

THE JOURNAL OF **&** INTERNATIONAL  
POLITICS **AFFAIRS**

---

**FALL 2011 • VOLUME IX**

---



# THE JOURNAL OF **&** INTERNATIONAL POLITICS **&** AFFAIRS

FALL 2011 • VOLUME IX

<b>EDITORS' NOTE</b> .....	<b>4</b>
<b>OBAMA'S COUNTERTERRORISM POLICY</b> STUART GOTTLIEB.....	<b>5</b>
<b>THE CHINA SYDNROME: THE EFFECTS OF CHINESE INVESTMENT ON GOVERNANCE IN AFRIA</b> MICHAEL CUSTER.....	<b>11</b>
<b>THE CROSSROADS OF JUSTICE: WAR AND PEACE IN LIBERIA</b> DANIELLA MONTEMARANO.....	<b>42</b>
<b>THE IMPACT OF UNION ON STATE DEBT</b> AURELLE AMRAM.....	<b>53</b>
<b>VALUABLE VIOLENCE: THE ROLE OF REBELLION IN SEPARATIST MOVEMENTS</b> MICHELLE HOEFER.....	<b>89</b>
<b>THE IMPACT OF LEGAL ORIGIN ON CONSTITUTIONAL PROVISIONS</b> SARAH WALTON.....	<b>108</b>
<b>TWO SIDES OF THE COIN: HUMAN RIGHTS LEVELS IN HOST AND INVESTOR COUNTRIES AS DETERMINANTS OF FOREIGN DIRECT INVESTMENT</b> CHERE SEE.....	<b>133</b>

## EDITORS' NOTE

The articles in the *Journal of Politics & International Affairs* do not represent an agreement of beliefs and methodology. Readers are not expected to concur with all the opinions and research contained within these pages; the *Journal* seeks to inform and inspire the NYU community by presenting a wide variety of topics and opinions from a similarly broad range of ideologies and methods.

Manuscripts submitted to the *Journal of Politics & International Affairs* are handled by an editorial board at New York University. Papers are submitted via e-mail and selected after several rounds of reading by the staff. Final selections are made by the editors-in-chief. Papers are edited for clarity, readability, and grammar in multiple rounds, during which at least three editors review each piece. Papers are assigned on the basis of fields of interest and expertise of the editors, in addition to a variety of other considerations such as equalization of the workload and the nature of the work necessary.

# OBAMA'S COUNTERTERRORISM POLICY

ARTICLES BY STUART GOTTLIEB

---

*Stuart Gottlieb is director of policy studies at the Jackson Institute for Global Affairs at Yale University and an adjunct professor at Columbia University. He is also an Adjunct Professor in the NYU Wilf Family Department of Politics. He formerly served as a foreign policy adviser and speechwriter in the U.S. Senate. His most recent book is *Debating Terrorism and Counterterrorism: Causes, Context, and Responses* (CQ Press, 2010).*

---

## STAYING THE COURSE: WHY PRESIDENT OBAMA'S ANTITERROR POLICIES LOOK SO MUCH LIKE GEORGE W. BUSH'S

*The following article by Professor Gottlieb was published in The American Lawyer magazine, reprinted with permission.*

Of all of Barack Obama's presidential campaign promises, among the most compelling was his vow to restore "rule of law" to America's counterterrorism policy. The overly aggressive policies of George W. Bush, Obama said, led the United States to "act contrary to our traditions." Rejecting as "false the choice between our security and our ideals," Obama promised to reverse Bush administration excesses and craft new counterterrorism policies "consistent with our values and our Constitution."

Nearly two years into his presidency, and despite early declarations of success in fashioning a new course, the Obama administration's counterterrorism policies are strikingly similar to and in some cases even more aggressive than those under Bush.

Guantánamo prison, which Obama ordered closed by January 2010, remains open, as do other international prisons housing a total of more than 1,000 terror detainees. The most aggressive parts of the Patriot Act remain in force, as does the National Security Agency's warrantless surveillance program. Obama's executive order banning "all forms of torture" has been supplanted by an intensified dronestrike assassinations program against suspected terrorists, and a beefed-up renditions policy to shuttle terror suspects to third-party nations for detention and interrogation. And the

Obama administration's claims of unilateral executive power to detain terror suspects without any charges, and to quash human rights lawsuits under the "state secrets" privilege, would make even a Bush-era Justice Department lawyer blush.

What happened? How could such high-profile promises, on such vital national security issues, with such profound constitutional and political implications, have so quickly and egregiously fallen by the wayside?

The short answer is fairly simple: Many, if not most, of Obama's promises were devoid of any practical application for the current threat environment. Thus, upon entering office and no doubt after reviewing the highest-level intelligence reports the Obama administration quickly (if quietly) tempered its efforts (if not its rhetoric) to "reverse" Bush's policies and to place counterterrorism policy in the sunlight of transparent constitutionalism.

The longer answer is more complex, and contains a cautionary tale for the future: President Obama and many senior officials in his administration deeply believe in a more constitutionally grounded criminal justice approach to fighting terrorism, for reasons of both symbolism and substance, and view their reliance on Bush hard-line tactics as a necessary evil until their more "enlightened" approach can be accepted and implemented.

The problem is that this dichotomy maintaining the core of Bush's policies while at the same time continuing to disparage and disassociate from them has led to cognitive dissonance in the administration, and a dangerous disconnect between the administration's rhetoric and its policies. In practical terms this has damaged the credibility of the administration's foreign policy in the Muslim world, where Obama's approval ratings are now equal to or lower than Bush's levels. And it has undercut the American public's trust in Obama to deal effectively with terror threats at home, where Republicans are now favored over Democrats on the issue of terrorism by nearly 2 to 1.

Reconciling the dichotomy between its counterterrorism rhetoric and policies requires that the Obama administration finally embrace the obvious: that the core of the Bush policies will remain necessary in America's fight against global terrorism for many years to come; and, more importantly, that the Obama administration's continuation (and refinement) of Bush's policies has in fact helped institutionalize an effective, bipartisan approach to fighting terrorism.

Unfortunately, this necessary moment of clarity for the Obama administration will likely not come easily. The administration has invested a tremendous amount of political capital both at home and abroad arguing that Bush's hard-line policies were unconstitutional, un-American, and fundamentally flawed, and promising to "turn the page" from the past. Indeed, accepting a new bipartisan consensus in counterterrorism will require not simply toning down the anti-Bush rhetoric, but also dismantling the counterterrorism model the Obama administration brought to the White House.

While the Bush administration operated consistently—for better or worse—under a "terrorism as warfare" paradigm, Obama officials developed a hybrid "criminal justice/national security" model based on three components: firm reliance on reas-

uring “turn the page” rhetoric; showcasing the symbolic power of American ideals by placing, whenever at all possible, counterterrorism decisions under the rubric of constitutional “rule of law”; and quietly maintaining the aggressive warfare practices and policies they believe were effective and necessary under Bush.

During its first year in office, the administration leaned heavily on the first two components. This was best seen with Obama’s executive orders banning torture, closing Guantánamo, and halting military commissions; the decision to try Khalid Sheikh Mohammed (KSM) and other alleged 9/11 conspirators in civilian court in New York; and the change in counterterrorism language used by the administration—eliminating phrases like “war on terrorism” and replacing terms like “Islamic terrorism” with “violent extremism.”

However, the administration’s first year also coincided with the largest spike in “terror-related events” (plots and foiled plots) inside the U.S. than any year since 2001, an uptick that has continued into 2010. With the threat level remaining high, and Americans increasingly concerned about terrorism, nearly all of Obama’s core promises regarding constitutional values have fallen like dominoes, including promises to close Guantánamo, grant all terror detainees baseline habeas corpus rights, put KSM on trial in New York, and end warrantless surveillance.

What remains is a counterterrorism policy based almost entirely on the third component aggressive warfare practices that began under Bush in the wake of 9/11. Indeed, new rules are being written by the Obama White House nearly every day that make a mockery of its claim to have “turned the page” from Bush toward a greater reliance on enlightened values, including, most recently, an effort to quash an American Civil Liberties Union lawsuit opposing Obama’s stated right to target American citizens overseas for execution, if it is determined they are actively supporting Al Qaeda military operations.

Despite this, the administration continues to insist that it has shifted America’s approach to fighting terrorism in a more constitutionally grounded direction. For example, it refuses to officially rule out a civilian trial for KSM in New York, despite there being no chance that such a trial will ever occur. And it continues to tout its promise to move remaining Guantánamo detainees to maximum security prisons inside the U.S., while the real issue is not the symbolism of the physical location where terror suspects are detained, but the legal rights that will be conferred (or, in this case, not conferred) upon them.

It is time to end the charade. The administration is understandably reluctant to further upset its left-wing base, which is already outraged over Obama’s wavering on the issue of civil liberties in the age of terrorism. And it is never easy for any White House to openly admit to dramatically overpromising on any policy front. But in the case of Obama’s evolving counterterrorism approach, its actions have, for nearly two years, been speaking far more loudly than any of its words.

The fact is, both a conservative Republican president (Bush) and a liberal Democrat president (Obama) have independently determined the baseline approach

and baseline policies they deemed necessary for America to effectively combat modern global terrorism. This evolving counterterrorism consensus includes recognition of the necessity of strong executive powers and presidential freedom of action, heavy reliance on aggressive intelligence-gathering to level the playing field with sophisticated mass casualty terrorists operating in the shadows, and broad use of military operations and covert actions to target terrorists and preempt terrorist planning and operations from abroad.

The language and rhetoric used in counterterrorism certainly remains important, as seen with the counterproductive “smoke ’em out” rhetoric of the Bush administration. And every administration should seek to maximize civil liberties, transparency, and the roles of Congress and the courts when fashioning its antiterror policies. Both Bush, during his second term, and Obama, during his first, have made important strides in this direction. But both also recognized that reliance on such constitutional “rule of law” principles must take place in the context of a rigorous counterterrorism approach, not despite it.

Former New York governor Mario Cuomo once famously remarked about serving in elected office: “You campaign in poetry, you govern in prose.” In the realm of counterterrorism, President Obama has effectively shifted from the lofty rhetoric of a presidential campaign to the practical realities of responsible governing. It should make little difference that his policies have far less in common with his campaign Web site than they do with the policies of his predecessor. History, after all, ultimately judges presidents on their policies, not on their promises.

---

---

## THE LIMITS OF LANGUAGE

*The following article by Professor Gottlieb was published in The National Interest magazine, reprinted with permission.*

One of the most defining aspects of the Obama administration’s counterterrorism strategy has been its effort to change America’s rhetorical approach to the threat of terrorism, particularly Islamic terrorism. “The language we use matters,” President Obama told the Arabic satellite television station al-Arabiya in an interview during his first week in office. Scrubbed were George W. Bush-era terms like “war on terrorism,” “radical Islam,” and “jihadist.” The White House’s 2010 National Security Strategy formally replaced the term “Islamic terrorism” with “violent extremism.”

The purpose of the shift in semantics was twofold. First, to repackage the fight against terrorism as a specific fight against al-Qaeda, not against Islamic extremism, which Obama believes contributed to a post-9/11 perception that America was “at war with Islam.” Indeed, the new rhetoric has gone hand in hand with Obama’s personal



outreach to the Muslim world to build “new partnerships” based on “mutual respect and mutual interest.” Second, it was part of a broader effort to soften the American public’s fear of Islamic terrorism, which Obama officials believe plays directly into the hands of extremists.

Nearly two years into his presidency, it is fair to ask whether Obama’s use of language regarding terrorism has proven effective. Two startling new polls suggest it has not. The first, by the Brookings Institution, shows that between May 2009 and May 2010 the number of Middle Eastern Arabs expressing optimism in Obama’s approach toward their region dropped from 51 percent to just 16 percent, with those describing themselves as “discouraged” by the Obama presidency rising from 15 percent to 63 percent. The second, by the Pew Research Center, shows that in August 2010 fewer Americans held a favorable view of Islam (30 percent) than five years earlier during the Bush administration (41 percent), with more Americans (35 percent) saying Islam encourages violence more than other religions than in 2002 (25 percent).

These starkly negative trend lines suggest the limited utility of language in fighting terrorism. Yes, terrorism is a propaganda-fueled activity—an ongoing battle to win hearts and minds and attract new recruits to fight for the cause. And of course the language used in combating terrorism is vitally important—the counterproductive “smoke ‘em out” rhetoric of the Bush administration is a case in point. But if rhetoric does not match policy, or appears to discount or downplay threats, the credibility—and thus effectiveness—of overall counterterrorism strategy may be undermined. It appears the Obama administration has dug itself into just such a hole.

For example, when looking beyond the nuanced language and appealing promises, what Muslims around the world see is an administration that has ramped up the war in Afghanistan, is killing scores of Muslim civilians with drone strikes, continues to hold thousands of Muslim detainees in Guantanamo, Bagram and other prisons, and maintains seemingly unconditional support of Israel. This is not to critique these policies, but to point out that they certainly do not match the raised expectations of the Muslim world, and have only muddled Obama’s oft-stated goal of turning Muslims toward America and away from extremist movements.

A large price is also being paid domestically for disconnected rhetoric. Despite maintaining nearly all of Bush’s hard-line tactics—Patriot Act, warrantless surveillance, indefinite detentions—the White House has consistently downplayed the threat, even in the face of a clear uptick in terrorism activity. For example, the administration did not call the November 2009 Fort Hood shooting a terrorist attack, despite the suspect’s outspoken support of violent jihad. And following the failed 2009 Christmas Day airline bombing, Obama described the suspect as an “isolated extremist,” despite his ties to al-Qaeda. The administration’s initial response to the failed May 2010 Times Square bombing by an American Muslim trained in Pakistan was to call it a “one-off” event. Attorney General Eric Holder stated in congressional testimony that he believed these and other recent Islamic terror plots were unconnected, and unrelated to radical

Islam.

There is little doubt that the administration's unwillingness to speak candidly about Islamic terrorism has taken a toll on the American public's trust in its ability to confront the threat. A Gallup poll released in early September shows Americans favoring Republicans over Democrats on the issue of terrorism by 55 to 31 percent—up from 49 to 42 percent last September.

President Obama entered office promising to fight a smarter and more effective war on terrorism, and in many ways he has. His instincts to maintain aggressive tactics while toning down needlessly inflammatory rhetoric were certainly sound. Yet his administration seems to have overlearned a key lesson of the Bush years—that overhyping the threat of terrorism has costs attached. So, too, does rhetoric that understates the threat; especially when detached from policy.

It is not too late to reverse this troubling trend. The White House can begin by focusing less on overly reassuring rhetoric—which has not paid dividends at home or abroad—and more on a candid accounting of the threats faced and the policies employed to confront them.

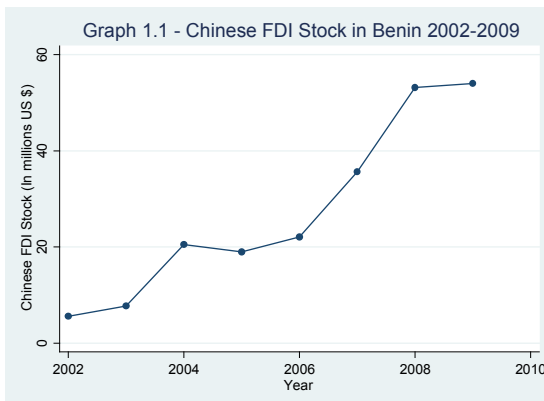
# THE CHINA SYNDROME: THE EFFECTS OF CHINESE INVESTMENT ON GOVERNANCE IN AFRICA

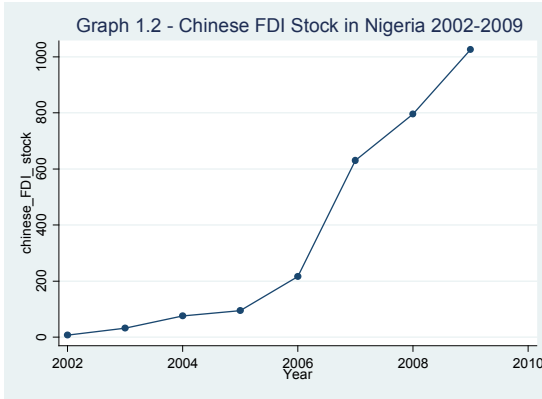
MICHAEL CUSTER

*In recent years, The People's Republic of China's (PRC) relationship with Africa has garnered increased attention from the media, scholars, and foreign governments alike. China's growing ties with Africa have implications for the international community and for Western efforts to improve good governance on the continent. Recently, literature on the nature of Sino-African relations has increased significantly, but little has been written on how the relationship is affecting good governance. Using a statistical approach, this study will examine how China's increasing involvement on the continent has affected Western efforts to strengthen good governance standards. The findings indicate that China's engagement, as measured by foreign direct investment (FDI), has had a significant negative impact on good governance standards and the growth rates of these standards across the continent.*

## Introduction

Below are two graphs of the Chinese FDI stock in the African countries of Benin and Nigeria, which reflect the extent to which Sino-African relations have increased in the past decade.





