Chinese OFDI Sensitivity to Host Nation Human Rights Repression: a Comparative Analysis

**Ben Simons\***

**Brent Burmester**\*\*

Department of Management and International Business

Faculty of Business and Economics

University of Auckland

Private Bag 92019

Auckland

NEW ZEALAND

Tel: +64 9 923 4559

\* b.r.simons18@gmail.ac.nz

\*\* b.burmester@auckland.ac.nz (Corresponding author)

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# Abstract

Strategic preferences of multinational enterprises (MNEs) vary with home nationality, and studies confirm that Chinese MNEs exhibit traits uncharacteristic of developed competitors. It is posited that MNE country-of-origin affects sensitivity to human rights conditions in the host-nation, a factor known to influence foreign direct investment (FDI) location preference. Accordingly, two prominent FDI source nations, China and the USA, representing presumed extremes in terms of human rights sensitivity, are singled out for comparison. Using FDI inflow data from 51 developing countries, the responsiveness to human rights repression is analysed for total, Chinese, and US FDI. While total FDI from exhibits a discernible aversion to human rights repression, a weaker aversion is detected in the case of aggregate Chinese FDI and disaggregated non-financial FDI. No significant relationship is discerned between human rights repression and US FDI. The implications of these results are discussed.

**Keywords**

Foreign direct investment, human rights, country of origin, China, USA

# 1. INTRODUCTION

Brecher and Reisman (1957), investigating Canada’s attractiveness as a host nation to foreign direct investment (FDI) from the United States (US), found that understanding FDI location choice called for analysis of both its destination *and* its origin. Crucially, they stressed that in respect of national social institutions and attitudes multinational enterprises (MNEs) are attracted by similarity between the host and their home nation: the more different two home nations, the greater the divergence in their MNEs’ FDI location decisions. This reasoning suggests that in the realm of FDI location selection, MNEs from countries as dissimilar as China and the US should behave quite differently.

At the time of Brecher and Reisman’s study, and for another three decades, FDI home-nations consisted of a handful of industrialised states that could be treated as more or less homogenous and invariant. As such, the attributes of FDI source countries were less interesting to researchers than those of the diverse group of FDI destination states*.* Over fifty years later, however, developing and emerging-market nations account for over a quarter of global FDI outflows, more than double their share of total outflows in 2000 (UNCTAD, 2012). Indeed, the range of nations from which FDI emanates is much wider today than at any time in the past. Observing the new geographical diversity of FDI source nations, scholars increasingly lay stress on home-nation culture as a determinant of managerial attitudes and expectations, making investor nationality a conditioning factor in outward investment behaviour (Buckley et al., 2007; Child and Rodriguez, 2005;  Mathews, 2006).

Meanwhile, FDI location researchers continue to expand the range of potential host nation characteristics influencing location choice. Conventional determinants, such as economic size, growth, infrastructural development, and income per capita are augmented by the institutional lineaments of the host society, such as degree of democracy, corruption, the rule of law, and, of principal interest in the present study, human rights repression (e.g. Blanton & Blanton, 2007; Busse, 2004; Harms & Ursprung, 2002). In this nascent field of research there is speculation that investor nationality plays a role in how MNE respond to international variation in rights repression. Blanton and Blanton (2012) posit that, where human rights are concerned, Chinese investors behave unlike their counterparts from more established source-nations, such as the United States (US). The Blantons suggest that MNEs from these two nations exhibit different sensitivities to human rights in FDI location choice, because of the differences in the views held on human rights in the two countries. Tuman (2006) offers some insight as to how these views are framed. He identifies influential home country factors such as the political party in power; the level of bureaucratic intervention in outward investment decisions; corporate governance structures; and the strength of ‘social movements’. In each of the aforementioned dimensions China is an obvious outlier amongst the major FDI source nations.

The present study looks for evidence that MNE nationality moderates the influence of human rights protection as a locational attractant by comparing outward FDI (OFDI) flows from China and the US to developing nations. These two source nations are repeatedly juxtaposed in the literature, and justifiably so, given their very different public positions and historical records on human rights. This is perhaps most evident in the different voting conduct of the two states in United Nations (UN) General Assembly on resolutions regarding country-specific human rights situations. Where the US advocates universalism and persistently condemns human rights violations in other member-states through UN resolutions, China refuses to admonish repressive states and unswervingly opposes country specific resolutions on human rights (Kent 1999; Foreign Ministry, 2009).

Before turning to a description of data, method and analysis, the paper begins with a short background to human rights, followed by a review of research on the FDI-rights relationship. It then discusses the potential impact of nationality on MNE decision-making, paying particular to US and Chinese nationality. The paper ends with a discussion of the analytical findings and makes some suggestions regarding their implications for strategy, policy, and research.

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# 2. HUMAN RIGHTS AND THEIR REPRESSION

Human rights, unlike legal or contractual rights, derive not from citizenship, location, or bargaining, but from humanness itself (Donnelly, 2003; O’Byrne, 2003). Human rights are therefore considered *universal*, in that they apply to all persons everywhere; *inalienable*, that is, they are innate and absolute, and not grants from governments; and *subjective*, in that they are the entitlements of individual subjects by virtue of their rationality, autonomy and agency (O’Byrne, 2003). Human rights, understood from a both a moral and juristic perspective, are of *paramount importance*, in that their deprivation is seriously antagonistic to justice (Cranston, 1967). Precisely what humans are entitled to by virtue of their humanity, and who is duty-bound to see they get it, is still vigorously contested in philosophical, legal, and political circles. For now we note four violations of personal integrity deemed sufficiently uncontroversial to constitute a working measure of rights repression. These are political imprisonment, torture, extra-judicial killing, and disappearances, which constitute the main categories used in the increasingly popular Cingranelli-Richards (CIRI) Index (Cingranelli and Richards, 2012). The deprivations of life, association, freedom of thought and expression, and physical well-being inherent in these acts effectively convey the indignities human rights advocates argue no person should suffer.

Human rights protection is regarded as a fundamental responsibility of nation-states, but the extent to which that protection is afforded varies significantly between them. This is clearly demonstrated by one of the most recent metrics developed to measure and compare governmental respect for human rights, the Latent Human Rights Protection (LHRP) scores, ranging from -5 to 5. These show a 2010 mean, rounded to two decimal places, of 0.83 with variation between a high of 4.69 for Luxembourg and a low of -2.36 for Sudan. In this metric, the multi-period persistence of repression (or otherwise) contributes cumulatively to the computed value in a given year, which implies that Luxembourgers have lived without fear of grievous human rights violations for decades. In 2010 on this scale China and the US held at a fairly steady -1.40 and 0.38, respectively (Fariss, 2014). It is noteworthy that this most recent US score is well off the country’s 1982 post-war high of 2.12, a reminder that assumed truths about a country’s human rights position are liable to obsolesce.

The variance in levels of human rights repression amongst nation-states has been repeatedly shown to correlate to their adherence to democracy, international openness, and levels of economic development (Hafner-Burton & Tsutsui, 2005). However, repression can also be a matter of political expedience, such that it is to the advantage of a government to commit or allow rights violations, and in this connection it is important that state history of repression is also an excellent predictor thereof (Hafner-Burton, and Tsutsui, 2005). In other words, states can be habituated to the commission or tolerance of repressive acts.

