000677 (0.000150)***	0.000674 (0.000151)***	0.602 (0.121)***
Constant	-14.34 (1.896)***	-14.23 (1.921)***	-13.88 (1.921)***	-10.29 (4.704)**	-10.25 (4.640)**	0.000728 (0.000119)***
Observations	893	893	705	301	301	-8.006 (4.567)*

Panel-corrected standard errors in parentheses.

\* $p < .1$ ; \*\* $p < .05$ ; \*\*\* $p < .01$ .

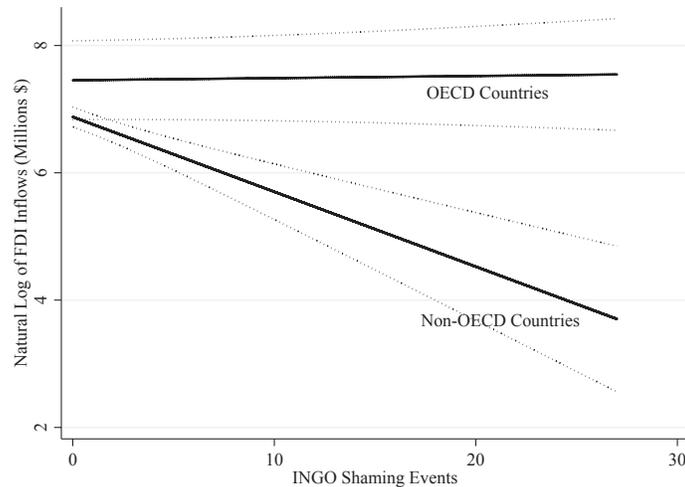


FIG 2. Predicted Effect of International Non-Governmental Organization (INGO) Shaming on Foreign Direct Investment (FDI) Inflows for Developing and Developed States, 1994–2004; 90% Confidence Intervals Shown.

ment, that is, emerging versus developed markets, we rerun the models from Table 1, but this time we split the sample into OECD and non-OECD states. These results are reported in Table 2.

Some interesting results emerge from these models. First, comparing the base models in Table 2 (Models 1 and 4), we can see that human rights remain positive and significant in both models, indicating that greater government respect for human rights is associated with greater FDI inflows for both developing and developed states. Second, some differences do emerge between developing and developed states that are worth noting. Economic development ceases to be associated with FDI inflows in the developed states model (Model 4). Government consumption is significant and negatively associated with FDI inflows for developing states, but positive and significantly associated with FDI inflows for developed states. Similarly, female life expectancy and Polity are positively and significantly associated with FDI inflows for developing states, but fail to attain significance in the developed states model. These results lend support to the notion that there may indeed be important underlying differences in the processes generating investment flows into these different markets, and that they ought to be modeled accordingly (Büthe and Milner 2008).

Models 2 and 5 add the INGO shaming variable to the base models for developing and developed countries, respectively. Shaming is highly significant and negatively associated with FDI inflows in Model 2, indicating that developing states targeted for human rights shaming may subsequently suffer approximately 9% less FDI with each such publicized event, all else being equal. In contrast, shaming appears to have no statistically significant effect on FDI inflows for developed states. Actual human rights conditions remain positive and significantly associated with FDI inflows in both subsamples.

In order to test our hypothesis regarding the different magnitude of the INGO shaming coefficients, we conduct a difference of means test.<sup>16</sup> The difference of means test for Models 2 and 5 generates a  $z$  statistic of  $-4.143$ , indicating that we can reject the null hypothesis that the

shaming coefficients produced by the two models are statistically indistinguishable. This finding supports our hypothesis that human rights shaming has a substantively greater effect for developing states.

Models 3 and 6 introduce the instability and property rights protection variables into the models for both subsamples. Again, we see the shaming variable is highly significant and negatively correlated with FDI inflows for developing states. According to Model 3, a one-unit increase in shaming is associated with a decrease of approximately 12% in FDI inflows for the following year. However, INGO shaming has an insignificant effect on expected FDI into the more developed OECD states. Again, we conduct a  $z$  test to determine whether or not the coefficients on the shaming variables are statistically equivalent. The difference of means test for Models 3 and 6 returns a  $z$  statistic of  $-4.175$ , lending further support to our hypothesis that MNCs will be more sensitive to human rights shaming when choosing among potential hosts in the developing world.

Figure 2 graphs predicted levels of logged FDI inflows, using the estimates derived from Models 3 and 6 in Table 2 and setting all independent variables aside from INGO shaming to their respective overall sample means. As such, Figure 2 illustrates more clearly the differences that emerge when we divide our sample into subgroups by level of economic development. The impact of shaming on developed states is clearly negligible and is never statistically distinguishable from zero.<sup>17</sup> In contrast, we can see the predicted level of FDI flows into developing states is strongly and negatively effected by each instance of publicized shaming. Comparing Figure 1 with Figure 2, it is evident that the results in the former are being driven primarily by the effect of shaming on developing states in particular.