Note: Data from the 2009 Chinese FDI Statistical Bulletin

The two graphs show a drastic increase in Chinese FDI stock in both countries between the years 2002 and 2009, the first and last years that Chinese FDI data are available. The stock in Benin has grown from 5.62 million dollars to 54 million dollars, an astonishing growth rate of 860 percent over eight years. The change in Nigeria is even more impressive, having gone from 7.5 million U.S. dollars in 2002 to over 1.02 billion in 2009.<sup>1</sup> Bilateral trade rates have also experienced large growth over the past decade; for example, Sino-Nigerian trade grew 230 percent from 2000 to 2005, from 856 million dollars to 2.83 billion dollars. Two-way trade with the continent as a whole grew from 10 to 50 billion dollars from 2000 to 2006.<sup>2</sup>

While these numbers are impressive, they are not limited to these two countries, or even to Africa. Chinese FDI has increased throughout the world as China's government and people continue to seek profitable ventures outside of mainland China. In the late 1990s, the Communist Party of China reversed its position on emigration, especially encouraging migration to Africa.<sup>3</sup> The combination of this new attitude toward emigration with the abundance of opportunities and natural resources available in Africa has led to large growth in Sino-African relations in the twenty-first century. China recently displaced France, a former colonial power on the continent, as Africa's second largest trading partner, and is close to surpassing the United States for the top spot.<sup>4</sup>

The juxtaposition of the increases of FDI in both Nigeria, one of the largest economies in Africa with impressive reserves of natural resources, and Benin, a rela-

1 All Chinese FDI statistics come from the 2009 Chinese FDI Statistical Bulletin 2009 Statistical Bulletin of China's Outward Foreign Direct Investment "China Invests."

2 Alden, Chris. *China in Africa*. (London: Zed, 2007), 68.

3 Michel, Serge, Michel Beuret, Paolo Woods, and Raymond Valley. *China Safari: on the Trail of China's Expansion in Africa*. (New York: Nation, 2009), 5.

4 Michel, Serge, Michel Beuret, Paolo Woods, and Raymond Valley. *China Safari: on the Trail of China's Expansion in Africa*, 3.

tively small economy, speaks to China's investment strategy throughout the continent.<sup>5</sup> China does not limit its investments to countries like Sudan and Angola, which are rich in oil and resources. Instead, its investments are spread out across the continent and throughout various sectors. The five largest sectors worldwide in 2009 were finance (46 billion dollars), mining (41 billion dollars), retail (36 billion dollars), transport (17 billion dollars), and manufacturing (13 billion dollars). The energy sector, for which China has received the largest amount of bad press because of its dealings with countries like Sudan, accounts for slightly more than two billion dollars of China's total FDI.<sup>6</sup>

Distribution of Chinese FDI Stock by Industry from 2004-2009 (in millions of USD)

	Industry	2004	2005	2006	2007	2008	2009
A	Agriculture, forestry, husbandry, fishery	834.23	511.62	816.70	1206.05	1467.62	2028.44
B	Mining	5951.37	8651.61	17901.62	15013.81	22868.40	40579.69
C	Manufactury	4538.07	5770.28	7529.62	9544.25	9661.88	13591.55
D	Power and other utilitise	219.67	287.31	445.54	595.39	1846.76	2255.61
E	Construction	817.48	1203.99	1570.32	1634.34	2680.70	3413.22
F	Transport, warehousing & postal service	4580.55	7082.97	7568.19	12059.04	14520.02	16631.33
G	IT	1192.37	1323.50	1449.88	1900.89	1666.96	1967.24
H	Wholesale and retailing	7843.27	11417.91	12955.20	20232.88	29858.66	35694.99
I	Residential & catering trade	20.81	46.40	61.18	120.67	136.69	243.29
J	Finance	-	-	15605.37	16719.91	36693.88	45994.03
K	Real estate	202.51	1495.20	2018.58	4513.86	4098.14	5343.43
L	Leasing & business service	16428.24	16553.60	19463.60	30515.03	54583.03	72949
M	Science research , service & geo-survey	123.98	604.31	1121.29	1521.03	1981.89	2874.13
N	Water, environment & public facility management	911.09	910.02	918.39	921.21	1062.89	1065.08
O	Residential service & other services	1093.14	1323.38	1174.20	1298.85	714.68	961.37
P	Education	-	-	2.28	17.40	17.49	21.23
Q	Public health & social welfares	0.22	0.11	2.81	3.69	3.69	6.1
R	Cultural, sports & entertainment	5.92	5.38	26.14	92.20	107.33	135.65
S	Public management & social organization	14.34	18.03	-	-	-	-
<b>Total</b>		<b>44777.26</b>	<b>57205.62</b>	<b>90630.91</b>	<b>117910.50</b>	<b>183970.71</b>	<b>245755.38</b>

Note: Table taken directly from the 2009 Chinese FDI Statistical Bulletin

China has backed up increased economic involvement with increased diplomatic involvement as well. Between the years 2005 and 2007, Chinese leaders, including President Hu Jintao, undertook five official diplomatic tours of Africa.<sup>7</sup> In contrast, President Obama has visited Africa once since being elected in 2008.<sup>8</sup> The Forum on

5 World Bank Database. <http://data.worldbank.org/usc-our-data> GDP and economic data provided by the World Bank Data Base.

6 "2009 Statistical Bulletin of China's Outward Foreign Direct Investment" China Invests.

7 Alden, Chris. China in Africa. 8.

8 Shear, Michael D. "Obama to Visit Ghana in First Official Trip to Sub-Saharan Africa," [Washingtonpost.com](http://Washingtonpost.com)

China-Africa Cooperation (FOCAC), created by the Chinese government, has been held triennially since its start in 2000 and alternates between host sites in Africa and China. The forum is self-described as a convocation used to strengthen friendly cooperation between the two parties and to “jointly meet the challenge of economic globalization and to promote common development.”<sup>9</sup> The fourth FOCAC was attended by representatives from 49 African countries and included Chinese announcements of concessional loans worth ten billion U.S. dollars as well as the cancellation of a significant amount of debt for heavily indebted countries.<sup>10</sup>

The growth in Sino-African economic relations over the past decade is remarkable and unprecedented, but what are its implications? If an African president needs to build a new cross-country highway and only China—not the United States or Europe—is willing to assist in its financing and construction, why not sign a contract with the PRC? China’s newfound economic interest in Africa has the potential to benefit millions of Africans. Foreign investment in infrastructure and other industries should create jobs, foster economic growth, and alleviate poverty across the continent. This paper, however, provides concrete evidence that this growing partnership actually hurts Africa’s development process through its detrimental effects on good governance standards. African leaders prefer China’s policy of non-intervention in domestic affairs to the Western strategy of political conditionality, where aid, trade, and investment are tied to conditions aimed at improving governance. As China continues to make headway in the sphere of aid and investment in Africa, African leaders will be less dependent on money from the West. Less reliance on Western funds means that less aid is tied to political conditions, which should, in turn, lead to less pressure on African leaders to meet political challenges and improve governance.

### **Literature and Background Information**

Sino-African relations existed before the late 20th century and actually date back much further. Images of black men began appearing in Chinese texts during the Tang Dynasty (618-907) and a written account of a Chinese explorer’s trip to Berbera, a city on the coast of Somalia, appeared in a ninth-century text. The Song Dynasty (960-1276) was the first dynasty to establish trade relations, and in 1421, the Chinese admiral Zhang He landed his fleet off the coast of modern day Kenya 60 years before Bartholemeu Dias sailed around the Cape of Good Hope.<sup>11</sup> Yuan Wu, the author of *China and Africa 1956-2006*, distributed at the third FOCAC, described early pictures of Africans as “images of gallant black people...depicted as highly professional, courageous, and wise, and with a strong sense of justice and ready to help the weak.”<sup>12</sup> Relations died down for much of the 20th century, with the one notable exception being

---

9 "The Creation of FOCAC." <http://www.focac.org/eng/lttda/ltjj/t157569.htm>.

10 "4th Ministerial Conference of FOCAC Deepens China-Africa Co-op - China News - SINA English." SINA English. Web. 15 Mar. 2011. <<http://english.sina.com/china/2009/1108/283781.html>>.

11 Michel, Serge, Michel Beuret, Paolo Woods, and Raymond Valley. *China Safari: on the Trail of China's Expansion in Africa*, 62-65.

12 Wu, Yuan. *China and Africa 1956-2006*, 20-21.

the Tan-Zam railroad in the 1970s, connecting landlocked Zambia with the Tanzanian coast. The project was financed by the Chinese with an estimated 350 million dollar loan to be paid back over 30 years.<sup>13</sup>

Yuan Wu's politically motivated text reflects China's strategy of flattering African leaders and reminding them of their friendly relations with the continent throughout history.<sup>14</sup> When compared to the West's troubled history with the continent, China's relations appear golden, and the brilliance of the PRC's strategy emerges. Shortly after Europe's discovery of Africa, trade patterns were established, but the West soon began trading for people rather than goods, leading to the creation of slavery. The West later colonized Africa. Independence came with decolonization, but colonial rule interrupted the nation-building process, and wars and poor governance continue to plague Africa.

Why has China only recently renewed its interest in Africa? One possible explanation is the unprecedented growth of China's economy. China has reached a point where it can no longer rely solely on domestic production to appease its consumer demands. Therefore, China has recently become a net importer of commodities, perhaps best signified by its change from oil exporting to oil importing in 1993.<sup>15</sup> Africa is directly linked to China's global search for commodities, since the majority of the continent is tied to the world economy as a major producer of soft commodities and natural resources. Thus, China's demand for primary commodities affects Africa in two ways: through the international price of commodities and through direct trade.<sup>16</sup>

As documented, China's increased economic presence into Africa is massive, significant, and the cause of much discussion amongst Western and Chinese scholars. Perhaps the most heated topic of discussion is how to characterize China's new relationship with Africa. Chris Alden describes the three basic categories into which scholars have classified the relationship: Development Partner, Economic Competitor, and Colonizer. These three perspectives are summarized briefly below.

*Development Partner:* This interpretation implies that China is looking to form a long-term, mutually beneficial partnership with the countries of Africa. China, driven by its own economic needs and its desire to relay its successful development experience to Africa, has taken on a role as the leader of the developing world and genuinely cares about the development process of the continent. This view is held by few Westerners and is expressed by the Chinese through diplomatic events like FOCAC and publications like Wu's *China and Africa 1956-2006*.

Perhaps the best evidence supporting China's claim to being a development partner is the PRC's role in infrastructure building. Infrastructure is one of the more pressing needs in Africa's development process and one that is often ignored by Western

13 Larkin, Bruce D. *China and Africa, 1949-1970: the Foreign Policy of the People's Republic of China*, 99.

14 Alden, Chris. *China in Africa*, 16.

15 Alden, Chris. *China in Africa*, 16.

16 Goldstein, Andrea. *The Rise of China and India What's in It for Africa?* Paris: OECD, 2006.

governments and financial institutions. According to Barry Sautmen, the co-author of *Trade, Investment, Power and the China-in-Africa Discourse*, China is becoming Africa's main source of infrastructure loans, a status that began with the TanZam railroad. Sautmen further argues that investment in infrastructure is less likely to suffer from corrupt government officials because the bulk of infrastructure loans go straight to contractors.<sup>17</sup> Additionally, in an article appearing in *The American*, Jennifer Brea gives her support to Chinese investment, citing "offers of hydroelectric power dams, railroads, roads and fiber-optic cables, which have the potential to benefit ordinary people, no matter how corrupt the regime under which they live."<sup>18</sup>

*Economic Competitor:* Supporters of the second interpretation argue that China is acting as other global powers do with regards to Africa: in a "short-term resource grab." As a competitor, China's motivation is to gain access to resources and lucrative investment projects, and decisions are ultimately made without considering local needs, environmental issues, or human rights.<sup>19</sup> Some Western companies and countries also act as economic competitors, with the environment and human rights as secondary concerns.

The most famous Chinese company to act purely as an economic competitor is China Nonferrous Metal Mining in Zambia. The company bought the underperforming Chambishi copper mine and increased employment from 100 workers to 2200 workers.<sup>20</sup> However, after an explosion that killed 47 Zambian workers, the Chinese officials running the mine quickly came under fire for unfair and unsafe working conditions. Unions claimed that workers were paid below minimum wage and safety standards were non-existent. Protests over the conditions led to the shooting of four Zambians by a Chinese manager in the summer of 2006. The shooting and claims of poor working conditions propelled the anti-Chinese presidential campaign of Michael Sata, who eventually lost the campaign after the Chinese government gave financial support to the incumbent.<sup>21</sup> Tensions between the Chinese and Zambians ignited again in 2010 after Chinese managers at a different mine shot and injured nine workers during a similar protest.<sup>22</sup>

*Colonizer:* China as a colonizer implies a long-term relationship with African countries and elites that could someday lead to a form of political control or influence over the

---

17 Sautman, Barry. Hairong, Yan "Trade, Investment, Power and the China-in-Africa Discourse," *The Asia-Pacific Journal*, 52-3-09, 28 Dec. 2009.

18 Brea, Jennifer. "China's New Scramble for Africa — The American Magazine." *The American*. 22 Nov. 2006. Web. 30 Mar. 2011. <<http://www.american.com/archive/2006/november/chinas-new-scramble-for-africa>>.

19 Alden, Chris. *China in Africa*. 5.

20 Sautman, Barry. Hairong, Yan "Trade, Investment, Power and the China-in-Africa Discourse,"

21 Dixon, Robyn. "Africans Lash Out at Chinese Employers - Los Angeles Times." *The New Enlightenment*. Web. 30 Mar. 2011. <[http://www.hermes-press.com/africans\\_protest.htm](http://www.hermes-press.com/africans_protest.htm)>.

22 Bower, Eve. "Zambia Mine Shootings Raise Tensions with China - CNN." *CNN*. 04 Nov. 2010. Web. 30 Mar. 2011. <[http://articles.cnn.com/2010-11-04/world/zambia.mine.shooting\\_1\\_three-chinese-employees-zambian-mining-mining-industry?\\_s=PM:WORLD](http://articles.cnn.com/2010-11-04/world/zambia.mine.shooting_1_three-chinese-employees-zambian-mining-mining-industry?_s=PM:WORLD)>.



continent. Supporters of this interpretation argue that China is working towards replacing the continent's Western orientation with an Eastern one.

Proponents of the Colonizer classification often cite the mercantilist nature of Chinese trade with Africa. China's current policies can be seen as similar to trade that Western Europeans used to employ with their colonies, and China's strategy of extracting raw materials from Africa and selling them back as manufactured goods has garnered attention throughout the continent. Thabo Mbeki, former president of South Africa, has labeled this aspect of Chinese engagement as a potentially "new form of neo-colonialist adventure," and George Ayittey, in an article appearing in the *Economist*, described the trade pattern as "African raw materials exchanged for shoddy manufactured imports."<sup>23</sup> This mindset is also common in the U.S., where a lack of information on Sino-African relations incites fear in some Americans that China's mercantilist policies and engagement threaten U.S. interests.<sup>24</sup>

The mercantilism argument also works against the label of China as a colonizer. China's economic relations with the rest of the world are loosely based on the theory of mercantilism; it exports more than it imports. The ruling Communist party has established export-friendly conditions to support this policy, including currency manipulation and forced savings mechanisms.<sup>25</sup>

It should be noted that a portion of Chinese economic support for African countries in the early years of this new wave of engagement was politically inspired. There are several examples of China giving large loans and aid packages to shift African countries' diplomatic recognition away from Taiwan in pursuit of their "One China" policy. For example, in 2006 Chad switched recognition to the PRC after China offered money and promised to end support for the Sudanese and Chadian rebels attempting to overthrow the country's government.<sup>26</sup> Support in the UN and other international organizations is another political motivation; with over 50 countries in Africa and a strong history of bloc voting, support from the continent could boost China's power and capabilities in an international setting. Political support of this nature has already paid dividends in the general assembly, as votes from African states have helped block several resolutions concerning human rights abuses committed by China.<sup>27</sup> China has returned the favor by using its Security Council veto to block similar sanctions against Sudan and Zimbabwe.<sup>28</sup>

Western countries are not complacent as China takes advantage of Africa's natural resources and numerous investment opportunities. Even though the growth

23 Ayittey, George. "Chopsticks Mercantilism China's Involvement in Africa." Editorial. *The Economist* 15 Feb. 2010. Probe International. Web. 17 Mar. 2011. <<http://www.probeinternational.org/printpdf/7005>>.