Systematic human rights violations might be rationalised by a state’s rejection of the universalism deemed inherent to certain rights claims, or an idiosyncratic view of the state’s duties implied by certain rights. This idea has particular resonance in this study due to the fact that Asian states, led by China, are vociferous in their objection to a perceived Western bias in the definition and prioritisation of human and civil rights. This position is articulated in the 1993 Bangkok Declaration, which emphasises the interdependence and equal status of all categories of rights, implying that the UN’s 1948 Universal Declaration on Human Rights (UDHR), the pre-eminent international statement on the subject, over-prioritises civil and political rights to the neglect of social, economic and cultural rights (Bangkok Declaration, 1993). In Article 8 it admits that human rights are universal ‘in nature’, but that national, regional, historical, cultural, and religious contexts modify their operability. For example, proponents of the Bangkok Declaration argue that some human rights repression may be justifiable to enable poorer countries to grow their economies, from which many political goods might develop (Freeman, 1996).

Jack Donnelly, a senior scholar in the human rights field, agrees that there is room for distinctively Asian, Islamic, or other interpretations of human rights and ways of implementing them, but insists that the core concepts of such rights remain invariant: countries cannot simply pick and choose between internationally-recognised rights (Donnelly, 2003). For all its imperfections, Donnelly maintains the UDHR represents the global community’s collective effort to determine the social and political guidelines for humanity, and it cannot permit selective ‘opting out’ by any state. In this light the Bangkok Declaration pertains to interpretation and implementation of human rights law, and does not provide a basis to exempt states from obligations recognised in international human rights treaties (Engle, 2000).

# 3. FDI LOCATION AND HUMAN RIGHTS

*3.1 Theory*

Why should host-nation human rights repression matter to MNEs? A common assumption is that it does not matter; instead, rights repression is read as an indicator of political risks such as civil unrest, organised crime, terrorism, corruption, and government instability (*cf* Reznick, 2001; Barry *et al.*,2012). Thus, the conduct of a government in the sphere of human rights acts as a proxy for the credibility of government commitments to maintain order (Blanton and Blanton, 2007; 2009). Tellingly, when Barry *et al.* (2012) include measures of government instability and property rights in their empirical model of inward FDI flows, they find that human rights repression loses its significance as a determinant. However, the specification of the instability variable is crucial here, and human rights remain influential alongside property rights and instability when alternative measures are tried. Thus, it remains unclear that human rights matter *only* in their role as a proxy for less visible location-specific conditions.

The second commonly cited explanation for a relationship between FDI and human rights refers to the need for an MNE to maintain legitimacy and thus to avoid the ‘spotlight’ of negative publicity that might come with an association with human rights abuses. In this view, MNEs are not impressed by the claim that they bear a duty to ensure rights are honoured, but they are conscious of the persuasiveness of that claim to key stakeholders, including consumers, the media, value-chain partners, governments, non-government organisations, and inter-government organisations. MNEs are expected to steer clear of host states with a poor rights record so as not to stimulate various forms of retributive action these stakeholders might take where they believe firms are in violation of their responsibilities (Spar, 1998; 1999; Blanton and Blanton, 2007). Barry *et al.* (2012) remark that MNEs are likely to be variably sensitised to this kind of external pressure: consumer goods manufacturers might be more vulnerable than raw materials harvesters. Confirmation of this variability can be seen in the pattern of MNE withdrawal from Burma in the 1990s, as brand name companies like Pepsi and Levi-Strauss responded to public pressure to exit, whereas far less well-known companies in the oil exploration industry were content to remain in situ.

Might MNEs accept a private duty to respect human rights? If this were the case MNEs would not knowingly commit violations, or invest in countries where such violations are necessary to retain firm-level competitiveness. Even where private violations were not necessitated, MNEs would deem it irresponsible to operate in proximity to state and non-state repression, especially if they cannot offer any form of amelioration, or risked indirectly empowering the repressive state by economic transfers or giving the appearance of tacit endorsement of its conduct. There is no suggestion that MNEs have a duty to seek out and correct rights violations committed by other actors. However, faced with a repressive host, an MNE might argue that its operations, in addition to yielding private benefits, could attenuate state and non-state rights repression either by setting an example of respectful conduct, or by directly or indirectly imposing dissuasive scrutiny on the repressive regime. The decision of the MNE to invest when faced with a repressive host in which it is not itself implicated in repression might depend on the influence it judges its presence will exert on repressive actors.

The extension of duties to MNEs may be opposed on the grounds that international law treats states as the exclusive bearer of human rights obligations. To some scholars, the point of human rights is the elimination of egregious abuses of state power, and the UN has certainly given weight to this perspective as the prime mover in this domain (*cf* Frey, 1997). In this view, the ascription of a non-violation duty to non-state actors is unreasonable, and one should not suppose MNEs would make such an ascription to themselves. Clapham (2006), however, observes that the UDHR does not single out any particular bearer of duties in respect of the rights it defines. Other human rights scholars dismiss this objection by arguing that private duties are a moral - not legal - imperative and the jurisprudential implications need pose no obstacle to their acceptance by any moral actor (*cf* Teubner, 2006).

Spar and La Mure (2003) observe that academic models often neglect the fact that managers have lives outside of the firm - they have families, may profess religious beliefs, and they live in communities upholding particular values. It could be that MNE managers generally sympathise with human rights causes, and refuse to operate in repressive nations for ethical reasons. Socialisation may cause executives to sympathise with certain causes and take steps to incorporate ethical principles in their business conduct. Some companies have adopted ethical investing principles, explicitly recognising human rights. The Dutch insurance and investment giant Aegon, for example, introduced a “socially-responsible” investment fund, where it screens investment candidates for their societal impact and involvement in repressive countries (Aegon Group, n.d.).

*3.2 Evidence*

Overall, the empirical literature on the deterrent effect on MNE investment of human rights abuses in host countries is mixed. Some studies find that better human rights practices attract FDI, while others find that the promotion of human rights in a host state has a chilling effect on investment inflows. Still others find no systematic relationship. However, the preponderance of evidence, and the most recently adduced, points to a positive relationship, and it is with that set of studies this review begins.

To begin with the affirmative studies, Harms and Ursprung (2002) show that both political rights and civil liberties are positively and significantly related to per-capita FDI inflows to 62 developing and emerging-market nations over the years 1989–1997. Testing the same model, Busse (2004) expands the study period (1972–2001) and the number of countries analysed (69), and reaches the same conclusion. However, during the 1970s and 1980s the link between FDI and rights is statistically insignificant, suggesting that MNEs in this period were indifferent towards host-state protection of human rights. In contrast, the period of 1991–2001 shows a strong positive relationship between FDI inflows and host-country rights, possibly a function of the Internet and NGO activism increasing public scrutiny of MNE operations.

Blanton and Blanton (2006) use the Political Terror Scale (PTS) to measure human rights repression. Controlling for ‘political constraints’ (i.e., the extent to which changes in government policy are constrained), population, GDP per capita, economic growth, trade openness, government consumption and resource wealth, the Blantons find a significant and positive relationship between rights and the size of US MNEs investments. In a follow-up study, Blanton and Blanton (2007) find that human rights protection has a positive and statistically-significant effect on aggregate FDI inflows. Blanton and Blanton (2009) extend their analysis to consider the moderating impact of sectoral specialisation on the relationship between inbound FDI from the US and host-country civil rights. Employing alternately both the Cingranelli-Richards (CIRI) index and PTS as the independent rights variable, they find that no significant relationship between *aggregate* US FDI and civil rights in the host, but discern that host-country respect for rights matters to market-seeking investors needing higher skilled labour and requiring greater integration with host society (e.g. chemicals and finance).

Again using US-sourced FDI stock as the dependent variable, Blanton and Blanton (2012) expand the scope of human rights to include both personal integrity rights and labour and education rights. They divide investments into “low-skill” and “high-skill” categories and categorise host country conditions in terms of the risk they might change contrary to the investor’s interest. Their results suggest that US FDI across all sectors and risk-levels favours host countries with strong respect for education. However, neither personal integrity nor labour rights are statistically significant for aggregate FDI. Personal integrity rights only appear influential for MNEs facing a low risk of post-entry deterioration in investment conditions. The authors suggest that industries with high mobility and greater locational freedom prefer to locate in host nations with greater respect for human rights.