Also interesting is the fact that in our predicted values, there is some area at the lowest levels of shaming where the effect of shaming is statistically indistinguishable for

<sup>16</sup> We draw on Paternoster, Brame, Mazerolle and Piquero's (1998) formula for testing the statistical equivalence of regression coefficients across different samples.

<sup>17</sup> Although not statistically significant, there is a slight upward trend in the relationship between INGO shaming and FDI. We ran our analyses again for developed states, but excluded the United States and England, who are by far shamed the most in our sample. Dropping these two outliers from our sample does not have any impact on the insignificance of the shaming variable for the developed subsample.

the two subsamples. However, it is unlikely (though not impossible) that two perfectly identical states would ever exist in both the developed and developing county samples and, even if they did, differences emerge when additional instances of shaming toward a given state are introduced. The highest value for shaming that we see in our data for developing states is 15 (as compared to 27 for the developed states in our sample), and there are several other instances of shaming falling in the 10–15 range across numerous countries. So, *ceteris paribus*, for any value of shaming that we can realistically expect to see in our sample, there is evidence indicating that the differences in the effect of shaming on FDI flows between the two subsamples are statistically significant. Furthermore, we can also say that the effect of shaming for developing states is not being driven by a couple of outliers.

In addition to the INGO shaming variable, we find some other interesting results in comparing across the disaggregated models. In both the developing states and developed states models, we find that the inclusion of the instability and property rights measures result in human rights losing its statistically significant relationship with FDI inflows. Both instability and respect for property rights perform as we hypothesize. As a robustness check, we again ran each of the full models for developing and developed states without the shaming variable. These results indicate that the effect of human rights remains insignificant, while the instability and property rights variables remain significantly associated with FDI inflows and in the expected directions. These results are fairly robust and further suggest that instability and the state's respect for property rights account for a considerable proportion of the effect previously attributed to human rights.

Table 3 contains two additional models wherein we use two alternative measures of instability to predict FDI flows. Since the previous estimates indicate that the effect

of shaming was strongest for developing states, we include only developing states in the models for Table 3. Model 1 utilizes the Banks composite instability measure (Banks 2011), while Model 2 utilizes the PRIO civil war variable (Gleditsch, Wallensteen, Eriksson, Sollenberg and Strand 2002) as a measure of domestic instability.

These models serve two important functions. First, they further illustrate the robustness of the shaming variable to various model specifications. In both models, INGO shaming is significantly and negatively associated with FDI flows to developing states. Second, both models in Table 3 find that human rights is significant and positively related to FDI flows. While respect for property rights is positive and significant in both models, only the PRIO instability measure in Model 2 proves to be significant and negatively related to FDI flows. Consequently, these results provide some basis on which to suspect that, even when we control for instability and property rights, human rights is still positively associated with foreign investment. This finding is also somewhat puzzling as previous studies have typically attributed this positive relationship to the possibility that human rights simply serve as a proxy for variables that had not yet been controlled for, like negative publicity, domestic instability, and respect for property rights. The fact that human rights may continue to exhibit a positive and significant association with FDI once we control for these other factors indicates that it may in fact have some independent effect of which scholars have heretofore been unaware.

## Conclusions

This study produces several interesting findings with important implications. First, human rights shaming by INGOs proves to be negatively and significantly correlated with FDI inflows across several different model specifications, yielding a highly robust finding. Furthermore, shaming appears to have the strongest deterrent effect on new investment in developing states. Whereas previous studies of INGO efforts have focused primarily on whether or not shaming could elicit positive changes in the human rights practices of the targeted states (Franklin 2008; Hafner-Burton 2008), this study looks beyond the direct and intended consequences of INGO shaming to examine one potential mechanism by which those consequences are derived. While some studies have noted that the impact of INGO efforts is greatest when they result in the shaming of the target state by third-party states (Murdie and Davis 2012), it may be the case that INGOs are able to exert additional leverage on the shamed states through their impact on foreign investment. Given that developing countries often have much more to gain from FDI than do developed states, they may be more vulnerable to shaming-induced fluctuations in foreign investment.