24 Alden, Chris. Large, Daniel, Soares de Oliveira, Ricardo. *China Returns to Africa, A Rising Power and a Continent Embrace: A Superpower and a Continent Embrace*. 175.

25 Pistorius, Charlie. "China, Colonialist or Neo-mercantilist? - Taming Africa's Dragon." *Moneyweb*. Web. 17 Mar. 2011. <<http://www.moneyweb.co.za/mw/view/mw/en/page491975?oid=492817&sn=Detail>>.

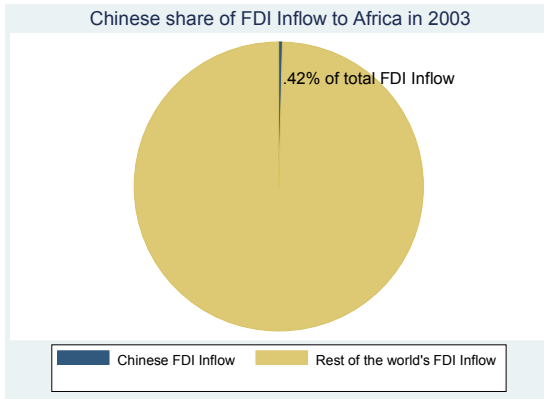
26 Bradsher, Kieth. "Chad, Dumping Taiwan, Forges Link to China." *New York Times Online*. 7 Aug. 2006. Web. 18 Mar. 2011. <[http://www.nytimes.com/2006/08/07/world/asia/07iht-taiwan.2410179.html?\\_r=1](http://www.nytimes.com/2006/08/07/world/asia/07iht-taiwan.2410179.html?_r=1)>.

27 Alden, Chris. *China in Africa*, 3.

28 Ayittey, George. "Chopsticks Mercantilism China's Involvement in Africa."

rates of trade and investment in the West are significantly smaller than those of China in the past decade, Western trade and FDI actually remain much larger. Until 2008, China was still only Africa's third-largest trading partner behind France and the United States.<sup>29</sup> Additionally, although the Chinese and Asian share of African exports and imports has increased dramatically in the first five years of the 21st century—with African exports to Asia rising from nine to 27 percent and imports from Asia increasing from 23 to 33 percent—the shares to and from China are still dwarfed by those from the developed world.<sup>30</sup> Interestingly, Africa's share of exports by industry are similar for Chinese and non-Chinese exports, indicating that Chinese trade and investment strategies in Africa are comparable to those of other countries.<sup>31</sup> Below are two pie charts comparing China's share of FDI inflows to Africa with that of rest of the world. As previously stated, while China's share is increasing at a high rate, it still remains a small portion of total FDI inflows.

#### The Share of Chinese FDI Inflow as percentage of total FDI Inflow in the year 2003



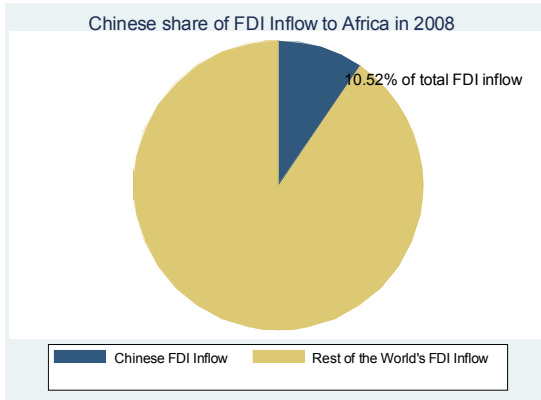
---

29 Sautman, Barry. Hairong, Yan "Trade, Investment, Power and the China-in-Africa Discourse."

30 Broadman, Harry G., and Gozde Isik. Africa's Silk Road: China and India's New Economic Frontier. (Washington, DC: World Bank, 2007), 71.

31 Broadman, Harry G., and Gozde Isik. Africa's Silk Road: China and India's New Economic Frontier, 74.

The Share of Chinese FDI Inflow as percentage of total FDI Inflow in the year 2008



Note: Data from the 2009 Chinese FDI Statistical Bulletin and the World Bank

A comparison of Western FDI and Chinese FDI results in similar findings. In 2006, 90 percent of FDI stock in Africa came from developed countries, with Europe accounting for 68 percent and North America 22 percent. Asia, supported mainly by China's increased activity, comprised only eight percent. Similar to trade statistics, the growth rate of FDI from China and Asia was significantly higher than that of the rest of the world. Additionally, Africa as a destination experienced the highest yearly growth rate of FDI in 2004 when compared to other regions.<sup>32</sup> Besides its abundance of natural resources, Africa's biggest attraction as a source of FDI is its rate of return on investment. Throughout the 1990s, Africa's FDI return averaged 29 percent, the highest in the world. In 2005 the rate of return ballooned to 40 percent.<sup>33</sup>

### Logic and Hypotheses

There exists a clear difference between the circumstances surrounding most Western investments and those of China. More specifically, Western institutions and countries have a history of tying conditions to loans, aid and investments. Arguably the most famous example of this conditionality is the International Monetary Fund (IMF) and their structural adjustment programs which tie loan disbursement to achieving fiscal reform goals.<sup>34</sup> Recently, Ghana received an Economic Governance and Poverty Reduction Credit for its commitment to "a more prudent, transparent, and accountable use of the country's resources."<sup>35</sup> This concept of using aid, investments, and loans

32 Broadman, Harry G., and Gozde Isik. *Africa's Silk Road: China and India's New Economic Frontier*, 97.

33 Sautman, Barry, and Yan Hairong. "Friends and Interest: China's Distinctive Links with Africa." Web. <[http://www.cctr.usl.hk/materials/working\\_papers/WorkingPaper12.pdf](http://www.cctr.usl.hk/materials/working_papers/WorkingPaper12.pdf)>.

34 International Monetary Fund (2011): *Lending by the IMF*. <http://www.imf.org/external/about/lending.htm>

35 "Ghana: Aiming for Middle Income Status... But Will Oil Fuel Development." World Bank. Sept. 2010. Web. 18 Mar. 2011. <[siteresources.worldbank.org/IDA/Resources/73153-1285271432420/IDA\\_AT\\_WORK\\_Ghana\\_2010.pdf](http://siteresources.worldbank.org/IDA/Resources/73153-1285271432420/IDA_AT_WORK_Ghana_2010.pdf)>.

to encourage better fiscal policy originates from the ten principles of the Washington Consensus, identified by John Williamson in 1990.<sup>36</sup>

While the majority of conditions and pressure applied by the World Bank and IMF are economic in nature, there are several examples of programs that have used political conditions to apply pressure on countries to improve governance. The Global Sullivan Principles, created by former UN Secretary General Kofi Anan, outline eight principles for corporations to follow when conducting business at home or abroad. Examples include the support for universal human rights and the approval of the right of freedom of association for employees.<sup>37</sup> The Millennium Challenge Corporation, created in 2004 by the United States Congress, is an “innovative and independent U.S. foreign aid agency” that utilizes fourteen selection indicators to judge the performance of countries and to determine eligibility for the program. The fourteen indicators are dispersed between the categories of Ruling Justly, Economic Freedom, and Investing in People.<sup>38</sup> All six indicators under Ruling Justly are used in this study and will be discussed in more detail. Furthermore, at the 2005 G8 summit in Gleneagles, the represented countries made an agreement to increase financial assistance to countries showing commitment to good governance practices.<sup>39</sup> There is much debate over the merit of the Washington Consensus and economic reform policies enforced by financial institutions, particularly the IMF’s structural adjustment program. This paper focuses solely on the effects of Chinese engagement with Africa on good governance; references to the policies of the IMF and World Bank serve only as additional evidence of Western efforts to reform Africa’s governments and economies through their aid, loans, and investments.

China, by contrast, follows what some have termed the Beijing Consensus, referring to the policies surrounding their investments and aid being carried out without conditions and pressures typically applied by the West.<sup>40</sup> The basis of the Beijing Consensus comes from the Five Principles of Mutual Coexistence, a doctrine established on June 28, 1954 between Zhou Enlai, the first premier of China, and Jawaharlal Nehru, the first prime minister of India.

---

36 Williamson, John. "What Washington Means by Policy Reform." Peter G. Peterson Institute for International Economics. Nov. 2002. Web. 20 Mar. 2011. <<http://www.iie.com/publications/papers/paper.cfm?researchid=486>>.

37 "The Global Sullivan Principles of Social Responsibility." The Leon H. Sullivan Foundation. Web. 20 Mar. 2011. <[http://www.thesullivanfoundation.org/about/global\\_sullivan\\_principles](http://www.thesullivanfoundation.org/about/global_sullivan_principles)>.

38 Millennium Challenge Corporation (MCC): About MCC. Web. <http://www.mcc.gov/pages/about>

39 Noorbakhsh, Farhad, and Alberto Paloni: 31 Jan. 2007. Web.

40 Sautman, Barry, and Yan Hairong 2008.

The Five Principles of Mutual Coexistence are as stated:

1. Mutual respect for territorial integrity
2. Non-aggression
3. Non-interference in internal affairs
4. Equality and mutual Benefit
5. Peaceful coexistence

The principles were originally intended to apply only to relations between India and China, but the reach of the document soon expanded to all non-communist countries of the developing world at the Bandung Conference in 1955—the first Asian-African conference for newly independent states.<sup>41</sup> China has specifically stood behind the third principle of this doctrine, non-interference in a country's internal affairs, when it has come under criticism from the West for its dealings in Africa, particularly in Sudan.<sup>42</sup> China has only been known to break away from these principles when its economic interests are at stake. For example, it is widely believed that China supported the campaign of the victorious incumbent president against a popular anti-Chinese candidate in the 2006 Zambian presidential election.<sup>43</sup>

China's strict adherence to the policy of non-interference is behind most Western criticisms of strengthening Sino-African relations. In a 2006 report on U.S. relations with Africa, the United States Council on Foreign Relations claimed that China protects rogue states and that its growing influence is countering Western efforts to improve good governance standards.<sup>44</sup> Both accusations, if proven true, are reasons to be concerned that China's role in Africa is perpetuating and facilitating human rights abuses against a population that already suffers from extreme poverty, disease, and hunger.

The idea tested in this paper concerns the second charge and its direct relationship to the "non-interference" principle. As funds from China continue to flood into the continent over the past decade, African leaders are becoming less dependent on the West for aid, investments, and loans. This decreasing dependence has the potential to create a decline in good governance standards as leaders accept fewer condition-based Western funds in favor of Chinese investments. It is also possible that countries will not work as hard toward meeting governance standards for programs like the Millennium Challenge Corporation, relying instead on the availability of investments and aid from China. Thus, the two hypotheses tested in this paper are:

*Hypothesis 1:* The condition-free nature of Chinese investments acts, when combined with China's policy of non-intervention, in opposition to Western efforts to improve

---

41 Taylor 2006: 18.

42 Alden 2008: 62.

43 Dixon 2011

44 Sautman, Barry, and Yan Hairong 2008.

good governance standards in Africa through international pressure and condition-based investments, aid, and loans. Therefore, increases in Chinese FDI in Africa since the start of the 21st century will have caused various good governance standards to decrease across the continent.

*Hypothesis 2:* Increases in Chinese FDI over the last decade will have affected the growth rates of good governance standards in Africa over recent years when compared to the years directly before the start of large-scale Chinese investment. The average growth rate of each good governance standard tested from 2002 to 2009 will have decreased in comparison to the rate from 1996 to 2002.

## **Data Description and Research Design**

### *Why FDI?*

Foreign Direct Investment is simply the investment of foreign assets into domestic physical capital. Throughout this paper, I refer to the government of China as the origin of all Chinese FDI and the behavior of the Chinese people working on the continent as reflexive of China's behavior as a whole. For most foreign countries these assumptions would be misleading; in China, they have considerable merit. China's Multinational Corporations (MNC) or State Owned Enterprises (SOE)—which have close ties to the government and can use the powers of diplomacy and aid to gain contracts and larger market shares—make the majority of Chinese investments, especially in the resource sector.<sup>45</sup> Smaller Chinese investors not owned or backed by the government do exist in Africa, though, and are often the owners of Chinese restaurants and retail stores. These entrepreneurs account for the increases in Chinese emigration to the continent, but their financial contributions remain small when compared to the MNCs and SOEs.<sup>46</sup>

Among the three possible measures of the PRC's increasing economic involvement with Africa—trade, FDI, and aid—one could argue against FDI as the best measure. To justify this choice, I point to the idea that though foreign investments boost local economies through benefits like job creation, they are initiated through motives that ultimately serve investors.<sup>47</sup> Alternately, trade implies that both parties are benefiting from the transaction through the acquisition of needed and previously unattainable commodities. When combined with China's non-interference policy, the self-centered nature of FDI justifies its use as the main independent variable in that the interests of Africa and its citizens are not explicitly considered. The only motive of Chinese investments is to generate profit, and decisions are made without intentions regarding governance. An argument could also be made in favor of using aid, as Chinese aid also lacks the conditions common to Western provisions of aid. However, Chinese aid data are not readily available and are often packaged together with investment deals, further

---

45 Alden 2007: 38.

46 Alden 2007: 37.

47 Alden 2007: 37.

justifying the use of FDI.<sup>48</sup>

### Independent Variables

*Chinese FDI stock and Chinese FDI flow:* Chinese FDI data come from the 2009 version of the Statistical Bulletin of China's Outward Foreign Direct Investment. The document has been published by the Ministry of Commerce of China every year since 2003 and contains Chinese outward FDI stock and flow data for each country from 2002 to 2009.<sup>49</sup> FDI data are also divided by industry and Chinese company. The natural log was taken for both variables to achieve a normal distribution and they are set to a one-year time lag, as effects from FDI are not immediate and are more likely to occur a year after the investment was made.<sup>50</sup>

### Dependent Variables (good governance standards)

*Regulatory Quality (WGI):* Measures perceptions of the government's ability to formulate and implement policies and regulations that allow for and help promote development in the private sector.<sup>51</sup> This index is part of the Worldwide Governance Indicators (WGI) formulated by the World Bank and the Brookings Institute. The variable is loosely set to a -2.5 to 2.5 continuous scale with larger numbers indicating better regulatory quality.

*Political Stability and Absence of Violence (WGI):* A variable measuring the perception of the possibility that a regime will become less stable or be overthrown by unconstitutional or violent means. Larger numbers indicate a more stable government.

*Control of Corruption (WGI):* An index measuring perceptions of corruption levels among public officials. The index considers both major and minor corruption. Larger numbers indicate that a country is perceived to have better control over corruption.

*Rule of Law (WGI):* Captures perceptions of the level of confidence people have in the laws of their society. The index includes measurements for contract enforcement, property rights, and quality of the police force. Larger numbers indicate better rule of law.

*Government Effectiveness (WGI):* Measures perceptions of the quality of government including the quality of public service, civil service, policy formulation, policy implementation, and level of independence from political pressures. Larger numbers reflect a more effective government.

*Physical Integrity Rights (CIRI):* This variable measures physical human rights abuses that occurred in a country for any given year. The four abuses accounted for in

48 "2009 Statistical Bulletin of China's Outward Foreign Direct Investment." China Invests. Web. 20 Oct. 2010.

49 "2009 Statistical Bulletin of China's Outward Foreign Direct Investment." China Invests. Web. 20 Oct. 2010.

50 One possible cause of error in this analysis is the use of FDI statistics from two different sources – the Ministry of Commerce of China and the World Bank (total FDI inflow).

51 "The World Wide Governance Indicators (WGI) Project". World Bank. 10 Nov. 2010. All WGI indicators are set to the same scale (-2.5-2.5)

the index are torture, extrajudicial killing, political imprisonment and disappearance. The variable is on a 0 to 8 non-continuous scale with each abuse weighted equally (0 to 2). A score of 8 indicates full respect for physical integrity. The index is part of CIRI Human Rights Data Project formulated by David Cingranelli and David Richards.<sup>52</sup> It should be noted that the same measure of disappearances, tortures and extrajudicial killings went into the composition of the Political Stability and Absence of Violence variable.

*New Empowerment Index (CIRI)*: Measures the government's ability to respect the rights of foreign movement, domestic movement, freedom of speech, freedom of assembly and association, workers' rights, electoral self-determination and freedom of religion. It is set to a 14-point non-continuous scale, with each right weighted equally at two points.