The studies discussed above are cautious with regard to what might link FDI to human rights. They do not claim rights are only important in their role as a proxy, but never discount that possibility, either. Evidence that the spotlight effect might drive MNE reactivity to human rights remained anecdotal until an innovative study by Barry *et al.* (2012). These authors show that international NGO (INGO) campaigns to shame violating states to result in a significant fall-off of inward FDI flows. This indicates a genuine sensitivity to non-market sanctions by MNEs, although, intriguingly, that sensitivity is lacking with respect to FDI in developed hosts. It is salient that this study, using multiple model-specifications, finds INGO shaming of human rights abusers more reliably associated with FDI inflow to a host than human rights repression itself. Given this result, it is likely that NGO campaigns targeting investors, rather than transgressing states, would be even more effective in their deterrent effect, at least so far as FDI to developing countries is concerned.

A related line of research focusses strictly on the influence of labour rights on inward FDI. While labour rights are conceptually distinct from human rights, some of the host-country conditions captured in these studies overlap with human rights, such as prohibition of child labour. Kucera (2002), for example, measures the impact of adherence to the International Labour Organisation’s core labour standards on FDI inflows, and finds no evidence that lower labour standards serve to attract greater levels of FDI. This result is supported by Busse and Braun’s (2004) analysis of child labour and MNE location decisions. These authors propose that the growing global agenda of NGOs since the 1980s to highlight the controversy could be behind this result. Busse *et al.* (2011) examine the exercise of labourers’ rights to organise, bargain collectively and take industrial action, and conclude that FDI gravitates towards countries with strong protection of such rights, regardless of the country’s size and income level. Grouping these studies together, it seems MNEs are generally sensitive to the issue of labour rights when choosing an investment site.

As noted, some researchers find no positive relationship between host-country human rights protection and inbound FDI. Tuman and Emmert (2004), for example, analyse the determinants of US foreign investment in Latin American countries between 1979 and 1996, including human rights (a composite measure of the Freedom House political rights and civil liberties ratings). Controlling for economic and political variables, human rights protection shows a negative association with US FDI in Latin America. In a qualitative analysis of FDI location, Biglaiser and Staats (2010) survey US executives investing in Latin America on their prioritisation of host-nation characteristics. Protection of property rights, a strong legal framework, an effective court system and political stability were the most important factors. On the other hand, factors such as human rights conditions, the macroeconomic environment and democracy, were thought less relevant. Biglaiser and Staats argue that these aspects are not directly linked to investment risk. They suggest that, above all else, (US) MNEs favour particular institutions that provide assurance and protection of their investments, which may not necessarily fall under benign regimes.

As much remains unclear about the causal mechanisms at work, and in light of the ambiguity surrounding the effect of human rights protection on MNE decision-making, we posit that there is a discernible relationship, but allow for two opposing outcomes:

*H1a: Inward FDI is negatively associated with host-nation repression of human rights.*

*H1b*: *Inward FDI is positively associated with host-nation repression of human rights*

# 4. THE INFLUENCE OF INVESTOR NATIONALITY

Corporate nationality is more than just a label: it is the product of “historical experience and the institutional and ideological legacies of that experience, both of which constitute the essential structures of states” (Pauly & Reich, 1997, p. 4). From inception firms are subject to constant pressure to exhibit isomorphism with home nation values, norms, and organisation (DiMaggio and Powell 1983). Consequently, there are strong national influences on corporate strategy, and persistent differences in how firms from dissimilar home environments behave abroad. Nationality affects a range of managerial decision-making patterns, including negotiation style (e.g., Campbell, *et al.*, 1988; Adler, *et al.,* 1992); approaches to international marketing (e.g., Tse, *et al.,* 1988); foreign affiliate ownership preferences (e.g., Kogut & Singh, 1988; Erramilli, 1996); internal governance and financing structures (Pauly & Reich, 1997); and overall global strategy (Yip et al., 1997).

At issue here is whether an MNE’s nationality moderates any causal relationship between host country human rights repression and investment location preference. MNE decisions are certainly influenced by home-country institutions or the ‘rules of the game’ at home (Pauly & Reich, 1997; Buckley et al., 2007). Cultural values and institutions provide legal and political foundations and define what constitutes acceptable behaviour for both individuals and organisations (Adler, 1991; Lenway & Murtha, 1994; Sethi & Elango, 2000). Home-country influences thus become embedded in MNEs and bear upon the cognitions and norms surrounding outward investment behaviour (Buckley et al., 2007). It is now widely accepted that the conditioning of national culture compels MNEs to locate in countries that are like their homes in terms of values, norms, language, and political systems (Benito & Gripsrud, 1992).

Yip *et al*. (1997) view firm nationality as a culmination of history, culture, citizenship, and experience, all of which may affect international investment strategies. In this vein, the relationship between international strategy and home-nation culture (and, by extension, history and experience) has attracted the most intense research attention. A recent example is a study by Siegel *et al.* (2013) focussed on the cultural attribute *egalitarianism*, or the extent to which individuals recognize one another as moral equals. The authors find that distance in egalitarianism between home and host countries has a strong negative impact on FDI flows, and explain this in terms of the cost of adapting to interactions with foreign stakeholders. This finding is especially interesting in light of the fact that the UDHR is unambiguous in treating protection against discrimination and equality before the law as inalienable human rights.

Perhaps the least-examined facet of nationality is citizenship, which entails the juridical rights and duties attendant to membership of a particular nation. Citizenship is significant in the present context because it may influence the degree to which MNEs of a given nation accept a responsibility to respect human rights independent of the legal obligations imposed by their hosts. ‘Corporate citizenship’ has become synonymous with ethically-responsible behaviour on the part of firms (Carroll, 1998; Matten & Crane, 2005), but here ‘citizenship’ does not describe conduct deemed ethical by an objective standard. Here, citizenship is a conferred status, and the conferring state, through its formal and informal institutions and rules, constructs the meaning of proper conduct. Reasoning along these lines, Maignan and Ferrell (2000) expect US businesses to be more involved in social matters than their French counterparts because of fundamental differences in the political economies of the two home states.

Extending this idea to MNE sensitivity to human rights repression, Tuman (2006) identifies influential home country factors such as the political party in power; the level of bureaucratic intervention in outward investment decisions; corporate governance structures; and the strength of ‘social movements’. Buckley, *et al*. (2007) even suggest that developing-country investors fail to give consideration to the host-nation ethical environment due to a basic lack of awareness. That is, because human rights play a negligible role in the public sphere in the home nation, it is not the norm to take them into account in private decision making. Thus, there is certainly reason to suppose that a MNE’s place of origin will shape the consideration it gives to human rights conditions in its investment locations.

*4.1 Chinese Nationality*

Over the past three decades, Chinese policies prioritised national economic growth at the expense of individual rights (Fisher *et al.,* 2011). Despite recent Government initiatives to introduce rights-based social policies in China, the older strategic course remains deeply ingrained, as made clear by the disclosure of “Document Number Nine”. This central party office memorandum of April 2013, meant only for circulation among the Communist Party elite, outlines a programme to quash threats to one-party rule, and describes advocating universal human rights as a “mistaken” way of thinking and acting (Anderlini, 2013).