Second, and of broader theoretical interest, this study explores the interplay between nonstate actors, treating the state as more of a battleground than a primary actor. Although the state is undoubtedly an important player in this process, we demonstrate that the efforts of INGOs can have an identifiable impact on the investment decisions of MNCs. That is, INGOs are capable of manipulating the costs, and the perceived risk of future costs, that may be imposed on international investors by publicizing poor human rights practices. Indeed, the publicity given to human rights abuses by global activists seems to have a much more stable effect on investment patterns than

TABLE 3. Alternative Instability Indicators—Developing State Foreign Direct Investment (FDI) Flows Only

	(1)	(2)
	<i>Banks Instability Measure</i>	<i>PRIO Instability Measure</i>
INGO Shaming	-0.122 (0.0300)***	-0.116 (0.0296)***
Physical Integrity Rights	0.0734 (0.0319)**	0.0665 (0.0324)**
Instability	-0.0000109 (0.0000322)	-0.511 (0.278)*
Property Rights	0.162 (0.0810)**	0.157 (0.0772)**
Capital Account Openness	0.0388 (0.0442)	0.0355 (0.0427)
GDP Growth	0.00855 (0.00936)	0.00961 (0.00937)
In Development	0.0706 (0.0518)	0.0725 (0.0516)
In Trade	0.409 (0.157)***	0.418 (0.153)***
In Urban Population	0.601 (0.0748)***	0.608 (0.0702)***
Resource Exports	0.000529 (0.00293)	0.000862 (0.00290)
Government Consumption	-0.0300 (0.0173)*	-0.0291 (0.0170)*
Female Life Expectancy	0.0324 (0.00817)***	0.0318 (0.00845)***
Polity	0.0293 (0.00932)***	0.0303 (0.00900)***
Regime Durability	0.00502 (0.00260)*	0.00580 (0.00266)**
In FDI Stock	0.527 (0.0712)***	0.521 (0.0714)***
World FDI Flows	0.000205 (0.000175)	0.000225 (0.000170)
Constant	-13.21 (1.574)***	-13.28 (1.486)***
Observations	698	699

Panel-corrected standard errors in parentheses.

\* $p < .1$ ; \*\* $p < .05$ ; \*\*\* $p < .01$ .

actual human rights conditions themselves. While the state is certainly far from irrelevant, these findings suggest that globalization has led to the empowerment of other actors, and that their actions may have very real consequences not only for states, but for each other as well.

Consequently, further research on this interplay between nonstate actors is necessary. As we previously discussed, the content of shaming and the content of investment exhibit substantial variation. While we do attempt to unpack some of this variation by splitting our sample between developing and developed states, more nuanced tests could be developed when more refined and disaggregated data become available. For example, it may be the case that the effect of shaming varies across companies or industries. Manufacturers of finished consumer goods might be especially vulnerable to this kind of bad publicity, given the relative ease with which consumers can tie the name of the company or industry to the products they produce. Alternatively, those in the business of harvesting raw materials may be less sensitive to shaming-related pressures, given that their products—often mere components of finished goods—are less visible to the average consumer. Thus, different MNCs may be more or less willing to invest in states with poor human rights records depending upon the expected risk that bad publicity poses to their respective bottom lines. Research on these more specific questions could provide useful insight into the underlying processes that are driving our general findings here.<sup>18</sup>

Third, this study adds to a growing literature on the ability of nonstate actors to impose costs on human rights violators (Keck and Sikkink 1998; Murdie and Bhasin 2011) and, more broadly, the possibility of enforcing international human rights law (Landman 2005; Hafner-Burton 2008). Previous work has been less than sanguine about the ability of international human rights treaties to improve governments' human rights practices (Keith 1999; Hathaway 2002; Hafner-Burton and Tsutsui 2005). Furthermore, human rights sanctions have been found to diminish respect for human rights in the states where they are imposed (Wood 2008; Peksen 2009); and military intervention, though rarely used for the enforcement of human rights, has the potential to do more harm than good. Therefore, our findings, when taken alongside other recent research on human rights INGOs (Murdie and Bhasin 2011; Murdie and Davis 2012), further illustrate the degree to which INGO activities could be among the most effective mechanisms for human rights enforcement currently available in the international sphere.

Fourth, while we find some remaining evidence supporting the positive association between human rights and FDI, our results suggest that scholars should further refine this theoretical linkage. The positive effect of human rights conditions on FDI found in previous studies seems most attributable to human rights serving as a proxy for other causal factors, such as domestic instability or government enforcement of property rights. Having controlled for these directly here, we find that human rights remain positively associated with FDI in many of

our models and significantly so under certain specifications. Thus, future research is required to better understand this relationship, both from an empirical standpoint and from a theoretical standpoint.

Finally, although the property rights measure we employ is positive and significant in all models, the relationship between our instability measures and FDI is highly sensitive. While we believe the general theoretical relationship between instability and FDI posited by previous scholars is a sound one, our results also suggest that scholars should develop a more nuanced approach to gauging the effect of instability on the investment behavior of MNCs. While all of the measures we use capture "instability," this is in fact a broad category that could be further disaggregated. Different types of instability may have varied consequences for different types of investment, and future research could go a long way toward providing better insight into these distinct relationships.

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<sup>18</sup> Furthermore, while our paper focuses on violations of physical integrity rights and their relationship to shaming, it is quite possible that INGO shaming may be directed at other human rights practices, such as respect for economic rights and labor standards. If MNCs respond to some forms of shaming more than others, there may also be interesting findings to be derived from the further disaggregation of INGO shaming activities.

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