*Civil Liberties (Freedom House)*: Measures a country's protection of the following four rights: freedom of expression and belief, association and organizational rights, rule of law, and personal autonomy and individual rights. The variable is published by Freedom House as part of its annual Freedom of the World publication and it is set to a 7-point scale, with 7 indicating no government protection of civil liberties.<sup>53</sup>

*Political Rights (Freedom House)*: Measures a country's allowance of the right to have an electoral process, political pluralism and participation and the overall functioning of the government. Set to a 7-point non-continuous scale, with 7 indicating no respect for political rights.

*Press Freedom (Reporters Without Borders)*: Published by Reporters Without Borders, the press freedom index uses journalists' perceptions and statistics concerning the prosecution of journalists to generate a score for each country. There is no set scale, but 0 indicates complete freedom of the press and in 2010 the highest score was 105.00.<sup>54</sup>

## **Control Variables<sup>55</sup>**

*GDP per Capita (World Bank)*: Data provided in Current U.S. dollars and the natural log was taken to achieve a normal distribution. My belief is that poorer countries are more likely to experience a fluctuation in governance with the increase in Chinese investment.

*Population (World Bank)*: The natural log of population was used to insure a normal distribution.

*Total FDI Inflow (World Bank)*: Original data were altered by subtracting the

---

52 Cingranelli, David L., and David L. Richards. "CIRI Human Rights Data Project." 22 Nov. 2010. Web. 10 Dec. 2010. <[http://ciri.binghamton.edu/documentation/ciri\\_variables\\_short\\_descriptions.pdf](http://ciri.binghamton.edu/documentation/ciri_variables_short_descriptions.pdf)>.

53 "Checklist Questions and Guidelines." Freedomhouse. Web 14. Nov. 2010. <[http://www.freedomhouse.org/template.cfm?page=351&ana\\_page=355&year=2009](http://www.freedomhouse.org/template.cfm?page=351&ana_page=355&year=2009)>.

54 "Press Freedom Index 2010." Reporters Without Borders. Web. 23 Dec. 2010. <<http://en.rsf.org/press-freedom-index-2010,1034.html>>.

55 The control variables for GDP per Capita, Population, Total FDI inflow and Official Development Assistance come from the World Development Indicators databank in the World Bank's Data Catalog.



amount of Chinese FDI inflow to avoid double counting Chinese FDI throughout testing. The natural log was taken to achieve a normal distribution. The variable was also set to a one-year time lag in accordance with the logic that the effects of FDI inflow are more likely to be present in the following year. Reliable FDI stock data by country was not readily available through the World Bank or another source and will therefore not be featured in any regressions.

*Net Official Development Assistance Received (World Bank)*: Official Development Assistance is used to control for the amount of aid a country has received per year in current U.S. dollars. Due to China's resistance to publishing aid data,<sup>56</sup> this variable captures all non-Chinese aid, which is almost entirely Western in origin. Large amounts of Western aid to a country should work to increase good governance standards through the use of political conditions. As with Total FDI Inflow, the natural log was taken and this variable is set to a one-year time lag.

*Polity (Polity IV)*: The polity score measures a country's perceived level of democracy or autocracy on a non-continuous scale from -10 to 10 with 10 being the most democratic. In this study, the polity score is used to control for regime type. Increasing Chinese FDI should have less influence on governance standards in more democratic regimes.

*Civil War (PRIO)*: Conflict data come from the International Peace Research Institute Oslo (PRIO) and are coded to be either 0 or 1 with 1 indicating a conflict or war during that year.<sup>57</sup> Good governance standards, like freedom of the press and civil liberties, are likely to be negatively affected when a country is at war.

*Region*: I have divided countries into regions through a numbering system that can be used to selectively perform regressions. The regions I have chosen are: Africa, Developing Countries, Asia, and Latin America. Africa includes both sub-Saharan Africa and North Africa, which I have decided to test as one region. Asia includes all non-Middle Eastern countries and developed countries on that continent. Developing Countries includes all countries except those of the developed world, including the countries coded Africa, Latin America, and Asia. Smaller regions like the Middle East, Eastern Europe and Oceania did not have enough observations to warrant testing. A country was deemed developed if it had a GDP per Capita greater than 20,000 U.S. dollars as determined by the IMF. Regional testing was performed to create a means of comparison between Africa and other areas of the developing world.

---

56 Lum, Fischer, Gomez-Granger, and Anne Leland. "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia." 25 Feb. 2009. Web. 12 Mar. 2011.  
<<http://www.fas.org/sgp/crs/row/R40361.pdf>>.

57 "UCDP/PRIO Armed Conflict Dataset V4-2009." PRIO - Peace Research Institute Oslo. Web. 11 Nov. 2010.  
<<http://www.prio.no/CSCW/Datasets/Armed-Conflict/UCDP-PRIO/>>.

**Method***Hypothesis 1*

The unit of analysis is “country year,” with years ranging from 1996 to 2009. Not all variables were available for each year. To test Hypothesis 1, I ran eight multivariate regressions for each of the 10 dependent variables listed above. Four of the regressions were part of Model 1 and used Chinese FDI Stock as the principal independent variable and the other four were under Model 2 and used Chinese FDI Flow. There was one regression per model and per dependent variable for each for the following regions: Developing Countries, Africa, Asia, and Latin America. The equations used follow the two formats listed below with the governance standard or region changing for each regression.

$$\text{Corruption} = \alpha + \beta_1 \ln(\text{ChineseFDIstock})_{t-1} + \beta_2 \text{Polity} + \beta_3 \ln(\text{TotalFDI})_{t-1} + \beta_4 \ln(\text{AidRecieved})_{t-1} + \beta_5 \ln(\text{Population}) + \beta_6 \ln(\text{GDPperCapita}) + \beta_7 \text{War} + E \text{ if region} = \text{Africa}$$

$$\text{Corruption} = \alpha + \beta_1 \ln(\text{ChineseFDIflow})_{t-1} + \beta_2 \text{Polity} + \beta_3 \ln(\text{TotalFDI})_{t-1} + \beta_4 \ln(\text{AidRecieved})_{t-1} + \beta_5 \ln(\text{Population}) + \beta_6 \ln(\text{GDPperCapita}) + \beta_7 \text{War} + E \text{ if region} = \text{Africa}$$

*Hypothesis 2*

To test Hypothesis 2, I compared the growth rates of five of the good governance standards where data exist before and after China began large-scale investment, and set them to a continuous scale. The year 2000 is widely agreed upon by scholars as the start of China’s engagement with the continent,<sup>58 59 60</sup> but for this analysis 2002 will be the cutoff point to allow for sufficient lag time. I performed this analysis for the same four regions of the world used to test Hypothesis 1.

---

58 Alden 2007: 8.

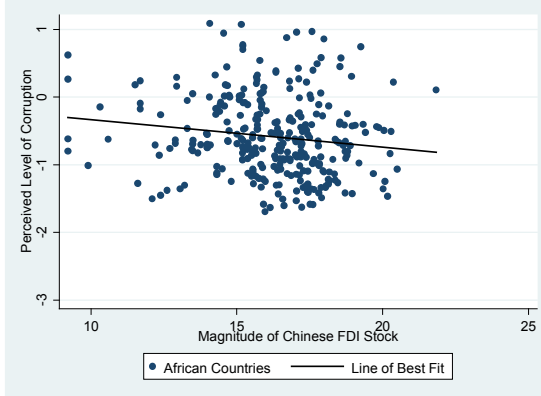
59 Michel, Beuret, Woods, and Valley, 2009: 138.

60 Alden, Large, and Soares de Oliveria, 2008: 111.

## Results

### *Part 1: Hypothesis 1*

Graph 3: Relationship between the magnitude of Chinese FDI Stock and Perceived levels of Corruption in Africa (2003-2009)



As demonstrated above, there exists a slight negative relationship between the amount of Chinese FDI stock in an African country and the perceived levels of Control of Corruption. The relationship may not be drastic, but a similar negative relationship is present for all ten good governance standards tested. Below is the regression table containing the data obtained from the regressions run using the dependent variable of Control of Corruption, often coded simply as Corruption. Recall that the only difference between Model 1 and Model 2 is the use of Chinese FDI stock, representing China's total investment presence in a country in a given year, and Chinese FDI flow, representing the increase in China's investment presence in a given year.

Table 1: Corruption regression results

<b>Corruption</b>	<b>Model1</b>	<b>Model1</b>	<b>Model1</b>	<b>Model1</b>	<b>Model 2</b>	<b>Model2</b>	<b>Model2</b>	<b>Model2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0494 (.0140)**	-.0870 (.0235)**	-.0417 (.0198)**	-.0786 (.0324)**				
<b>Chinese FDI Flow</b>					-.0331 (.0042)**	-.0482 (.0182)**	-.0522 (.0150)**	-.0091 (.0249)
<b>Total FDI Inflow</b>	.0004 (.0212)	-.0409 (.0300)	-.0010 (.0266)	-.0463 (.1094)	.0079 (.0228)	-.0123 (.0337)	-.0129 (.0290)	-.0131 (.1231)
<b>Aid Received</b>	.1258 (.0482)**	.0245 (.0677)	.3233 (.0937)**	.4345 (.1627)**	.0924 (.0494)*	-.0094 (.0701)	.2934 (.0908)**	.3649 (.1781)**
<b>GDP per Capita</b>	.3072 (.0539)**	.2416 (.0792)**	.5708 (.0934)**	.9232 (.2297)**	.2768 (.0554)**	.1935 (.0813)**	.5772 (.0950)**	.7940 (.2534)**
<b>Polity</b>	.0340 (.0040)**	.0551 (.0070)**	.0232 (.0052)**	.2183 (.0445)**	.0350 (.0042)**	.0589 (.0075)**	.0212 (.0051)**	.2132 (.0498)**
<b>Population</b>	.0256 (.0303)	.0757 (.0461)	.1531 (.0497)**	.0475 (.1014)	.0065 (.0306)	.0301 (.0463)	.1423 (.0496)**	-.0296 (.1117)
<b>War</b>	.0063 (.0676)	-.1728 (.1037)*	.1660 (.0827)**	.1896 (.1988)	.0200 (.0686)**	-.1123 (.1069)	.1166 (.0827)	.1942 (.2326)
<b>Constant</b>	-2.631 (.6582)**	-1.312 (.9518)	-6.929 (1.291)**	-8.396 (1.706)**	-2.550 (.6716)**	-1.529 (.9900)	-6.584 (1.293)**	-7.844 (1.873)**
<b>Observations</b>	399	182	108	64	373	170	103	61

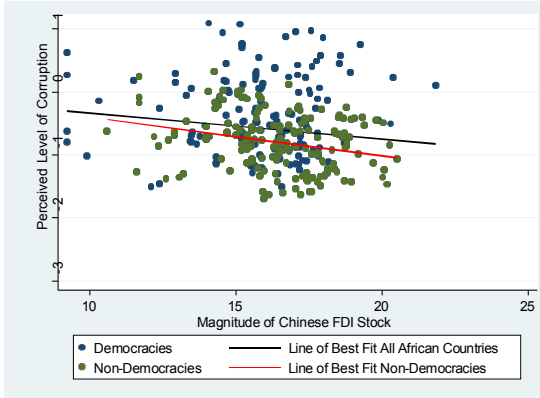
Note: p<=.1 = \* significant p<= .05 \*\* highly significant

The regression table highlights several important trends that were evident throughout the testing of the ten governance standards. First, in Africa, Chinese FDI Stock/Flow lowered good governance standards in all regressions and was highly significant in all cases but one. That regression was Model 2 of Physical Human Rights Abuses and the p score was just above the significance level of .1 at .159. Chinese FDI also consistently and adversely affected good governance standards in the developing world as a whole, with 17 of 20 regressions returning either significant or highly significant negative coefficients. In comparison, the negative relationship between Chinese FDI Stock and Flow was much stronger in Africa than the developing world in all but one case: Model 2 of the Empowerment Index. The negative coefficients of Chinese FDI for Africa also represented stronger correlations than those of Asia and Latin America. Additionally, Chinese FDI Stock had, a more detrimental relationship with governance than Chinese FDI Flow in most cases, a logical occurrence considering that FDI inflow makes up only a portion of the total FDI stock a majority of the time.

The control variable that best predicts good governance standards is Polity. Polity had a positive effect in 76 out of 80 regressions with all of those values being highly significant or significant. Graphically, the effect of polity is displayed below with a variation to Graph 3. The red line is the line of best fit for African countries after taking out the relatively strong democracies (countries with a polity score greater than six). The green points represent the African democracies not factored into the creation of the new line. It is clear that once relatively strong democracies are taken out of consid-

eration, there exists an even stronger negative correlation between Chinese FDI stock and levels of perceived Corruption.

Graph 4: Relationship between the Magnitude of Chinese FDI Stock and perceived Corruption levels in Africa's Democracies and Non-Democracies (2003-2009)



Other consistent patterns that existed were between the independent variables GDP per Capita and War. GDP per Capita positively affected good governance standards in the five cases where the dependent variable was on a continuous scale (Corruption, Rule of Law, Political Stability, Government Effectiveness, and Regulatory Quality.) In the regression table for Corruption, GDP per Capita is highly significant in all cases and its coefficient is much higher than any other independent variable. This pattern holds for each of the five continuous variables. War is a good predictor for the standards of Freedom of the Press, Political Rights, and Physical Human Rights Abuses, all standards that would logically decrease during war times.

Below is the regression table for Press Freedom. Holding true to the pattern established by the Corruption table, Africa and the Developing world both had highly significant negative relationships between Freedom of the Press and Chinese FDI Stock/Flow; the relationship in Africa was stronger than that in the Developing World.<sup>61</sup> The table for Press Freedom is interesting in that it is one of the few variables where there was a significant relationship between Total FDI Inflow and an increase in good governance standards. In six of the eight regressions, Western FDI had a positive influence on Freedom of the Press. Only in Latin America was the relationship insignificant.

61 Positive coefficients indicate lower freedom of the press due to the scaling of the variable.

Table 2: Press Freedom Regression results

<b>Freedom of the Press</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	.8995 (.4399)**	2.154 (.6916)**	-1.225 (.9825)	.5470 (.7005)				
<b>Chinese FDI Flow</b>					.7138 (.3222)**	1.150 (.5094)**	.3237 (.7329)	-.5737 (1.019)
<b>Total FDI Inflow</b>	-2.299 (.6697)**	-3.084 (.8826)**	-2.196 (1.321)*	1.356 (2.368)	-1.883 (.6909)**	-2.125 (.9451)**	-2.247 (.2487)**	.6289 (2.519)
<b>Aid Received</b>	-3.955 (1.515)**	-1.370 (1.989)	1.617 (4.659)	4.239 (3.519)	-3.139 (1.486)**	-1.185 (1.967)	2.246 (4.454)	5.725 (3.645)
<b>GDP per Capita</b>	-.3014 (1.699)	.1783 (2.329)	3.921 (4.648)	1.205 (4.969)	-.1186 (1.673)	.0189 (2.822)	5.549 (4.661)	3.442 (5.186)*
<b>Polity</b>	-2.299 (.1286)**	-2.158 (.204)**	-2.183 (.2594)**	-1.746 (.963)*	-2.225 (.1290)**	-1.985 (.2100)**	-2.247 (.249)**	-1.731 (1.019)*
<b>Population</b>	3.842 (.954)**	2.165 (1.356)	4.858 (2.474)*	2.780 (2.193)	3.899 (.9225)**	2.379 (1.298)*	6.262 (2.434)**	4.099 (2.286)*
<b>War</b>	7.634 (2.124)**	8.436 (3.047)**	3.213 (4.114)	13.46 (4.301)**	6.564 (2.064)**	7.225 (2.999)**	2.971 (4.056)	13.08 (4.761)**
<b>Constant</b>	12.70 (20.67)	21.92 (27.98)	1.286 (64.16)	-62.13 (36.90)*	5.902 (20.217)	19.417 (27.77)	-31.33 (63.46)	-70.59 (38.33)*
<b>Observations</b>	395	182	108	64	369	170	103	61

Note:  $p < .1$  = \* significant  $p < .05$  \*\* highly significant

A significant positive correlation between good governance standards and non-Chinese FDI inflow also exists in the Developing World and Latin America for Regulatory Quality (both models) and in Latin America for Government Effectiveness. A significant negative correlation exists between non-Chinese FDI and the standards of Political Stability and Government Effectiveness in Model 1 for Africa, but the relationship remains much weaker than that of Chinese FDI Stock.<sup>62</sup> There were no other significant correlations with Total FDI Inflow. The observation that Chinese FDI has consistent adverse effects on governance while Western FDI has no pattern of improving or decreasing governance further supports my argument. The failure of Western FDI to achieve its goal of improving governance is unimportant as long as the effects of Chinese FDI are significantly more adverse.