The advent of significant FDI outflows from China has stimulated considerable interest in the characteristics of its MNEs. Ge and Ding (2009), for example, claim that Chinese MNEs show a comparative disregard for host country political risks. Voss *et al.* (2010) suggest that Chinese firms can afford to ignore political risks thanks to the strong support they enjoy from domestic state institutions, and this theme of state support is recurrent in analyses of the Chinese MNE behaviour. China pursues an official policy of active support for outward FDI and the internationalisation of local enterprises, and it is highly improbable that this has no influence on the FDI location choices of Chinese MNEs. Kang and Jiang (2012), who examine the FDI location choices of Chinese MNEs in East and Southeast Asia, place considerable emphasis on the influence of the home government on Chinese MNEs, most of which are state-controlled companies. They find that a negative association between Chinese MNE’s FDI location choices and the difference in political and legal regimes between China and the host nation. This finding conforms with Brecher and Reisman’s (1957) insistence that home-host similarity dominates the FDI location decision-making process. Kang and Jiang speculate that the reason Chinese firms brave risky and repressive political environments, in addition to the backing of their home state, is because their national characteristics make them better adapted to such conditions.

Chinese views on business ethics exhibit expected divergence and unexpected convergence with those held in the West. Whitcomb *et al.* (1998) compare corporate ethical values in the US and China using a survey comprised of a range of different scenarios and ethical dilemmas. They conclude that differences in US and Chinese values are reflected more in the justifications behind the ethical decisions than in the actual decisions themselves. According to their results, Chinese respondents were more willing than their US counterparts to use informal, and often illegal and unethical (from the American perspective) methods to conduct business. The authors attribute this both to the Confucian emphasis on interpersonal relationships and “smoothing out” problems (a cultural factor), and to the fact that China does not have any legislation equivalent to the US Foreign Corrupt Practices Act, which prohibits bribery (a legal factor).

Lu *et al.* (1999) argue that the emphasis on the welfare of the group in collectivist societies cultivates a sense of duty to and consideration of the wider stakeholder network, which may safeguard against unethical behaviour. However, Ang and Leong (2000) find Chinese values of *guanxi* (the nurturing of personal connections through such acts as gift giving) and *mianzi* (the desire to preserve one’s social status) negatively associated with belief in the importance of socially responsible and ethical corporate conduct. The reciprocity and loyalty inherent in *guanxi* underpins may cause Chinese businesspeople to place excessive emphasis on the in-group whilst neglecting the “greater good” (Chan *et al.*, 1984; Yang, 1994). The importance of *mianzi* in Chinese culture reportedly results in a tendency to place more priority on avoiding criticism and embarrassment than on honest and truthful exchanges (e.g., Yao, 1987; McDonald & Kan, 1997).

Blanton and Blanton (2007 & 2012) imply that the emphasis on the good of the collective and respect for authority rather than the individual is reason to suggest that FDI emanating from countries like China may be less sensitive to host-nation human rights issues. In the same vein, Buckley *et al.* (2007) postulate that Chinese investors may be less constrained by the moral obligations that are usually expected of Western corporations today, and may be prepared to invest in repressive nations typically avoided by Western companies, suggesting an indifference towards rights issues among Chinese MNEs. In light these arguments, it is hypothesised that

*H2: Chinese inward-FDI is more positively/less negatively associated with host-nation human rights repression than average*

Blanton and Blanton (2009) propose that US companies generally prioritise human rights concerns when deciding where to invest abroad due to the pre-eminence of these issues in American foreign policy rhetoric and public discourse (i.e. respect for human rights is part of the “mental software” of American managers). Indeed, the US has decided the extent to which it engages in bilateral international relations with other countries on the basis of their human rights conduct (Frey, 1997). Blanton and Blanton (2006; 2009; 2012) imply that American MNEs are sensitive to host-country human rights practices due to the great reputational risks they face from an increasingly conscious global consumer public.

*H3: American inward-FDI is less positively/more negatively associated with host-nation repression of human rights than average*

5. DATA AND METHOD

*5.1 Data*

Studies on FDI and human rights typically focus on developing host countries, given the salience of human rights issues in these nations (Blanton & Blanton, 2012). For the primary comparative analysis, data were collected for 51 developing and emerging-market countries for the years 2007–2010, giving a total of 204 observations. The secondary confirmatory analysis, using non-financial FDI data from China in the time period 2004-2006, involved a larger sample of 59 countries, yielding 177 observations. Both samples are described in Table 1. This was the largest sample size and study period possible given the constraint of missing data. The Chinese FDI dataset had many missing values while the US FDI dataset was compromised by many undisclosed values, ostensibly to protect the identities of investing companies.[[1]](#footnote-1)

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Insert Table 1 about here

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The average annual per capita GDP of the 51 countries in the main comparative sample is US$4,379, with Equatorial Guinea having the highest (US$21,502) and Eritrea the lowest (US$330). The recipients of the largest cumulative volume of US FDI per capita over the 2007­–2010 study period are Mauritius, Chile, and Panama. For China, the highest-ranked recipients are Mongolia, South Africa, and Turkmenistan. For total FDI inflows per capita from all sources, the top recipient countries are Equatorial Guinea, Saudi Arabia, and Chile. In terms of human rights compliance, Turkmenistan had the worst average Freedom House score while India had the worst average CIRI rating from 2007–2010. In contrast, Chile, Hungary and Poland all had the best possible Freedom House score over the period under investigation, and Poland had the highest average CIRI rating.

*5.2 Model Specification*

The model specification used in this study follows that of Harms and Ursprung (2002). The dependent variable, inward FDI, is the amount of FDI inflows a country receives in a given year, denominated in US dollars. Thus, in country *i* for year *t*:

The variable labels are described in Table 2.

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Insert Table 2 about here

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Unlike Harms and Ursprung (2002), this study also controls for economic growth, as several independent studies (e.g., Schneider & Frey, 1985; Jakobsen & de Soysa, 2006; Blanton & Blanton, 2012) find that it has a significant effect on MNEs’ location decisions.

*5.3 Operational Measures and Controls*

To identify the moderating effect of investor nationality on sensitivity to human rights, the model was estimated using three different host-nation specific dependent variables: total FDI inflows; FDI inflows from the US; and FDI inflows from China. The US and China were chosen as comparison subjects, because these countries are perceived to be very different in terms of their stance towards human rights. The US, for example, currently has a score of 1 on the Freedom House measure of civil liberties (where lower values on the 7-point scale reflect greater respect for human rights), whereas China has a rating of 6. Therefore, this pair serves as an effective basis for assessing the potential influence of home-nation human rights on the location preferences of outward investors.

To maximise comparability, both the sample and the study period were held constant between the three dependent-variable measures. Following previous researchers (e.g., Root & Ahmed, 1979; Schneider & Frey, 1985; Tsai, 1994; Cheng & Kwan, 2000; Chakrabarti, 2001; Harms & Ursprung, 2002; Kinoshita & Campos, 2003), the inflows are divided by population (in millions) to control for country size. Using a common technique employed in the IB literature, the FDI data were subject to a logarithmic transformation to alleviate skewedness. Figures on total FDI inflows were collected from UNCTAD (2012b); the American FDI dataset was obtained from the Bureau of Economic Analysis (BEA) (2012); and data on Chinese outward investment flows are from the Ministry of Commerce of the People’s Republic of China (MOFCOM) (2012). The use of FDI flows instead of stocks is preferable, because stock values vary with changes in macroeconomic conditions and so changes may not reflect investor perceptions of attractiveness.

For the years 2004–2006 (with 2004 being the first year for which data are available), the Chinese FDI dataset includes only non-financial FDI outflows. Thus, the decision was made to focus on the years after this period to ensure that all sectors, both financial and non-financial, are included. Looking at the dataset, there are visible spikes in the FDI values following the year 2006, when financial FDI is included in the figures. However, as an additional robustness check, the estimation results for the 2004–2006 data were compared those for the 2007–2010 data to test for any differences in sensitivity in the variables. This is also a crude way of checking for a sectoral effect; i.e., different sensitivities to human rights in the financial and non-financial sectors. Data restrictions prevented a study of non-financial US FDI over the same period.