Regarding Latin America and Asia, correlations between Chinese FDI and good governance were found less frequently than in Africa and the Developing World. Chinese FDI Flow seems to have a negative impact in Latin America where six of the ten regressions of Model 2 had significant negative correlations with their respective governance standard. No significant relationships were found in Model 1 for Latin America. In Asia, Chinese FDI Stock had significant negative relationships with seven good governance standards while Chinese FDI flow had only three significant nega-

62 See appendix for tables outlining all regression results.

tive relationships. The difference between the importance of stock and flow amongst the two regions could be explained by proximity. Countries in Asia are much closer to China and have been accumulating Chinese FDI stock for many years before the PRC kept track of FDI data. Therefore, Chinese FDI flow to Asian countries in recent years made up a lower share of the total stock in those countries, thereby reducing its impact on good governance standards. In Latin America, China's engagement is more recent. Before 2003, the first year of data, Chinese stock was very small or non-existent. Therefore, new flow into Latin America is likely to have a greater impact on governance because it makes up a higher percentage of the total FDI stock.

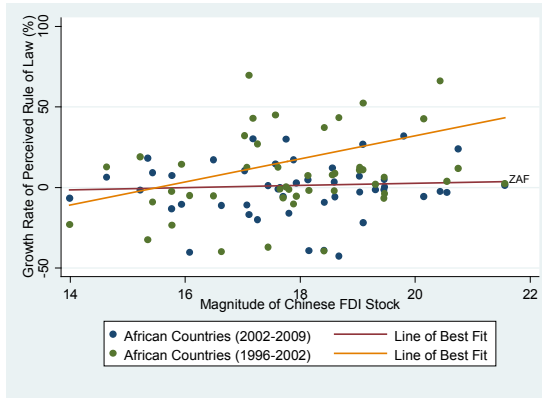
In dealing with indices as a measure of governance standards like corruption, it is difficult to pinpoint what percent of funds will be siphoned off or how the individual citizens of a country will be affected by a .087 decrease in perceived corruption. One possible solution is to put the coefficient in terms of a percent of the total scale. In the case of corruption, a one-unit increase in the magnitude of Chinese FDI stock equates to a 1.74 percent increase in perceived corruption.<sup>63</sup> While 1.74 percent appears to be a small change, it can multiply quickly, as multiple-unit increases in Chinese FDI can and have occurred in Africa. For example, a three-unit increase in Chinese FDI stock from 15 to 18 on the log scale represents an increase from around 3 million dollars to 65 million dollars in FDI. Botswana experienced a similarly sized increase in Chinese FDI between the years 2004 and 2008 increasing from 3.8 million dollars to 65.3 million dollars and Namibia has experienced a six-unit increase between 2003 and 2009 from 11.5 to 17.5. In terms of corruption, a three-unit increase in Chinese FDI Stock would reflect a 5.28 percent increase in perceived corruption. Though this change is small, it shows the potential for major decreases if Chinese FDI in Africa continues to grow at similar rate. It should also be noted that Corruption had the weakest coefficient in terms of percent change out of all the governance standards. The strongest was a 3.05 percent decrease in political rights for every one-unit increase in Chinese FDI Stock.

---

63 Positive coefficients indicate lower freedom of the press due to the scaling of the variable.

*Part 2: Hypothesis 2*

Graph 5: Comparison of the Growth Rates of Perceived Rule of Law in Africa Before and After 2002



Graph 5 shows that the average growth rate of Rule of Law for African countries has decreased from 2002 to 2009, the period following the start of heavy Chinese Investment. The magnitude of Chinese FDI Stock on the X-axis serves as another reference to the large amounts of Chinese FDI on the continent and how increases in stock have caused a flattening out of the line of best fit.

Hypothesis 2 was tested with the five government standards set to a continuous scale and contained data from 1996-2002. Those variables are listed below on the left side of Table 3, which compares the average growth rates for the four regions before and after 2002. The table shows that for all five standards in the regions of Developing Countries, Africa, and Asia, the growth rate after the start of Chinese investment is smaller than the growth rate before the start of Chinese investment. In Latin America, the growth rate before 2002 was higher for each standard except Government Effectiveness, the standard with the most similar results in all four regions. Amongst the Developing World, Africa, and Asia, the changes in growth rates from 1996-2002 to 2002-2009 were very similar with no distinguishable pattern by region.



Table 3: Growth Rate Comparisons of Governance standards before and after Chinese Investment<sup>64</sup>

	Developin g World 1996-02	Developin g World 2002-09	Africa 1996-02	Africa 2002- 09	Asia 1996-02	Asia 2002- 09	Latin Americ a 1996- 02	Latin Americ a 2002-09
<b>Control of Corruption</b>	3.677% (154)	1.466% (154)	1.909% (51)	- .9532 % (51)	2.304% (28)	- 3.472 % (28)	-5.657% (32)	6.3521 % (32)
<b>Rule of Law</b>	5.163% (154)	2.459% (154)	14.72% (51)	1.244 % (51)	4.478% (28)	1.042 % (28)	-1.831% (32)	-.0659% (32)
<b>Political Stability</b>	10.09% (141)	5.742% (141)	16.58% (47)	13.62 % (47)	17.63% (25)	3.847 % (25)	-6.274% (31)	4.877% (31)
<b>Government Effectivenes s</b>	146.69% (108)	-57.30% (108)	179.04 % (41)	- 62.02 % (41)	132.83 % (21)	- 55.89 % (21)	122.42 % (20)	-52.76% (20)
<b>Regulatory Quality</b>	10.35% (151)	.9839% (151)	15.76% (50)	.2833 % (50)	32.75% (27)	1.986 % (27)	-9.343% (32)	-4.206% (32)

It is important to note that although this analysis of growth rates is simplistic and cannot be mathematically tied to increases in Chinese FDI, it still provides an overview of how governance has changed since China's increased economic interaction with Africa and the developing world. It can be assumed that the same independent variables tested in Part I had the same pattern of influence on the growth rates as they did throughout the regressions. For example, South Africa, which is identified on Graph 5 by its country code of ZAF, already had a high Rule of Law score and has seen very little growth since 1996 and very little change in growth rates from before and after 2002. The most likely cause for Chinese FDI's lack of influence on Rule of Law in South Africa is its strong democratic government indicated by a high polity score.

64 Several countries did not have data for these variables for the years 1996 and 1997; analysis on these countries began from 1998. All extreme outliers were dropped for each variable.

## Conclusion and Further Implications

One of the more famous displays of African unity against growing Chinese influence occurred in 2004 and involved the Chinese shipping boat *An Yue Jiang*. The boat arrived in Durban, South Africa attempting to unload its cargo, which was filled with ammunition and rockets headed for landlocked Zimbabwe.<sup>65</sup> The president of Zimbabwe, Robert Mugabe, has had to rely on brute force and Chinese support to maintain power in a country suffering from hyperinflation and extreme poverty. Mugabe has even said that Zimbabwe “must turn toward the East, where the sun rises,”<sup>66</sup> and would have used the weapons and ammunitions to continue to suppress Zimbabweans and his political opponents. The *An Yue Jiang* garnered unwanted international attention when South Africa refused to let it unload, citing solidarity with Zimbabweans.

The ship’s next stop was Luanda, Angola, where it loaded construction supplies but was still unable to deliver the arms to Mugabe. The *An Yue Jiang* was then forced to sail back around South Africa to the port of Beira, Mozambique where it finally unloaded the cargo into trucks headed for Harare.<sup>67</sup> The journey lasted over a month and covered thousands of miles more than originally intended. It is this undiscouraged and relentless pursuit of profit, resources, and business on the continent that has drawn Western criticism and supports the results presented in this paper.

China’s investment in Africa has the potential to boost economic growth across the continent. However, a clear, consistent, and negative relationship exists between Chinese investment and good governance in Africa. This pernicious effect is illustrated in the Republic of Congo where, in 2002, Regulatory Quality had climbed to its highest point, growing at a rate of 10 percent since 1996. After 2002, Chinese FDI stock in the Congo rose from 5 million dollars to a staggering 115 million dollars, while Regulatory Quality declined at a rate of -17 percent. It is impossible to know how much Regulatory Quality would have improved in the absence of Chinese investment, but based on these findings, it is safe to suggest that it would be higher than it is today. One possible explanation for the stronger relationship in Africa compared to other regions is the lack of distinction between the economic and political spheres on the continent—a characteristic that exists, to some extent, in all developing countries, but rarely to the degree that it exists in Africa.<sup>68</sup> Growth rates of good governance standards have also decreased since the beginning of China’s economic foray into the continent.

Unfortunately, this study provides only general answers to the effects of China’s new partnership with Africa. Additional research into the types of FDI that are more detrimental to governance and which types of regimes are more susceptible to the effects of Chinese FDI would be helpful in better understanding this relationship. Completing a similar study with Chinese aid data would be beneficial as well. The availability of Chinese FDI data for only the years 2003 to 2009 also hinders the effectiveness

---

65 Michel, Beuret, Woods, and Valley, 2009: 138.

66 *Ibid.*, 18.

67 Michel, Beuret, Woods, and Valley, 2009: 137.

68 Alden, Large, and Soares de Oliveria, 2008: 111.

of this study. Assuming China continues to publish FDI data, a similar study five years from now should paint a more complete picture of the correlation between Chinese FDI and good governance.

The additional threat to governance on a continent decimated by war, poverty, and self-serving regimes is and should be a topic of concern for the West and its efforts to improve governance across the continent. As China's economy continues to grow, and its corporations continue to invest in Africa and abroad, the threat to good governance will persist unless China starts applying pressure or Western-style conditions along with its investments.

*Michael Custer graduated from NYU in 2011 with a major in international relations and minors in both African studies and French. He first became interested in Sino-African relations while studying abroad in Ghana in the fall of 2009. He applied for a Fulbright research grant to continue his study of the effects of Chinese investment in Africa; the decision is pending. Currently, he is working in Dubai as an Education Consultant.*

## Appendix

Note:  $p \leq .1$  = \* significant  $p \leq .05$  \*\* highly significant

Table 4: Regulatory Quality regression results

Regulatory Quality	Model1	Model1	Model1	Model1	Model 2	Model2	Model2	Model2
Region	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0303 (.0149)**	-.1084 (.0219)**	.0035 (.0217)	-.0234 (.0346)				
<b>Chinese FDI Flow</b>					-.0324 (.0112)**	-.0470 (.0170)**	-.0348 (.0165)**	-.0266 (.0249)
<b>Total FDI Inflow</b>	.0807 (.0227)**	.0215 (.0279)	.0114 (.0292)	.3878 (.1169)**	.0856 (.0239)**	.0127 (.0316)	.0493 (.0320)	.3756 (.1229)**
<b>Aid Received</b>	.1070 (.0516)**	.0219 (.0629)	.5261 (.1031)**	.1260 (.1738)	.0802 (.0516)	.0024 (.0659)	.4976 (.1)**	.1203 (.1778)
<b>GDP per Capita</b>	.2299 (.0576)**	.2677 (.0764)**	.7159 (.1029)**	.2172 (.2454)	.2026 (.0579)**	.2370 (.0764)**	.6682 (.1047)**	.2260 (.2530)
<b>Polity</b>	.0474 (.0043)**	.0595 (.0065)**	.3625 (.0057)**	.1641 (.0476)**	.0473 (.0044)**	.0582 (.0070)**	.0372 (.0056)**	.1577 (.0497)**
<b>Population</b>	-.0202 (.0325)*	.1222 (.0429)**	.1974 (.0548)**	-.3165 (.1083)**	-.0290 (.0320)	.0816 (.0435)*	.1596 (.0547)**	-.3102 (.1115)**
<b>War</b>	-.0056 (.0723)	-.2181 (.0964)	.2442 (.0910)**	.2725 (.2454)	-.0090 (.0718)	-.1525 (.1004)	.2059 (.0911)**	.2611 (.2530)
<b>Constant</b>	-3.150 (.7038)**	-3.062 (.8829)**	-9.977 (1.4205)**	-5.958 (1.8222)**	-2.891 (.7026)**	-3.125 (.9299)**	-9.094 (1.425)**	-5.825 (1.870)**
<b>Observations</b>	399	182	108	64	373	170	103	61

Table 5: Political Stability Results

<b>Political Stability</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0323 (.0184)*	-.1274 (.0270)**	.0365 (.0393)	-.0709 (.0303)**				
<b>Chinese FDI Flow</b>					-.0117 (.0140)	-.0737 (.0204)**	.0616 (.0303)**	-.0228 (.0229)
<b>Total FDI Inflow</b>	.0069 (.0279)	-.0713 (.0344)**	.0583 (.0589)	.0118 (.1025)	.0134 (.0300)	-.0423 (.0378)	.0250 (.0587)	-.0023 (.1132)
<b>Aid Received</b>	.1716 (.0634)**	.2333 (.0775)**	.3268 (.1865)*	.1450 (.1524)	.1792 (.0648)**	.2292 (.0786)**	.4282 (.1838)**	.1043 (.1639)
<b>GDP per Capita</b>	.3325 (.0708)**	.4932 (.0908)**	.5307 (.1861)**	.6158 (.2152)**	.3237 (.0727)**	.4351 (.0912)**	.6312 (.1923)**	.5902 (.2332)**
<b>Polity</b>	.0235 (.0053)**	.0633 (.0080)**	-.0109 (.0104)	.1838 (.0417)**	.0240 (.0056)**	.0622 (.0084)**	-.0126 (.0103)	.1921 (.0458)**
<b>Population</b>	-.1272 (.0399)**	-.0460 (.0529)	-.0179 (.0990)	-.0697 (.0950)	-.1406 (.0402)**	-.1149 (.0519)**	.04253 (1.004)	-.0943 (.1028)
<b>War</b>	-.5927 (.0889)**	-.5762 (.1188)**	-.5319 (.1647)**	-.9066 (.1862)**	-.5460 (.0900)**	-.5164 (.1198)**	-.3679 (.1673)**	-.8276 (.2141)**
<b>Constant</b>	-.6447 (.8654)	-.0577 (1.091)	-6.295 (2.570)**	-4.933 (1.598)**	-.8678 (.8815)	-.1441 (1.110)	-7.842 (2.618)**	-4.916 (1.724)**
<b>Observations</b>	399	182	108	64	373	170	103	61

Table 6: Rule of Law regression results

<b>Rule of Law</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0534 (.0153)**	-.1132 (.0233)**	-.0719 (.0223)**	-.0861 (.0310)**				
<b>Chinese FDI Flow</b>					-.0342 (.0117)**	-.0581 (.0183)**	-.0696 (.0172)**	-.0205 (.0240)
<b>Total FDI Inflow</b>	.0230 (.0232)	-.0204 (.0297)	.0093 (.0300)	.1419 (.1047)	.0239 (.0250)	-.0069 (.0340)	.0188 (.0333)	.1696 (.1184)
<b>Aid Received</b>	.0752 (.0527)	.0109 (.0670)	.4915 (.1059)**	.3148 (.1556)**	.0461 (.0539)	-.0152 (.0708)	.4429 (.1042)**	.2451 (.1713)
<b>GDP per Capita</b>	.2581 (.0588)**	.3023 (.0785)**	.7186 (.1057)**	.7021 (.2198)**	.2307 (.0605)**	.2580 (.0822)**	.6790 (.1090)**	.5775 (.2438)**
<b>Polity</b>	.0275 (.0044)**	.0564 (.0069)**	.0236 (.0059)**	.1753 (.0426)**	.0287 (.0046)**	.0571 (.0076)**	.0216 (.0058)**	.1680 (.0479)**
<b>Population</b>	.0095 (.0331)	.0975 (.0457)**	.2535 (.0562)**	-.1544 (.0970)	-.0089 (.0335)	.0440 (.0467)	.2211 (.0570)**	-.2265 (.1075)**
<b>War</b>	-.0004 (.0738)	-.2174 (.1027)**	.1407 (.0935)	-.0922 (.1902)	.0258 (.0750)	-.1399 (.1080)	.1233 (.0949)	-.1132 (.2238)
<b>Constant</b>	-2.317 (.7189)**	-2.042 (.9429)**	-9.601 (1.460)**	-6.918 (1.632)**	-2.196 (.734)**	-2.152 (.9998)**	-9.054 (1.484)**	-6.308 (1.802)**
<b>Observations</b>	399	182	108	64	373	170	103	61

Table 7: Physical Human Rights Abuses regression results

Physical Abuses	Model 1	Model 1	Model 1	Model 1	Model 2	Model 2	Model 2	Model 2
Region	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0328 (.0877)	-.1565 (.0614)**	.1015 (.0667)	.0844 (.0950)				
<b>Chinese FDI Flow</b>					-.0319 (.0292)	-.0674 (.0477)	.0058 (.0536)	.0060 (.0693)
<b>Total FDI Inflow</b>	.0735 (.0581)	-.0328 (.0781)	.1223 (.0897)	-.5535 (.3211)*	.0642 (.0625)	-.0590 (.0881)	.1290 (.1037)	-.5724 (.3420)*
<b>Aid Received</b>	.2028 (.1321)	.2230 (.1761)	.2997 (.3163)	-.1962 (-.5535)	.2029 (.1351)	.2021 (.1835)	.4239 (.3247)	-.0473 (.4949)
<b>GDP per Capita</b>	.1731 (.1476)	.2375 (.2063)	.3894 (.3155)	.7334 (.6740)	.2056 (.1515)	.2271 (.2130)	.5524 (.3398)	.9061 (.7042)
<b>Polity</b>	.0877 (.0112)**	.1354 (.0181)**	.0002 (.0176)	.5556 (.1307)**	.0821 (.0117)**	.1281 (.0196)**	-.0014 (.0181)	.5554 (.1384)**
<b>Population</b>	-.7234 (.0832)**	-.4815 (.1202)**	-.6623 (.1680)**	-.5021 (.2975)*	-.7058 (.0838)**	-.5101 (.1212)**	-.6037 (.1775)**	-.4258 (.3104)
<b>War</b>	-1.294 (.1862)**	-1.027 (.2697)**	-1.006 (.2792)**	-1.829 (.5835)**	-1.244 (.1888)**	-.9580 (.2798)**	-1.007 (.2957)**	-1.564 (.7042)**
<b>Constant</b>	13.35 (1.803)**	13.064 (2.480)**	7.120 (4.358)	13.15 (5.005)**	12.98 (1.838)**	12.516 (2.595)	6.424 (4.626)	12.087 (5.205)**
<b>Observations</b>	397	181	108	64	370	169	103	61

Table 8: Government Effectiveness regression results

Government Effectiveness	Model 1	Model 1	Model 1	Model 1	Model 2	Model 2	Model 2	Model 2
Region	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.0421 (.0140)**	-.1263 (.0219)**	-.0202 (.0217)	-.0622 (.0255)**				
<b>Chinese FDI Flow</b>					-.0303 (.0107)**	-.0634 (.0174)**	-.0385 (.0165)**	-.0132 (.0195)
<b>Total FDI Inflow</b>	.0121 (.0213)	-.0587 (.0280)**	.0096 (.0292)	.2271 (.0861)**	.0136 (.0228)	-.0484 (.0322)	.0143 (.0319)	.2508 (.0963)**
<b>Aid Received</b>	.0735 (.0484)	.0522 (.0632)	.3623 (.1029)**	.3092 (.1280)**	.0481 (.0494)	.0249 (.0670)	.3360 (.0998)**	.2564 (.1393)*
<b>GDP per Capita</b>	.3269 (.0540)**	.4184 (.0740)**	.7220 (.1026)**	.6425 (.1808)**	.3004 (.0553)**	.3696 (.0778)**	.7111 (.1044)**	.5443 (.1982)**
<b>Polity</b>	.0327 (.0041)**	.0570 (.0065)**	.0189 (.0057)**	.1201 (.0351)**	.0334 (.0042)**	.0581 (.0071)**	.0170 (.0056)**	.1139 (.0389)**
<b>Population</b>	.0802 (.0304)**	.2317 (.0431)**	.2309 (.0546)**	-.1830 (.0798)**	.0660 (.0306)**	.1772 (.0442)**	.2145 (.0546)**	-.2391 (.0874)**
<b>War</b>	-.0287 (.0540)	-.2496 (.0968)**	.1430 (.0908)	.0692 (.1565)	-.0126 (.0686)	-.1696 (.1021)*	.1286 (.0909)	.0474 (.1820)
<b>Constant</b>	-3.881 (.6601)**	-4.124 (.8888)	-9.871 (1.417)**	-7.445 (1.343)**	-3.715 (.6714)**	-4.262 (.9462)**	-9.305 (1.422)**	-6.964 (1.465)**
<b>Observations</b>	399	182	108	64	373	170	103	61

Table 9: Empowerment Index regression results

<b>Empowerment Index</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	-.2709 (.0588)**	-.3977 (.0865)**	-.1375 (.1257)	-.0428 (.1131)				
<b>Chinese FDI Flow</b>					-.1997 (.0441)**	-.1671 (.0683)**	-.1874 (.0919)**	.0137 (.0816)
<b>Total FDI Inflow</b>	.0565 (.0892)	.0693 (.1104)	.2291 (.169)	-.0615 (.3822)	.0705 (.0945)	.0391 (.1266)	.3296 (.1778)*	.0459 (.4025)
<b>Aid Received</b>	.0685 (.2028)	.1805 (.2489)	.2430 (.5960)	-.6836 (.5681)	.0646 (.2043)	.1767 (.2636)	.3429 (.5565)	-.6671 (.5824)
<b>GDP per Capita</b>	.1578 (.2265)	.2234 (.2914)	-.6633 (.5946)	-.5950 (.8023)	.1828 (.2292)	.1886 (.3058)	-.5851 (.5824)	-.8041 (.8287)
<b>Polity</b>	.4505 (.0171)**	.4230 (.0255)**	.3619 (.0332)**	.6302 (.1555)**	.4381 (.0176)**	.3965 (.0281)**	.3678 (.0311)**	.6153 (.1628)**
<b>Population</b>	-.3788 (.1276)**	-.4524 (.1696)**	-.3324 (.3165)	.0664 (.3541)	-.4297 (.1268)**	-.5686 (.1740)**	-.4061 (.3042)	-.0499 (.3653)
<b>War</b>	-.9722 (.2842)**	-.9916 (.3813)**	.5302 (.5263)	-1.27 (.6945)*	-.8368 (.2839)**	-.8834 (.4019)**	.7281 (.5068)	-1.377 (.7608)*
<b>Constant</b>	14.357 (2.768)**	16.94 (3.501)	12.58 (8.212)	11.93 (5.957)*	13.226 (2.780)**	15.53 (3.722)**	11.73 (7.929)	12.54 (6.126)**
<b>Observations</b>	399	182	108	64	373	170	103	61

Table 10: Civil Liberties regression results

<b>Civil Liberties</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>	<b>Model 2</b>
<b>Region</b>	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	.0798 (.0210)**	.1381 (.0402)**	.0131 (.0375)	.1063 (.0419)**				
<b>Chinese FDI Flow</b>					.0634 (.0160)**	.103 (.0300)**	.0286 (.0291)	.0284 (.0321)
<b>Total FDI Inflow</b>	-.0482 (.0320)	-.0496 (.0510)	-.0229 (.0505)	.0766 (.1414)	-.0623 (.0341)*	-.0700 (.0552)	-.0673 (.0564)	.0741 (.1583)
<b>Aid Received</b>	-.0713 (.0751)	-.0143 (.1254)	-.4114 (.1780)**	-.2176 (.2102)	-.0450 (.0767)	-.0118 (.1259)	-.3958 (.1766)**	-.1446 (.2291)
<b>GDP per Capita</b>	-.1520 (.0840)*	-.1037 (.1479)	-.4152 (.1776)**	-.8484 (.2969)**	-.1210 (.0859)	-.0877 (.1472)	-.3599 (.1848)*	-.7509 (.3259)**
<b>Polity</b>	-.2007 (.0061)**	-.2202 (.0117)**	-.1574 (.0099)**	-.2833 (.0576)**	-.1989 (.0063)**	-.2207 (.0122)**	-.1593 (.0099)**	-.2912 (.0640)**
<b>Population</b>	.0084 (.0461)	-.0496 (.0806)	-.1517 (.0946)	-.0185 (.1310)	.0380 (.0463)	-.0061 (.0782)	-.1101 (.0965)	.0406 (.1437)
<b>War</b>	.5242 (.1014)**	.8595 (.1756)**	-.1450 (.1572)	.5121 (.2570)*	.4976 (.1024)**	.7804 (.1756)**	-.1683 (.1608)	.5268 (.2992)*
<b>Constant</b>	4.931 (1.030)**	4.406 (1.776)**	10.85 (2.453)**	8.809 (2.204)**	4.853 (1.045)**	4.779 (1.791)**	10.39 (2.515)**	8.459 (2.409)**
<b>Observations</b>	385	168	108	64	359	156	103	61

Table 11: Political Rights regression results

Political Rights	Model 1	Model 1	Model 1	Model 1	Model 2	Model 2	Model 2	Model 2
Region	Developing Countries	Africa	Asia	Latin America	Developing Countries	Africa	Asia	Latin America
<b>Chinese FDI Stock</b>	.1239 (.0271)**	.2137 (.0473)**	.1395 (.0525)**	-.0118 (.0394)				
<b>Chinese FDI Flow</b>					.0839 (.0200)**	.1225 (.0360)**	.0765 (.0421)*	-.0049 (.0233)
<b>Total FDI Inflow</b>	.0062 (.0440)	.0580 (.0630)	-.0075 (.0817)	-.2607 (.1303)*	-.0097 (.0448)	.0059 (.0669)	-.0110 (.0843)	-.3646 (.1238)**
<b>Aid Received</b>	.0068 (.0956)	-.2619 (.1466)*	.1495 (.2579)	.3474 (.1747)*	.0339 (.0983)	-.2282 (.1550)	.2521 (.2645)	.2985 (.1594)*
<b>GDP per Capita</b>	-.1753 (.1092)	-.3864 (.1716)**	-.2233 (.2659)	.2480 (.2558)	-.1456 (.1104)	-.2956 (.1772)*	-.1477 (.2722)	.3808 (.2399)
<b>Polity</b>	-.2811 (.0077)**	-.3141 (.0137)**	-.2446 (.0141)**	-.4502 (.0639)**	-.2807 (.0079)**	-.3143 (.0146)**	-.2440 (.0144)**	-.4156 (.0582)**
<b>Population</b>	-.1022 (.0611)*	-.2026 (.0950)**	-.1613 (.1422)	.3400 (.1218)**	-.0614 (.06044)	-.0942 (.0945)	-.0969 (.1445)	.4163 (.1124)**
<b>War</b>	.5606 (.1209)**	.6523 (.1933)**	.5194 (.2182)**	.4585 (.2148)**	.5014 (.1231)**	.5591 (.2045)**	.4828 (.2321)**	.5638 (.2087)**
<b>Constant</b>	5.451 (1.303)**	6.545 (2.046)**	6.721 (3.511)*	3.580 (1.895)*	5.683 (1.329)**	6.884 (2.151)**	6.245 (3.699)*	3.004 (1.727)*
<b>Observations</b>	311	136	88	51	298	131	84	49

## Works Cited

- "2009 Statistical Bulletin of China's Outward Foreign Direct Investment « China Invests." China Invests. Web. 20 Oct. 2010. <<http://chinainvests.org/2010/12/22/2009-statistical-bulletin-of-chinas-outward-foreign-direct-investment/>>.
- Alden, Chris. *China in Africa*. London: Zed, 2007.
- Ayittey, George. "'Chopsticks Mercantilism China's Involvement in Africa.'" Editorial. *The Economist* 15 Feb. 2010. Probe International. Web. 17 Mar. 2011. <<http://www.probeinternational.org/printpdf/7005>>.
- Barry, Sautman. "JapanFocus." JapanFocus. Web. 15 Mar. 2011. <<http://www.japanfocus.org/-Barry-Sautman/3278>>.
- Bower, Eve. "Zambia Mine Shootings Raise Tensions with China - CNN." CNN. 04 Nov. 2010. Web. 30 Mar. 2011. <[http://articles.cnn.com/2010-11-04/world/zambia.mine.shooting\\_1\\_three-chinese-employees-zambian-mining-mining-industry?\\_s=PM:WORLD](http://articles.cnn.com/2010-11-04/world/zambia.mine.shooting_1_three-chinese-employees-zambian-mining-mining-industry?_s=PM:WORLD)>.
- Bradsher, Kieth. "Chad, Dumping Taiwan, Forges Link to China." *New York Times Online*. 7 Aug. 2006. Web. 18 Mar. 2011. <[http://www.nytimes.com/2006/08/07/world/asia/07iht-taiwan.2410179.html?\\_r=1](http://www.nytimes.com/2006/08/07/world/asia/07iht-taiwan.2410179.html?_r=1)>.

- Brea, Jennifer. "China's New Scramble for Africa — The American Magazine." *The American*. 22 Nov. 2006. Web. 30 Mar. 2011. <<http://www.american.com/archive/2006/november/chinas-new-scramble-for-africa>>.
- Broadman, Harry G., and Gozde Isik. *Africa's Silk Road: China and India's New Economic Frontier*. Washington, DC: World Bank, 2007.
- "Checklist Questions and Guidelines." Freedomhouse. Web. 14 Nov. 2010. <[http://www.freedomhouse.org/template.cfm?page=351&ana\\_page=355&year=2009](http://www.freedomhouse.org/template.cfm?page=351&ana_page=355&year=2009)>.
- Cingranelli, David L., and David L. Richards. "CIRI Human Rights Data Project." 22 Nov. 2010. Web. 10 Dec. 2010. <[http://ciri.binghamton.edu/documentation/ciri\\_variables\\_short\\_descriptions.pdf](http://ciri.binghamton.edu/documentation/ciri_variables_short_descriptions.pdf)>.
- "The Creation of FOCAC." Web. 20 Mar. 2011. <<http://www.focac.org/eng/ltda/ltjj/t157569.htm>>.
- "Data Catalog | Data." Data | The World Bank. Web. 23 Oct. 2011. <<http://data.worldbank.org/data-catalog>>.
- Dixon, Robyn. "Africans Lash Out at Chinese Employers - Los Angeles Times." *The New Enlightenment*. Web. 30 Mar. 2011. <[http://www.hermes-press.com/africans\\_protest.htm](http://www.hermes-press.com/africans_protest.htm)>.
- "4th Ministerial Conference of FOCAC Deepens China-Africa Co-op - China News - SINA English." *SINA English*. Web. 15 Mar. 2011. <<http://english.sina.com/china/2009/1108/283781.html>>.
- "Ghana: Aiming for Middle Income Status... But Will Oil Fuel Development." World Bank. Sept. 2010. Web. 18 Mar. 2011. <Ghana: Aiming for Middle Income Status... But Will Oil Fuel Development>.
- "The Global Sullivan Principles of Social Responsibility." The Leon H. Sullivan Foundation. Web. 20 Mar. 2011. <[http://www.thesullivanfoundation.org/about/global\\_sullivan\\_principles](http://www.thesullivanfoundation.org/about/global_sullivan_principles)>.
- Goldstein, Andrea. *The Rise of China and India What's in It for Africa?* Paris: OECD, 2006. Larkin, Bruce D. *China and Africa, 1949-1970; the Foreign Policy of the People's Republic of China*. Berkeley: University of California, 1971.
- Lum, Thomas, Hannah Fischer, Julissa Gomez-Granger, and Anne Leland. "'China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia.'" 25 Feb. 2009. Web. 12 Mar. 2011. <<http://www.fas.org/sgp/crs/row/R40361.pdf>>.
- Mellinium Challenge Corporation. Web. 20 Mar. 2011. <<http://www.mcc.gov/pages/about>>.
- Michel, Serge, Michel Beuret, Paolo Woods, and Raymond Valley. *China Safari: on the Trail of China's Expansion in Africa*. New York: Nation, 2009.
- Noorbakhsh, Farhad, and Alberto Paloni. "Learning from Structural Adjustment: Why Selectivity May Not Be the Key to Successful Programmes in Africa." *Wiley Online Library*. 31 Jan. 2007. Web. 22 Mar. 2011. <<http://onlinelibrary.wiley.com/doi/10.1002/jid.1357/pdf>>.