As mentioned, the dependent variables were logged to minimise skewedness. Transforming the data to natural logarithms also eliminated outliers, which were evident in the frequency distributions. However, engaging a logarithmic transformation raised the question of how to treat negative values of the dependent variable (i.e., divestment). Following many researchers (e.g., Eichengreen & Irwin, 1995; Levy Yeyati *et al.*, 2007; Tobin & Rose-Ackerman, 2011), this study uses one plus the absolute FDI amount and multiplying that by negative one if the original value is negative. Instead of eliminating zero and negative values, which may produce biased estimates, the above technique allows one to retain information from zero or negative foreign investment flows (Tobin & Rose-Ackerman, 2011).

The independent variable, *RIGHTS,* measures host-country repression of human rights. Following Harms and Ursprung (2002), this is indicated by comparative data on freedom published by Freedom House (2012b) (and as such is denoted as *FHREP*). This data takes the form of scores on a 7-point scale, with higher scores representing increasing national repression of human rights. While Harms and Ursprung use both the political rights and civil liberties dimensions individually, and also combine them into a single variable, this study employs the civil liberties index only. The political rights measure is rejected as a robust indicator of a state’s human rights regime as it captures tangential institutional factors, such as government corruption and accountability. Nevertheless, political rights and civil liberties are highly correlated for the countries used in this sample set (0.941).

As an additional robustness check, this study also employs as an alternative indicator of human rights standards the CIRI measure of physical integrity rights (Cingranelli and Richards (2012b). This measure uses an 8-point scale, where *lower* scores reflect greater human rights repression. For the sake of intelligibility, the CIRI scale is inverted for the purposes of analysis as *CIRIREP*, so that it may be more conveniently compared to the *FHREP* measure. Interestingly, the CIRI index is not highly correlated with either the Freedom House civil liberties index (0.407) for the sample. The CIRI measure appears to be the more sensitive of the two measures, as it exhibits more annual within-country variability and no nation in the sample receives a maximum possible rating for all four years, whereas three countries are awarded the highest possible Freedom House score in the same period.

CIRI has gained considerable popularity in quantitative human rights research of late, but it is not without its detractors, who question the precision of the coding guidelines and the additive nature of the scale (Wood and Gibney, 2010). Furthermore, CIRI scores do not account for how prior use of repression might impact on current use, such that past acts of extreme repression may have multi-period repercussions that do not register in later event scores (Schnakenburg and Farris, 2014). Schnakenburg and Farris (2014) use CIRI to derive a Latent Human Rights Protection score, intended to enhance the validity of the index, but its employment in the present analysis was considered premature as it is yet to be independently evaluated by scholars in the human rights field.

Data for the control variable, *LIT*, were obtained from the United Nations Educational, Scientific and Cultural Organisation (UNESCO) Institute for Statistics website (2012). Literacy is operationalised as the percentage of a nation’s adult (15+) population that is literate. Literacy is a common proxy for a country’s quality of human capital. Harms and Ursprung (2002) also suggest that it controls for market-seeking FDI, as literacy is highly correlated with national income. This study follows suit, and omits GDP per capita as an explanatory variable.[[2]](#footnote-2)

To take into account resource-seeking motivations for FDI, a measure of a country’s natural resources (*NATRES*) is included. Harms and Ursprung (2002) use a country’s oil export status (i.e., whether it is a net importer or exporter of oil) as a proxy for national resource wealth, whereas this study employs the World Bank’s data on annual total resources rents. By incorporating a nation’s rents from oil, minerals, coal and natural gas, this is intended to be a more precise indicator of natural resources. Note that it does not take into consideration the total amount of unexploited raw material deposits; it only measures the income from those resources that are exploited in a given year. In other words, a country may have vast natural resources, but is not currently exploiting them, perhaps due to a lack of technology and/or investment. However, comprehensive data on national resource wealth is difficult to find.

*TRADE* is defined as the sum of imports and exports as a percentage of national GDP. This is the most common measure of trade openness in the IB literature, as it captures a country’s total trade activity. These figures were obtained from the World Bank online database (2012). The fourth control variable measures a nation’s inflation rate for a given year (*INFLA*). These data were also collected from the World Bank (2012).

*POLRISK* measures the extent to which property rights are enforced in a country, taken from the Heritage Foundation and Wall Street Journal’s Index of Economic Freedom (2012). This measure, which gives a rating out of 100 (with 100 representing the highest level of property rights protection), also encompasses the likelihood of expropriation and the independence of the judiciary (Heritage Foundation, 2012). Despite the Heritage Foundation’s overt rightward leaning, this measure is perhaps the best publically-available indicator of political risk. They base their indices on a range of credible sources, such as the Economist Intelligence Unit, the US Department of Commerce and the US Department of State.

Host nation business freedom (*BUSFREE*) is indicated by data taken from the Heritage Foundation and Wall Street Journal’s Index of Economic Freedom. This is used in contrast to Harms and Ursprung’s (2002) business climate and economic freedom variables, each of which used data unavailable for the complete set of countries in the present sample. Business freedom should be understood as the ‘ability to start, operate and close a business’ whilst also reflecting the ‘overall burden of regulation as well as the efficiency of government in the regulatory process’ (Heritage Foundation, 2012, ‘Business Freedom’, para. 1). Countries are given a rating out of 100, with higher scores representing greater freedom.

Finally, *EGROW* is measured as the annual percentage change in a country’s GDP. These data were obtained from the World Bank (2012).

Any missing data observations in the explanatory variables were corrected using averages. This is appropriate, as the regressors with missing data happened to be those that are relatively time-invariant over the four-year study period (e.g., *LIT* and *NATRES*). Missing values were not tolerated in the dependent variables, and countries for which a complete time series was unavailable were eliminated, as FDI can fluctuate widely from year to year.

Summary statistics for all variables are presented in Table 3. A Pearson correlation matrix was generated to check for multicollinearity among the regressors. No issues were discerned (see Table 4). To account for any heteroscedasticity in the data, the ‘robust’ command in STATA was applied to each regression, which effectively deals with minor violations of assumptions of homoscedasticity and normality (UCLA Institute for Digital Research and Education, n.d.).

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Insert Table 3 about here

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Insert Table 4 about here

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# 6. EMPIRICAL RESULTS

The model is estimated using the Generalised Estimating Equations (GEE) regression function in STATA. GEE or population-averaged regressions are fairly common in longitudinal studies on FDI determinants (e.g., Jakobsen & de Soysa, 2006; Blanton & Blanton, 2012). This approach is useful when time-series correlation in the dependent variable (autocorrelation) is suspected, and allows for the researcher to specify the type of correlation that may exist (Zorn, 2001; Blanton & Blanton, 2012). As FDI flows in one year may be related to the flows in the previous year, autocorrelation is common in foreign investment data (and tests revealed that this is indeed the case for the present study). Hence, this problem is accounted for using the (AR)1 autocorrelation correction method in STATA, as per Jensen (2003), Li and Resnick (2003) and Choi and Samy (2008). The GEE method effectively analyses general relationships in a cross-country study, whereas mixed models (fixed and random effects) are more appropriate for examining changes within a certain observation, such as a particular country (Zorn, 2001). A random effects regression corroborated the GEE results reported here, but GEE was ultimately deemed the most suitable estimation approach for this study.