- Pistorius, Charlie. "China, Colonialist or Neo-mercantilist? - Taming Africa's Dragon." Moneyweb. Web. 17 Mar. 2011. <<http://www.moneyweb.co.za/mw/view/mw/en/page491975?oid=492817&sn=Detail>>.
- "Press Freedom Index 2010." Reporters Without Borders. Web. 23 Dec. 2010. <<http://en.rsf.org/press-freedom-index-2010,1034.html>>.
- Sautman, Barry, and Yan Hairong. "Friends and Interest: China's Distinctive Links with Africa." Web. <[http://www.cctr.ust.hk/materials/working\\_papers/WorkingPaper12.pdf](http://www.cctr.ust.hk/materials/working_papers/WorkingPaper12.pdf)>.
- Shear, Michael D. "Obama to Visit Ghana in First Official Trip to Sub-Saharan Africa - Washingtonpost.com." The Washington Post: National, World & D.C. Area News and Headlines - Washingtonpost.com. Web. 12 Mar. 2011. <<http://www.washingtonpost.com/wp-dyn/content/article/2009/05/16/AR2009051601510.html>>.
- Taylor, Ian. *China and Africa Engagement and Compromise*. Milton Park, Abingdon, Oxon: Routledge, 2006.
- "UCDP/PRIO Armed Conflict Dataset V4-2009." PRIO - Peace Research Institute Oslo. Web. 11 Nov. 2010. <<http://www.prio.no/CSCW/Datasets/Armed-Conflict/UCDP-PRIO/>>.
- Williamson, John. "What Washington Means by Policy Reform." Peter G. Peterson Institute for International Economics. Nov. 2002. Web. 20 Mar. 2011. <<http://www.iie.com/publications/papers/paper.cfm?researchid=486>>.
- "The Worldwide Governance Indicators (WGI) Project." World Bank Group. Web. 10 Nov. 2010. <<http://info.worldbank.org/governance/wgi/index.asp>>.
- Wu, Yuan. *China in Africa 1956-2006*. 2006.

# THE CROSSROADS OF JUSTICE: WAR AND PEACE IN LIBERIA

DANIELLA MONTEMARANO

---

*After the country suffered two brutal civil wars from 1989 to 2003, the question of transitional justice proved a pressing issue for voters during the 2011 Liberian presidential elections. This paper aims to evaluate the effectiveness of Liberia's efforts to address the human rights issues arising from these conflicts, specifically the Truth and Reconciliation Commission, and to make recommendations for peaceful reconciliation in Liberia.*

---

## Introduction

From 1989 to 2003, Liberia endured two devastating civil wars characterized by rampant rape, dismemberment, and the use of child soldiers. The wars resulted in 250,000 casualties on a pre-war population of three million. In the aftermath of the conflict, Liberia enacted transitional justice measures to address the many human rights violations that occurred. Transitional justice—"justice adapted to societies transforming themselves after a period of pervasive human rights abuses"<sup>1</sup>—can consist of the following mechanisms: criminal prosecutions, truth commissions, reparations programs, gender justice, security system reform, and memorialization efforts.<sup>2</sup> Lustration policies also figure prominently into this list. The specific mechanisms used in a particular country depend on the history, politics, and nature of human rights violations in the nation.

A key transitional justice initiative in Liberia was the Truth and Reconciliation Commission (TRC), which collected over 20,000 testimonies from victims and perpetrators alike between 2006 and 2009. In May 2009, the Commission released its Final Report, which summarized its findings and created a series of recommendations for the Liberian government's efforts to address the atrocities of the conflict. However, due to divided public and political opinion, the Liberian government implemented neither the TRC recommendations nor any other transitional justice mechanisms. Despite grassroots reconciliation and mediation groups, the government's lack of political follow-

---

1 International Center for Transitional Justice. "What is Transitional Justice?" December 2008 <http://www.ictj.org/en/tj/> April 12 2008.

2 Ibid.

through keeps transitional justice in Liberia at a standstill.<sup>3</sup>

### Historical Background of the Liberian Civil Wars

An examination of Liberia's history is required in order to understand transitional justice today. Political power struggles, interethnic tensions, and economic inequalities rising from Liberia's colonial origin not only led to three coups and two civil wars, but also created a climate permissive of exponentially increasing human rights violations, including the use of child soldiers, cannibalism, rape, dismemberment, violence against women, and murder of civilians. Colonization in Liberia began in 1816 when the Philadelphia-based American Colonization Society began "repatriating" freed African-American slaves to Africa. From 1822 to 1847, the United States government administered the colony of Liberia in order to provide a haven for freed blacks and maintain the colony's territorial integrity against encroaching European interests.<sup>4</sup> African-American migrants encountered resistance from the native African population. Duplicitous land deals, warfare, and massacres of civilians became regular practices in acquiring land and security in the colony.<sup>5</sup>

Inequalities in Liberian society continued even after the colony's independence from the United States in 1847. Returned slaves, known as Americo-Liberians, held the majority of the political and economic power, while native Liberians—98 percent of the population—lived as second-class citizens. These inequalities bred mass political dissatisfaction that led to an overthrow of the Liberian government in 1980. To appropriate the wealth and political power previously denied to indigenous Liberians, the 1980 coup's leader Samuel Doe, an ethnic Krahn and indigenous Liberian, executed Liberian President William Tolbert and his cabinet members. Doe ruled as Liberia's first indigenous president from 1980 to 1989, but he was not able to abolish Americo-Liberian control over the economy or eradicate their intricate, transnational power networks.<sup>6</sup> Doe maintained his autocratic position through the use of murder, unlawful imprisonment, persecution, and violence.<sup>7</sup>

Since Doe failed to command politics and improve rural economies, his control of the Liberian government and economy generated mass opposition within Liberia, especially among unemployed young men.<sup>8</sup> On December 24, 1989, Americo-Liberian Charles Taylor harnessed the discontent and led his National Patriotic Front for Liberia (NPFL) in a coup against the Doe government. From late 1989 through 1990, Taylor toppled the Doe regime and dismantled patronage networks. However, a multilateral intervention force sent by the Economic Community of West African States Monitor-

3 Ibid.

4 Emmanuel O. Oritsejafor. "National Integration in Liberia: An Evolving Pursuit." *The Journal of Pan African Studies*. (3 no. 1 September 2009), 96-120.

5 James T. Campbell. *Middle Passages: African American Journeys to Africa, 1787-2005*. (London: Penguin Books, 2006), 51-54.

6 William Reno. *Warlord Politics and African States*. (Boulder, London: Lynne Rienner Publishers, 1999), 81-91.

7 Human Rights Watch. "Emerging From the Destruction: Human Rights Challenges Facing the New Liberian Government." Vol. 9, No. 7. November 1997, 11.

8 Ibid, 91.

ing Group (ECOMOG) prevented Taylor from entering the Liberian capital of Monrovia and assuming control of the nation. Instead, former Taylor advisor Prince Yormie Johnson, leader of the breakaway Independent National Patriotic Front of Liberia (INPFL), assumed control of Monrovia after capturing and executing Doe.<sup>9</sup>

This violent coup began a crushing civil war between Charles Taylor's NPFL, which controlled most of the country, Prince Yormie Johnson's INPFL, and smaller rebel groups including the United Liberation Movement for Democracy (ULIMO). Taylor did not hold executive control over the country and could not manipulate national and international power networks in his favor. He was forced to operate as a warlord to finance his military campaign. Taylor ran regional commerce in diamonds, timber, weapons, and cash crops; his business partners included international corporations like the Firestone Tire and Rubber Company and fellow West African rebel groups such as Sierra Leone's Revolutionary United Front.<sup>10</sup>

In order to obtain and consolidate military and political power, these rebel factions engaged in terror campaigns and massacres across the country. After slaughtering Krahn Liberians, the rebel factions attacked the Mandingo peoples. Immigrants from across West Africa were also victims of extreme violence—including brutalized rape, cannibalism, and dismemberment—since their jobs in Liberia afforded them affluence denied to the local populations.<sup>11</sup>

Fighting between as many as seven rebel factions continued across Liberia for seven years. In 1995, the warring groups gathered in Nigeria, signed the Abuja Accords, and united as the "Liberian Council of State." The Abuja Accords failed to bring immediate peace to Liberia, and deadly battles ensued throughout 1995 and 1996. In 1997, the country held elections as stipulated by the Accords. Charles Taylor won the presidency with 75 percent of the vote. Most historians attribute his victory to widespread fear amongst Liberians that Taylor would return the country to war if he did not win.<sup>12</sup>

Despite the 1997 election, peace did not last long. In 1999, the Liberians United for Reconciliation and Democracy (LURD), led by Charles Julu, amassed in Northern Lofa County in opposition to Charles Taylor's rule.<sup>13</sup> By 2000, after sporadic fighting with the Armed Forces of Liberia (the national army, under the executive control of Charles Taylor); LURD controlled over 80 percent of the Liberian countryside. In addition to the support of Liberian rural masses, LURD succeeded against Taylor because of its international support, both from the Guinean government and a coalition of non-African states who financed its military activities.<sup>14</sup> Though it had popular support, LURD, along with the Taylor government and other rebel factions, committed

---

9 Ibid, 93.

10 Ibid, 94-100.

11 Robert B. Edgerton. *Africa's Armies: From Honor to Infamy*. (Boulder, London: Westview Press, 2002), 160-161.

12 Peter Dennis. "A Brief History of Liberia." The International Center of Transitional Justice. (2006), 4-5.

13 William Reno. "Liberia: The LURDs of the New Church." *African Guerillas: Raging Against the Machine*. Eds.

Morten Boas and Kevin C. Dunn. (Boulder, London: Lynne Rienner Publishers, 2007), 71-73.

14 Reno, 76-80.

widespread atrocities.<sup>15</sup>

From 2000 to early 2003, LURD battled government forces for control of Monrovia. Another rebel force, Movement for Democracy in Liberia (MODEL), formed in the southern counties in 2003 and joined the fighting.<sup>16</sup> By the middle of 2003, the rebel forces had surrounded Monrovia. Taylor, pressured by the encroaching rebel factions, a strong civilian peace movement, and the hostility of the international community, agreed to peace talks in Accra, Ghana. Fighting between the Taylor-led Liberian government, LURD, MODEL, and several other minor warring factions ended on August 20, 2003 with the signing of the Comprehensive Peace Agreement (CPA) in Accra.

### Post-Conflict Justice in Liberia

Since economic inequality was one of the major driving forces behind the Liberian conflict, economic reform—inclusive of all classes and ethnic groups—is a necessary step toward lasting peace and democracy in Liberia. Autocratic government, political repression, and rampant impunity are also challenges facing Liberia in the post-conflict transition to democracy. Warlords remain in positions of power in the government, largely unaccountable for their crimes.

The Liberian government attempted to reconcile the legacy of impunity and horrific aftermath of the civil wars through the CPA, the National Transitional Government of Liberia (NGTL), and the TRC. The CPA was a result of intense negotiations among international actors, civil society organizations, and eight different rebel factions, most notably Charles Taylor's NPP, LURD, and MODEL. While the Agreement brought an end to the country's fourteen-year civil war and began a United Nations (UN) and ECOWAS-led program of demobilization, it did not force accountability for war crimes. The same men who conscripted child soldiers, slaughtered Liberian citizens, and destroyed the nation's political and economic infrastructure sat at the negotiating table. These warlords and military leaders knew that a criminal tribunal would likely convict them of their various war crimes, and that both blanket and conditional amnesties would indirectly implicate them in Liberia's wartime atrocities.<sup>17</sup> Despite heavy advocacy for criminal prosecutions by civil society organizations, the negotiators agreed instead on the creation of the TRC, which would collect wartime testimony but not politically incapacitate the warlords, who were, ultimately, able to retain significant political power.

The CPA created the NGTL Liberia that would operate for three years under the trusteeship of the United Nations Mission in Liberia (UNMIL) from October 12, 2003 until January 16, 2006. The positions in this interim government were divided up between Liberia's warring factions, including Taylor's NPP, MODEL, and LURD. The CPA stipulated that national elections be held in 2005. Due to *de facto* amnesty, all war-

15 Human Rights Watch. "Youth, Poverty, and Blood: The Lethal Legacy of West Africa's Regional Warriors." Vol. 17, No. 5. March 2005.

16 Dennis, 5-6.

17 Jonny Steinberg. "Liberia's Experiment with Transitional Justice." *African Affairs*. (109 no. 434) November 2009, 137-138.

lords and rebel leaders responsible for the atrocities of the Liberian conflict were free to run for office.<sup>18</sup> Consequently, in the 2005 elections, eight politicians with connections to rebel militias and poor human rights records won parliamentary seats, including Prince Yormie Johnson, former MODEL general Kai Farley, and former AFL general Edward Slinger.<sup>19</sup>

First under the National Interim Government and then under the Sirleaf administration, Liberia advanced from a virtual failed state to a partially free democracy. Despite the efforts of various militia factions to undermine such efforts, the UN officially completed its demobilization task by November 2004, stripping the majority of the war's 65,000 combatants of their weapons.<sup>20</sup> Furthermore, the 2005 elections ushered in a government with effective restraints on executive power through an elected national legislature and increased inclusive political participation—a stark contrast to Taylor's warlord regime and the chaos of the two civil wars.<sup>21</sup> Despite these measures, Liberia's political advances were tempered by the obvious truth that the warlords and militia leaders who destroyed the lives of thousands of civilians and forcibly conscripted scores of soldiers remained in power.

This climate of legitimized warlord power was a major hindrance to the country's main effort at transitional justice, the TRC. While most Liberian citizens saw the TRC as a precursor to criminal justice proceedings, the men and women guilty of war-time atrocities believed the TRC to be a substitute for such retributive justice. For the most part, the warlords had reintegrated themselves into civilian life, maintaining positions of power despite their poor human rights records. In addition to holding political office, militia leaders also assumed high-ranking positions as professors, private businessmen, and community leaders.<sup>22</sup> These warlords vehemently opposed implementation or even consideration of the TRC Report's recommendations of prosecutions and political sanctions for war crimes. Consequently, the TRC and its Report fell short of its mandate to "promote national peace, security, unity and reconciliation."<sup>23</sup>

From its beginning and throughout its lifespan, the TRC encountered various problems of structure and implementation that blunted its effectiveness and set the stage for its current political stagnation. Although the Commission's mandate was enacted in May 2005, the Commission was not actually inaugurated until February 2006 due to intense debate over the selection of the nine commissioners. While the selected commissioners represented the broad spectrum of Liberian society, none were politically influential, which presented a serious problem when negotiating with a coalition

---

18 J. Peter Pham. "Reinventing Liberia: Civil Society, Governance, and a Nation's Post-War Recovery." *The International Journal for Not-for-Profit Law*. Volume 8, Issue 2, January 2006.

19 Dennis, 6.

20 Freedom House. "Freedom in the World- Liberia 2010." <http://www.freedomhouse.org/template.cfm?page=22&year=2010&country=7861> April 27 2011.

21 Polity IV. "Country Report 2008: Liberia." Center for Systemic Peace. <http://www.systemicpeace.org/polity/polity06.htm> April 27 2011.

22 Steinberg, 139.

23 Republic of Liberia. "Truth and Reconciliation Commission of Liberia Mandate." (Enacted on May 12, 2005), <http://trcofliberia.org/about/trc-mandate>, April 27, 2011.

of powerful ex-warlords over retribution. The TRC also lacked adequate funding and an in-house legal team, ensuring limited investigations and challenging legal compatibility with Liberian law. These problems were compounded by ongoing internal disputes among the commissioners, yielding a lack of coordinated policy and program.<sup>24</sup>

As the TRC's operations were underway in 2007, funding, political complications, and internal disorganization continued to hinder the Commission's progress toward national reconciliation. In June 2007, the TRC first began collecting testimony in the Liberian Diaspora community in the United States. Responses to the TRC's door-to-door interviews and town hall meetings were lukewarm at best, since many Liberians in the Diaspora considered the TRC's request for truth alone without furtherance of prosecutions to be in itself a denial of justice.<sup>25</sup> After concluding its business in the United States, the TRC returned to Liberia and began public hearings in Monrovia in January 2008. While none of the most prominent accused perpetrators stepped forward initially, many came forth after TRC announced in March 2008 that it would grant immunity to the perpetrators who chose to testify.<sup>26</sup> Yet, given the ineffectiveness of the TRC, these perpetrators' testimonies often amounted to little more than public grandstanding, according to various international observers. Testifying victims and third-party witnesses often received harsh cross-examinations and even ridicule at the hands of some commissioners.<sup>27</sup> This abuse of the TRC's public forum seriously undermined efforts at genuine reconciliation between victims and their attackers.