Tables 5 and 6 present the results for the estimations, one featuring *FHREP,* and the other, *CIRIREP*, using global FDI inflows, total US FDI inflows, and total Chinese FDI inflows between 2007-2010. The Wald χ² values indicate that the models do not explain a great deal of the variation in the dependent variables. This could be due to a lack of normality in the distributions and omitted variable bias cannot be ruled out, although the controls used in this study are consistent with those commonly found in the literature. In this regard, it is worth noting that a balance is needed between the number of regressors and the sample size, as regressions with higher numbers of predictor variables require more observations (Harms & Ursprung, 2002).

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Insert Table 5 about here

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Insert Table 6 about here

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With respect to total FDI inflows the coefficient for the *FHREP* variable is negative but not significant (Table 5), whereas when *CIRIREP* is used to measure human rights repression the coefficient is negative and the correlation statistically significant at the 0.05 level (Table 6). Taken together, these results may be read as qualified support for H1a, which predicted FDI would be repelled by more repressive hosts.

Concerning the two countries singled out for comparison, it transpires that US FDI is not significantly related to either *FHREP* (Table 5) or *CIRIREP* (Table 6). Therefore H3, which expected a more negative association than that for total FDI, is rejected. The non-significant association between Chinese FDI and *FHREP* (Table 5) sheds no light on H2, given that the same is true for total FDI. However, when the CIRI index is substituted for the Freedom House measure in the estimation procedure, respect for human rights is negatively and significantly associated with Chinese inward FDI at the 0.10 level (Table 6). The negative correlation between Chinese FDI and *CIRIREP* is not as strong as that between *CIRIREP* and total FDI, so, having accepted H1a, acceptance of H2 is justified, as it anticipates lower than average sensitivity to rights conditions in host nations from Chinese MNEs.

To better understand the US FDI result, the literacy variable was omitted from the estimation procedure to reveal whether the rights measures might be capturing the quality of human capital or other facets related to economic development. Harms and Ursprung (2002) acknowledge that the component relating to freedom for private enterprises in the Freedom House civil liberties index may have undue influence in attracting FDI, hence their inclusion of a “business freedom” control variable. It transpires that dropping the literacy variable results in a significant (p=0.1) negative relationship between *FHREP* and US FDI. When literacy was eliminated from the estimation using *CIRIREP* as the human rights measure, there remained no statistically-significant link between American FDI and human rights. *FHREP* may therefore be capturing the sort of host characteristics that the literacy variable is intended to proxy, rather than strict human rights practices.

Table 7 shows the results for the exclusively non-financial FDI inflows from China during the period 2004–2006. Compared with aggregate (financial and non-financial) Chinese FDI for 2007-2010 (Table 5), *FHREP* is similarly insignificant, although the sign of the correlation coefficient is negative. The effect of *CIRIREP*, however, is significant at the 0.05 level. This result provides more evidence in refutation of any claim that Chinese investors are insensitive to host-country respect for human rights.

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Insert Table 7 about here

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Focusing on the control variables, a major difference is apparent with respect to *POLRISK*. Like investors from most of the rest of the world, US MNEs are repelled by politically-risky nations, whereas Chinese MNEs exhibit an attraction. Business freedom, on the other hand, is important for Chinese FDI, irrespective of the measure used for human rights respect, but it is only significant (at the 0.10 level) for American FDI when the *CIRIREP* variable is used. Literacy is consistently positive and significantly related to both total and American FDI, but is of less concern to Chinese investors. *NATRES* is positively and significantly related to total FDI flows, yet does not reach statistical significance for neither US investment, nor sectorally-aggregated Chinese investment. While *TRADE* is consistently positive and significant for Chinese MNEs, it is generally insignificant for American FDI. *INFLA* always has a negative sign, but reaches statistical significance at the 0.10 level only for total FDI inflows. Interestingly, *EGROW* has a negative and significant impact (at the 0.10 level) on American investment, implying that many US investors, or a few very large ones, may find something attractive in struggling economies. Chinese FDI, on the other hand, appears to be attracted to growing markets. However, when focusing on non-financial Chinese FDI, *EGROW* loses significance.

Looking only at non-financial FDI from China (Table 7), the variables for natural resources and trade openness are significant and positive, which is not the case for aggregated Chinese FDI. However, significant regressors in the analysis of aggregated Chinese FDI inflows (Tables 5 and 6) — economic growth, business freedom and political risk – are not significantly influential for non-financial FDI. It is very likely that the high volume of Chinese resource-seeking FDI drives these results.

# 8. CONCLUDING DISCUSSION

The most provocative finding of this study is that *per capita* Chinese FDI shows a negative and significant response to host nation human rights repression when measured by the CIRI index, whereas no relationship is evident in the US FDI data. This result for China is bolstered by the negative relationship between host country human rights repression and exclusively non-financial Chinese FDI, for which no corresponding US test could be performed. On the strength of this analysis, the concern expressed in some quarters that Chinese outward investors are indifferent to human rights conditions is misplaced. Although the sensitivity of Chinese FDI to respect for human rights is not as pronounced as that of aggregate FDI, the failure of US FDI to show a greater sensitivity than aggregate or Chinese FDI defies assumptions expressed in the literature.

Why do Chinese MNEs show a preference for host countries respecting human rights if no such preference is discernible amongst American MNEs? Perhaps the positive link between Chinese FDI and host-country respect for human rights is due to Chinese outward investors being especially conscious of the image they project to the rest of the world. The effect of the spotlight regime should be stronger for a business community subject to suspicion and hostility: it will be anxious to allay fears and improve its global image. Chinese outward investment is viewed with concern in host countries largely due to the pervasive supporting role of the home state. It may be that greater attention is paid to human rights by corporate managers and their civil service counterparts so as to project a more benign image of China’s foreign economic involvement. This supposition is given credence by the negative relationship between *CIRIREP* and non-financial FDI inflow from China. While there are many industries represented in this pool of non-financial FDI data, its covariance with the natural resources variable suggests that resource-seeking is the dominant investment motive for MNEs accounting for these flows, and this is consistent with trends discerned in other recent studies of Chinese FDI (Lu *et al.* 2011; Kolstad and Wiig, 2012). As the prevailing view of resource-seeking investments is that they are relatively insensitive to host-country human rights conditions, one may infer that the active participation of the home state in Chinese OFDI leads to heightened reactivity to reputational damage, not only to the implicated corporations, but the home nation itself.

Another possible explanation of Chinese sensitivity to human rights repression might be found in the changes imposed on Chinese culture by Communism. As noted above, human rights include egalitarian edicts against discrimination and a demand for equality before the law. While Asian cultures are not traditionally egalitarian, Marxist ideology is strongly so (Nickel, 1987), and this could play an important role in conditioning the reactivity of Chinese decision-makers to at least some types of rights violations. As the influence of Marx diminishes in an increasingly capitalist China, one might anticipate less interest shown by Chinese MNEs in violations of egalitarian rights in foreign hosts, unless the liberal ideology underpinning capitalism brings with it an alternative basis for valuing equality.

The apparent lack of US MNE responsiveness to human rights, reflecting the findings of Tuman and Emmert (2004) and Biglaiser and Staats (2010), suggests rights issues are eclipsed by other considerations, such as secure property rights, in US FDI location decision-making. There may be a perception among external stakeholders that US firms internalise US public policy positions on human rights and are therefore above reproach. If US firms experience less effective external scrutiny they might make concomitantly smaller compensatory account of rights in their decision-making. In so doing, US firms free-ride on their home state’s strong record of human rights advocacy. It is also possible that US MNEs do not accept a private responsibility to avoid repressive states, because they have been absolved of liability for rights violations by their government. Although US courts have asserted that corporations have obligations under international human rights law, the US Administration has sought to deny any legal accountability to MNEs for foreign human rights violations, ostensibly out of concern that this might compromise US efforts in the ‘war against terror’ (Clapham, 2006: Section 1.4). Executive interventions in defence of misconduct by a few prominent US MNEs may desensitise the general population of internationalised US firms to host nation human rights conditions. While it is possible that the inclusion of withheld US FDI data might have revealed a more robust negative relationship between US investment and human rights repression, it is more likely that the opposite would prove true, as many of the suppressed values pertain to countries with notoriously poor rights records.

Looking at the secondary results from this study, it is intriguing that Chinese MNEs are attracted to politically-risky countries. This is consistent with previous findings, (Buckley *et al.*, 2007; Ge & Ding, 2009), and it adds support to the contention that developing- and emerging-country firms have political capabilities that may amount to an ownership advantage over their advanced-nation counterparts (Guillén & García-Canal, 2009). This may seem at odds with the negative influence of repression on Chinese FDI as measured by CIRI, but it must be emphasised that the political risk variable and *CIRIREP* are not highly correlated (0.192).

Business freedom is also significant for Chinese FDI in every estimation, but only marginally so for US FDI when the *CIRIREP* variable is used. This is difficult to interpret, as market freedoms should appeal to US firms seeking business opportunities abroad, unless their investments are intended to evade the regulatory mechanisms that balance those freedoms in developed market economies. Furthermore, economic growth has a negative and significant influence (at the 0.10 level) on American FDI, but is positive and significant for Chinese investors. The attraction of economic growth to Chinese MNEs is to be expected as, according to MOFCOM (2011), leasing and business services, banking, and wholesale and retail trade were the three largest Chinese FDI industries over the study period, all of which are strongly attracted to growing markets. The negative relationship between US FDI and economic growth may reflect the relatively high proportion of US FDI destined for more developed economies, which tend to experience lower rates of growth than the economies to which the larger proportion of Chinese FDI is directed.

*8.1 Implications*

The findings of this study suggest that respect for human rights contributes to a locational advantage. The greater inward FDI associated with rights protection implies that investing in a nation in which human rights are respected, all else being equal, leads to better firm performance. If this is the case, then MNEs should be advised to promote human rights through their choice of investment location, campaign contributions, and operating methods, such as the implementation of codes of conduct. These findings also strengthen the case for business support of support of global institutions as the UDHR and the UN Global Compact. Indeed, it may prove fruitful for international institutions to use MNE location choice as a tool for promoting respect for human rights. Certainly there is scope for UNCTAD to consider funding further research into the relationship.

Indeed, the positive link between total FDI inflows and human rights protection may point to a ‘virtuous circle’, in which human capital development and FDI are mutually reinforcing (Richards *et al.*, 2001; Miyamoto, 2003). That is, FDI may not only be responsive to human rights recognition and protection, it may enhance it, either because FDI increases the brightness of the spotlight to which a repressive state is exposed, because states competing for FDI consciously attend to human rights as a locational attractant, or because the liberal economic policies adopted to attract FDI have second-order political consequences, including human rights recognition (*cf* Richards *et al.*, 2001). For states looking to attract higher levels of FDI, then, it seems improving basic human rights conditions by ensuring protection from torture, political imprisonment, extrajudicial executions and disappearances may be an effective way of doing so. A long-term commitment to protecting citizens should signal an encouraging environmental trajectory for foreign investment that may bring a near-term pay-off (Moran, 2002; Blanton & Blanton, 2012). The consistent positive and significant performance of the literacy variable for total FDI suggests that foreign investors in general favour literate or skilled workforces. Thus, for policymakers looking to create a more attractive environment for FDI, investing in public education is advisable.

A note of caution might be added for US MNEs, and perhaps their MNEs from other developed countries. If – and it is an ‘if’ - Chinese firms are at pains to minimise their investment exposure to countries with poor human rights records out of concern for their perceived legitimacy, they will possess a useful advantage over US, and perhaps European, Japanese, and Australian, competitors. MNEs domiciled in the developed nations cannot rest on their laurels, or proceed as though their character is above reproach. The results of this study may show that American MNEs are not attending sufficiently closely to civil and political rights within their host nations, which will not go unnoticed by consumers, activists, and governments.

In terms of future research directions, corroboration of the present findings is needed when more complete Chinese FDI data become available, and with full access to BEA data. Follow-up studies might compare FDI from other nations and geographical regions, such as Europe and the other BRICS nations, or OECD vs non-OECD nations. Most pressingly, more research is needed as to *why* MNEs might show a preference for host countries in which human rights are protected. That is, isolating the specific causal mechanism, whether the spotlight regime or acceptance of responsibility for human rights on the part of MNEs, may be the most important contribution still to be made in this area. Perhaps large-sample quantitative studies are not well suited to this task, and qualitative methods might be recommended in order to obtain deeper insights into precisely how host country human rights repression enters into FDI decision procedures.

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Table 1: Countries in Samples

(Total, US, and Chinese FDI 2004-2006)

Algeria, Angola, Argentina, Benin, Brazil, Cambodia, Cameroon, Chile, Colombia, Cote d’Ivoire, Cuba, Ecuador, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Hungary, India, Indonesia, Jordan, Laos, Madagascar, Malaysia, Mauritania, Mauritius, Mexico, Mongolia, Morocco, Namibia, Nepal, Nigeria, Panama, Peru, Philippines, Poland, Romania, Russia, Rwanda, Saudi Arabia, South Africa, Sri Lanka, Syria, Tajikistan, Thailand, Togo, Turkey, Turkmenistan, Ukraine, Venezuela, Vietnam, Zambia

**(Non-Financial Chinese FDI from 2004–2006)**

Algeria, Angola, Argentina, Bangladesh, Botswana, Brazil, Burma, Cambodia, Cameroon, Chile, Colombia, Congo-Brazzaville, Congo-Kinshasa, Cote d’Ivoire, Ecuador, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Guinea, Hungary, India, Indonesia, Iran, Kazakhstan, Kenya, Kyrgyzstan, Laos, Liberia, Libya, Madagascar, Malaysia, Mauritania, Mauritius, Mexico, Mongolia, Morocco, Nepal, Niger, Nigeria, North Korea, Pakistan, Papua New Guinea, Peru, Philippines, Romania, Russia, Saudi Arabia, Sierra Leone, South Africa, Sri Lanka, Sudan, Tajikistan, Tanzania, Thailand, Togo, Turkey, Uganda, Ukraine, Uzbekistan, Venezuela, Vietnam, Yemen, Zambia, Zimbabwe

**Table 2: Variable Definitions and Data Sources**

|  |  |  |
| --- | --- | --- |
| Variable | Definition | Source |
| *TOTALFDI* | Annual per capita foreign direct investment inflows, from all nations | UNCTAD (http://unctadstat.unctad.org/) |
| *USFDI* | Annual per capita foreign direct investment inflows from the US | BEA (www.bea.gov/) |
| *CHINESEFDI* | Annual per capita foreign direct investment inflows from China | MOFCOM (http://english.mofcom.gov.cn/) |
| *FHREP* | Freedom House index of civil liberties | Freedom House (http://www.freedomhouse.org/) |
| *CIRIREP* | CIRI index of physical integrity rights | CIRI Human Rights Data Project (http://ciri.binghamton.edu/) |
|  |  |  |
| *LIT* | Literacy rate of adult population (15+) | UNESCO (http://www.uis.unesco.org/literacy/Pages/default.aspx) |
| *NATRES* | Annual rents from natural resources | World Bank (http://data.worldbank.org/indicator) |
| *TRADE* | Annual percentage of imports and exports to GDP | World Bank (http://data.worldbank.org/indicator) |
| *INFLA* | Annual inflation rate | World Bank (http://data.worldbank.org/indicator) |
| *POLRISK* | Private property rights enforcement and quality of judiciary | Heritage Foundation (http://www.heritage.org/index/property-rights) |
| *BUSFREE* | Ease of starting and operating private enterprises and burden of regulation | Heritage Foundation (http://www.heritage.org/index/business-freedom) |
| *EGROW* | Annual rate of growth of GDP | World Bank (http://data.worldbank.org/indicator) |

**Table 3: Summary Statistics (Total, American & Chinese FDI from 2007–2010)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  | Mean | Std. Deviation | N |
| *FHREP* | 3.8578 | 1.60184 | 204 |
| *CIRIREP* | 3.5294 | 1.75721 | 204 |
| *LIT* | 82.2346 | 16.45973 | 204 |
| *NATRES* | 14.0738 | 20.02564 | 204 |
| *TRADE* | 80.4741 | 37.70197 | 204 |
| *INFLA* | 8.0693 | 9.05468 | 204 |
| *POLRISK* | 35.1716 | 15.58688 | 204 |
| *BUSFREE* | 57.7127 | 15.73269 | 204 |
| *EGROW* | 4.8186 | 4.69571 | 204 |

**Table 4: Pearsson Correlation Coefficients (Total, American & Chinese FDI from 2007–2010)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | *FHREP* | *CIRI* | *LIT* | *NATRES* | *TRADE* | *INFLA* | *POLRIS* | *BUSFREE* | *EGROW* |
|  | *FHREP* | 1 | -.407\*\* | -.262\*\* | .420\*\* | -.033 | .051 | -.576\*\* | -.487\*\* | .162\* |
|  | *CIRI* | -.407\*\* | 1 | -.175\* | .066 | -.332\*\* | .120 | -.192\*\* | -.186\*\* | .046 |
|  | *LIT* | -.262\*\* | -.175\* | 1 | .046 | .231\*\* | .042 | .165\* | .174\* | -.039 |
|  | *NATRES* | .420\*\* | .066 | .046 | 1 | .171\* | .229\*\* | -.251\*\* | -.194\*\* | .244\*\* |
|  | *TRADE* | -.033 | -.332\*\* | .231\*\* | .171\* | 1 | -.061 | .142\* | .163\* | .089 |
|  | *INFLA* | .051 | .120 | .042 | .229\*\* | -.061 | 1 | -.219\*\* | -.117 | .190\*\* |
|  | *POLRISK* | -.576\*\* | -.192\*\* | .165\* | -.251\*\* | .142\* | -.219\*\* | 1 | .540\*\* | -.137 |
|  | *BUSFREE* | -.487\*\* | -.186\*\* | .174\* | -.194\*\* | .163\* | -.117 | .540\*\* | 1 | -.089 |
|  | *EGROW* | .162\* | .046 | -.039 | .244\*\* | .089 | .190\*\* | -.137 | -.089 | 1 |
|  |  |  |  |  |  |  |  |  |  |

**Table 5: Results of GEE Regression – *FHREP***†

|  |  |  |  |
| --- | --- | --- | --- |
| *Variable* | *GEE* | *GEE* | *GEE* |
|  | ***Total FDI*** | ***US FDI*** | ***Chinese FDI*** |
| *FHREP* | ­-.133 (.124) | -.203 (.141) | .041 (.108) |
| *LIT* | .039 (.010)\*\*\* | .023 (.008)\*\*\* | .011 (.006)\* |
| *NATRES* | .018 (.009)\*\* | .012 (.008) | .003 (.005) |
| *TRADE* | .006 (.003)\* | –.005 (.005) | .007 (.003)\*\* |
| *INFLA* | –.035 (.019)\* | –.029 (.026) | –.018 (.013) |
| *POLRISK* | –.025 (.011)\*\* | –.034 (.017)\*\* | .017 (.009)\* |
| *BUSFREE* | .031 (.009)\*\*\* | .011 (.008) | .014 (.007)\* |
| *EGROW* | .018 (.026) | –.045 (.026)\* | .030 (.011)\*\*\* |
| Constant | –1.806 (1.363) | –1.049 (1.400) | –.900 (.775) |
| Observations | 204 | 204 | 204 |
| Wald χ² | 265.91\*\*\* | 96.40\*\*\* | 23.12\*\*\* |
| R² |  |  |  |

†The cells contain regression coefficients with standard errors in parentheses. The standard errors for the random-effects regressions are robust while the standard errors for the GEE analyses are semi-robust.

\*Significant at the .10 level

\*\*Significant at the .05 level

\*\*\*Significant at the .01 level

**Table 6: Results of the GEE Regression – *CIRIREP***†

|  |  |  |  |
| --- | --- | --- | --- |
| *Variable* | *GEE* | *GEE* | *GEE* |
|  | ***Total FDI*** | ***US FDI*** | ***Chinese FDI*** |
| *CIRIREP* | ­-.130 (.063)\*\* | -.094 (.103) | -.094 (.055)\* |
| *LIT* | .040 (.009)\*\*\* | .026 (.009)\*\*\* | .009 (.006) |
| *NATRES* | .015 (.008)\* | .008 (.008) | .004 (.005) |
| *TRADE* | .004 (.003) | –.007 (.005) | .006 (.003)\*\* |
| *INFLA* | –.030 (.019) | –.025 (.026) | –.018 (.012) |
| *POLRISK* | –.029 (.009)\*\*\* | –.041 (.013)\*\*\* | .020 (.008)\*\* |
| *BUSFREE* | .033 (.008)\*\*\* | .014 (.009)\* | .013 (.008)\* |
| *EGROW* | .017 (.025) | –.046 (.026)\* | .031 (.011)\*\*\* |
| Constant | –2.961 (.700)\*\*\* | –2.681 (.895)\*\*\* | –.689 (.571) |
| Observations | 204 | 204 | 204 |
| Wald χ² | 218.17\*\*\* | 102.00\*\*\* | 20.54\*\*\* |
| R² |  |  |  |

†The cells contain regression coefficients with standard errors in parentheses. The standard errors for the random-effects regressions are robust while the standard errors for the GEE analyses are semi-robust.

\*Significant at the .10 level

\*\*Significant at the .05 level

\*\*\*Significant at the .01 level

**Table 7: Results of the GEE Regressions – Non-Financial FDI (2004–2006)†**

|  |  |  |
| --- | --- | --- |
| *Variable* | *Chinese NF-FDI* | *Chinese NF-FDI* |
| *FHREP* | -.049 (.069) |  |
| *CIRIREP* |  | -.055 (.027)\*\* |
|  |  |  |
| *LIT* | –.002 (.003) | –.001 (.003) |
| *NATRES* | .010 (.005)\*\* | .009 (.004)\*\* |
| *TRADE* | .005 (.002)\*\* | .004 (.002)\* |
| *INFLA* | –.000 (.004) | .000 (.004) |
| *POLRISK* | .002 (.005) | .002 (.004) |
| *BUSFREE* | .006 (.004) | .006 (.005) |
| *EGROW* | –.003 (.010) | –.002 (.010) |
| Constant | –.066 (.427) | –.462 (.347) |
| Observations | 177 | 177 |
| Wald χ² | 19.70\*\* | 34.23\*\*\* |

†The cells contain regression coefficients with semi-robust standard errors in parentheses

\*Significant at the .10 level

\*\*Significant at the .05 level

\*\*\*Significant at the .01 level

1. An attempt was made via email to obtain the undisclosed data from the BEA. Unfortunately, the request was not granted. [↑](#footnote-ref-1)
2. Preliminary testing shows that GDP per capita is not significant in any of the models in this study, even when used in place of literacy. [↑](#footnote-ref-2)