The consolidated version of the TRC's Final Report was released to the public in June 2009. The Report contains an overview of the TRC's work, a historic review of the conflict, its causes, aftermath, remarks on the pattern of abuses, and recommendations for transitional justice after the TRC. The Report represented several positive aspects of the TRC's process: it provided crucial historical context to the country's conflict with specific references to Liberia's cultural, social, economic, and political circumstances; it compiled statistical summaries of the human rights abuses that had occurred in Liberia, the first such compilation in the nation's history; and it detailed several key components of Liberia's conflict, including the role of women during the war, the nature of economic crimes as a motivating factor, and the experiences of children throughout the atrocities.<sup>28</sup>

However, the TRC Final Report had several limitations that restricted the Commission's efforts to implement social and political post-conflict unity. First, the Report contains legal failings that undermine its authoritative power. In its recommendations section, the Report infamously named 98 people who should be prosecuted for their roles in Liberia's atrocities and an additional 50 people who should be politically censured for 30 years. Yet the Report does not cite the criteria based on which these

24 Steinberg, 138-139.

25 Johnny Steinberg. "A Truth Commission Goes Abroad." *African Affairs*, 110:428, November 2010.

26 Steinberg, 140.

27 Lansana Gberie. "Truth and Justice on Trial in Liberia." *African Affairs*, 107:428 (July 2008), p.455-465.

28 Paul James-Allen, Lizzie Goodfriend, and Aaron Weah. "Beyond the Truth and Reconciliation Commission:

Transitional Justice Options in Liberia." The International Center for Transitional Justice. May 2010, 13-14.

lists were created, nor does it provide for the rights to due process and to appeal for those recommended for political censure.<sup>29</sup> These omissions weaken cases against the perpetrators. Inconsistencies between statements made in the Report's body and appendices—for instance, conflicting definitions of sexual abuse and unconnected recommendations for improving the lives of female victims—result in a lack of clarity that impedes implementation of the Report's recommendations. Furthermore, many of the Report's claims lack either the support of evidentiary data or explicit references to cited primary sources. Finally, the recommendations do not have itemized, time-sensitive plans for their implementation, nor are they linked to other government or civilian sector reconstructive acts.<sup>30</sup>

The backlash to the TRC's Final Report was enormous. While ordinary Liberians embraced the TRC as the only means of national redress available to citizens and victims brutalized by the conflict, the Report's recommendations were shocking to a political elite expecting impunity. Former militia leaders across Liberia denounced the Report and even attempted to challenge its premises on constitutional grounds. Prince Yormie Johnson, former leader of INPFL, threatened to mobilize remnant troops in opposition to the Report's recommendations. Supporters of current President Ellen Johnson-Sirleaf were particularly incensed at her inclusion on the political censure list for her brief, initial support of Charles Taylor before his 1989 coup. One detrimental outcome of anger toward the TRC Report's recommendations was the continued rejection by the Liberian Congress of President Sirleaf's nominations for the Independent National Commission of Human Rights (INCHR).<sup>31</sup> The INCHR was to implement the recommendations of the Final Report and continue the TRC's work to redress wartime grievances and engage national reconciliation. The delay in its inauguration serves as an example of stalled transitional justice.

In the end, the TRC collected over 20,000 testimonies from witnesses, victims, and perpetrators.<sup>32</sup> While these testimonies have since come to constitute a small public record of human rights abuses during the wars, the inherent flaws in the TRC process—including the lack of internal coordination, its Report's weak legal standing, and the dearth of proper funding—have prevented the Commission from creating a strong, effective platform for the next steps of justice. The TRC's potential to be the first stepping-stone in reconciling Liberia was never fully realized.

## **Moving Forward**

Attempts at peace and national unity through the CPA, the newly formed democratic Liberian government, and the TRC have largely fallen short of their goals. Historical political impunity and lack of democratic participation created an environment that not only excluded the majority of citizens from fair participation in their government, but also fostered massive human rights violations from the governing elite's desire

---

<sup>29</sup> Steinberg, 141-142.

<sup>30</sup> James-Allen et al, 14-16.

<sup>31</sup> Steinberg, 141-144.

<sup>32</sup> *Ibid*, 135.



to maintain power. While Liberia has taken steps towards redress for the crimes committed and creation of a stable, honest democracy, the judiciary system remains weak, parts of the country—especially rural areas—are relatively insecure, corruption pervades the government, and warlords have not been held accountable for their crimes. All of these factors impede progress toward the ultimate goal of lasting peace.

Most scholars, activists, and citizens agree that more needs to be done to promote national justice and reconciliation in Liberia, but the specific mechanisms that should be implemented are still disputed. Should Liberia create a war crimes tribunal? Should the Liberian government implement the TRC recommendations? If so, how? And when? Will retributive justice or other methods of reconciliation disrupt peace?

To begin answering these questions and to chart Liberia's next steps in transitional justice, reconciliation mechanisms must be weighed against each other for potential effectiveness in Liberia's specific situation. One of the latest and most comprehensive studies conducted on transitional justice across the globe, *Transitional Justice in Balance*, statistically analyzes the causes, techniques, and claims of various methods of transitional justice; its findings provide a helpful departure point for discussing Liberia's future.<sup>33</sup> One of the examinations undertaken by the study gives good insight to the Liberian situation by measuring the effect that certain methods of transitional justice have upon the dependent variables of democracy and human rights, two of the main goals of post-conflict justice. The first relevant finding is that truth commissions on their own have a negative effect on human rights protections. This result supports the previous conclusion that the actions of the TRC—both positive and negative—are not enough to guarantee better democracy and the protection of human rights. On the other hand, the study found that as more transitional justice mechanisms are used holistically in post-conflict situations, the mechanisms will have an increasingly positive impact on both democracy and human rights.<sup>34</sup>

With these two conclusions as a starting point, it is possible to begin charting a path to lasting peace for Liberia through multiple judicial mechanisms. The first suggests that the TRC alone was not enough. The second conclusion regarding the success of integration of multiple transitional justice mechanisms might indicate that initiation of the INCHR would be beneficial to protection of human rights in Liberia. In order for the INCHR to begin its operations, President Sirleaf must continue to exert pressure on the Liberian Congress to vote affirmatively for the nominated commissioners. Once fully functional, the INCHR will be able to review the TRC recommendations, especially those concerning prosecution and censure, and conduct its own investigations to verify, and possibly correct, the TRC's findings.<sup>35</sup> Questions remain, however, regarding the Liberian justice system's capacity to handle criminal prosecutions. As of now, the judicial system is mired by trial delays, a vast backlog of cases, widespread corruption, and understaffing; these issues must be addressed before serious trials of

33 Tricia D. Olsen, Leigh A. Payne, and Andrew G. Reiter. *Transitional Justice in Balance: Comparing Processes, Weighing Efficacy*. Washington, D.C.: United States Institute of Peace Press, 2010.

34 Ibid, 131-151.

35 James-Allen et al, 27-28.

warlords can begin.<sup>36</sup>

The preexistence of informal justice mechanisms in Liberia may aid with the search for economically feasible and socially viable options for retributive criminal proceedings in the middle and lower levels of society. In addition to a formal justice sector that operates similarly to Western-style judicial systems, there exists the Palava Hut informal justice system: meetings of village or community elders to address intra-community crimes. Although there is no uniform Palava Hut system across Liberia—each ethnic group employs its own particular methods—informal systems are, on a whole, more trusted than the formal justice sector in the rural communities. As long as the Palava Hut process was to be defined and the relationship between the informal and formal judiciary explicitly clarified in law, the dual system could be a powerful tool for restoring Liberian unity.<sup>37</sup>

Holding high-level officers, generals, and warlords formally accountable for their crimes could contribute substantially to the fight against impunity in Liberia. The INCHR could be an important instrument in determining which recommended perpetrators should stand trial and which should be referred to the informal justice system. Such a holistic approach for ending a culture of tolerated impunity in Liberia would be a step toward democratic stability and lasting peace.

## Conclusion

Liberia's 14 years of civil war and preceding years of political violence and oppression catastrophically affected the country's citizens. In addition to the deaths of a fifth of its prewar population, Liberian citizens endured cannibalism, rape, dismemberment, and military use of child soldiers. The country's economic and political inequalities generated a culture of impunity, which in turn produced the climate for these atrocities. After the conflict's end in 2003, the various warring factions signed the CPA, ending the war and creating a new democratic government. The CPA created the TRC to collect testimonies of the war, but also allowed the warlords responsible for the war to escape public prosecution and public acknowledgement of their crimes, and retain power through both the inauguration of a new government and the TRC itself.

While the TRC's investigation and subsequent Report contained worthwhile aims and provisions—including its focus on women's issues and the conflict's socioeconomic origins—the TRC ultimately did not bring widespread justice due to legal issues, factual inconsistencies, and controversial recommendations, all of which have impeded its implementation. Research on the subject of transitional justice in other nations suggests that Liberia should initiate criminal proceedings against the most grievous warlords in a reformed justice system and promote reconciliation amongst all victims, witnesses, and minor offenders through a traditional conflict resolution network to promote sustainable democracy, stability, and peace.

---

<sup>36</sup> Human Rights Watch. *World Report 2011*. New York: Human Rights Watch, 2011. 143.

<sup>37</sup> James-Allen, 21-23.

---

*Daniella Montemarano graduated from NYU in 2011 with a double major in history and politics. She currently works in youth development at the African Refugee and as a Gallery Educator at the Museum of Jewish Heritage.*

---

## References

- Campbell, James T. *Middle Passages: African American Journeys to Africa, 1787-2005*. London: Penguin Books, 2006.
- Cobban, Helena. *Amnesty After Atrocity? Healing Nations After Genocide and War Crimes*. Boulder, London: Paradigm Publishers, 2007.
- Dennis, Peter. "A Brief History of Liberia." The International Center of Transitional Justice. 2006.
- Edgerton, Robert B. *Africa's Armies: From Honor to Infamy*. Boulder, London: Westview Press, 2002.
- Freedom House. "Freedom in the World- Liberia 2010." <http://www.freedomhouse.org/template.cfm?page=22&year=2010&country=7861> April 27 2011.
- Gberia, Lansana. "Truth and Justice on Trial in Liberia." *African Affairs*, 107:428 (July 2008),
- Human Rights Watch. *World Report 2011*. New York: Human Rights Watch, 2011.
- Human Rights Watch. "Emerging From the Destruction: Human Rights Challenges Facing the New Liberian Government." Vol. 9, No. 7. November 1997, 11.
- Human Rights Watch. "Youth, Poverty, and Blood: The Lethal Legacy of West Africa's Regional Warriors." Vol. 17, No. 5. March 2005.
- International Center for Transitional Justice. "What is Transitional Justice?" December 2008 <http://www.ictj.org/en/tj/> April 12 2008.
- James-Allen, Paul, Lizzie Goodfriend, and Aaron Weah. "Beyond the Truth and Reconciliation Commission: Transitional Justice Options in Liberia." *The International Center for Transitional Justice*. May 2010.
- Olsen, Tricia D., Leigh A. Payne, and Andrew G. Reiter. *Transitional Justice in Balance: Comparing Processes, Weighing Efficacy*. Washington, D.C.: United States Institute of Peace Press, 2010.
- Oritsejafor, Emmanuel O. "National Integration in Liberia: An Evolving Pursuit." *The Journal of Pan African Studies*. 3 No. 1 September 2009.
- Polity IV. "Country Report 2008: Liberia." Center for Systemic Peace. <http://www.systemicpeace.org/polity/polity06.htm> April 27 2011.

- Reno, William. *Warlord Politics and African States*. Boulder, London: Lynne Rienner Publishers, 1999.
- Reno, William. "Liberia: The LURDs of the New Church." *African Guerillas: Raging Against the Machine*. Eds. Morten Boas and Kevin C. Dunn. Boulder, London: Lynne Rienner Publishers, 2007.
- Republic of Liberia. "Truth and Reconciliation Commission of Liberia Mandate." (Enacted on May 12, 2005), <http://trcofliberia.org/about/trc-mandate>, April 27, 2011.
- Steinberg, Johnny. "A Truth Commission Goes Abroad." *African Affairs*, 110:428, November 2010.
- Steinberg, Johnny. "Liberia's Experiment with Transitional Justice." *African Affairs*. (109 no. 434) November 2009.

# THE IMPACT OF UNIONS ON STATE DEBT

AURELLE AMRAM

---

*This paper examines the impact of public union density on state debt per capita in America.*

*In 2011, the government of Wisconsin passed a law effectively banning public unions, citing their negative impact on the state's budget. This paper uses a least squares multiple regression to examine whether public sector unions have any effect on levels of state debt per capita. The results show that public sector unions have a statistically significant, but relatively small, impact on state debt, after accounting for other factors. These results imply that anti-unionism cannot be the centerpiece of a strategy to balance state budgets.*

---

## I. Introduction

On February 26, 2011, almost 100,000 people joined a protest in Madison, Wisconsin, with thousands of others showing solidarity at other state capitals across the country.<sup>1</sup> The protests were in response to Governor Scott Walker's recently proposed bill to address the state's \$3.6 billion budget deficit. The bill's plan, which required each state employee to contribute 5.8 percent of his or her salary to cover individual pension costs and 12.6 percent towards health care, was perceived as a step towards the elimination of collective bargaining rights for all public employees. The protests and a dramatic walkout by the state's Democratic senators did not stop the passage of this controversial bill, although a state judge eventually overturned the legislation.

In 1937, more than 70 percent of the population viewed unions favorably; however, by 2010, the figure had dropped to below 50 percent, with 60 percent believing unions held too much power.<sup>2</sup> Governor Walker's proposal led people to consider whether or not public sector unions had an effect on the state budget deficit significant enough that it would be reasonable to cut benefits and bargaining rights for union

---

1 Sewell, Abby. "Protesters out in Force Nationwide to Oppose Wisconsin's Anti-union Bill - Los Angeles Times." Featured Articles From The Los Angeles Times. Los Angeles Times, 26 Feb. 2011. Web. 01 May 2011. <<http://articles.latimes.com/2011/feb/26/nation/la-na-wisconsin-protests-20110227>>.

2 Surowiecki, James. "Public Support for Labor Unions Hits a New Low." The New Yorker. 17 Jan. 2011. Web. 01 May 2011. <[http://www.newyorker.com/talk/financial/2011/01/17/110117ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2011/01/17/110117ta_talk_surowiecki)>.

members. This paper aims to study this question empirically: controlling for other factors, what is the effect of public unions on state budgets, and as a result, state debt? Do unions cause the fiscal problems that Governor Walker believed them to when he proposed the aforementioned bill?

This paper uses data on 50 states from a number of sources, including the United States Census, the Bureau of Economic Analysis, and the Tax Foundation to examine the hypothesis that public sector unions have a positive impact on state debt. With state debt per capita as the dependent variable, I use least squares regressions to examine the relationship between public unions and state debt, while controlling for specific demographic and political factors. My results indicate that while public sector unions do have a statistically significant impact on state debt, the impact is not large in absolute value compared to the total amount of state debt. I conclude that there may be better explanations of state debt than the variables proposed in this model.

## II. Literature Review

Economic theory suggests that trade unions act as a monopoly on labor supply. By restricting who is allowed to work in certain industries or companies, and, more importantly, workers and wages, unions theoretically increase the “price” (wage) by restricting supply for a given amount of demand. Additionally, unions raise wages using collective bargaining: they increase their negotiating power by working as a bloc. Empirical research has shown that in America, unionized workers earn up to 20 percent more in wages and 28 percent more in total compensation than nonunionized workers (numbers that vary widely internationally).<sup>3</sup>

Freeman (2011) argues that public unions hold special bargaining powers, because they can “influence employer behavior through the political process,”<sup>4</sup> while private sector unions cannot elect or lobby the management of the companies for which they work. Compared to the private sector, unionized workers have a smaller return to productivity and skill gains, but higher average starting salaries.<sup>5</sup>

One quantitative study focuses on potential increases in expenditures due to municipal unionism, and finds that “collective bargaining contracts are associated with greater expenditures in a department covered by a contract; and collective bargaining contracts are not associated with greater expenditures and revenues at the city level.”<sup>6</sup> However, these department expenditure increases are less than 2 percent of the total city expenditures, and therefore relatively insignificant.<sup>7</sup> Another study on the effects of

---

3 Mishel, Lawrence, and Matthew Walters. *How Unions Help All Workers*. Issue brief no. 143. Economic Policy Institute, Aug. 2003. Web. 1 May 2011. <[http://www.epi.org/publications/entry/briefingpapers\\_bp143/](http://www.epi.org/publications/entry/briefingpapers_bp143/)>

4 Freeman, Richard B. "Unionism Comes to the Public Sector." *Journal of Economic Literature* XXIV (1986): 41-86. JSTOR. Web. 1 May 2011.

5 Fang, Tony, and Anil Verma. "Union Wage Premium." *Statistics Canada* 75-001-XPE (2002): 17-23. Statistics Canada. Winter 2002. Web. 1 May 2011

6 Valletta, Robert G. "Impact of Unions on Municipal Expenditures and Revenues." *Industrial and Labor Relations Review* 42 (1989): 439. JSTOR. Web. 20 Mar. 2011.

7 Valletta 430-442.

municipal unionization finds that unions “accept employment reductions in return for compensation increases,” but their lobbying increases “derived demand for their own services,” raising compensation.<sup>8</sup> The study shows that increases in expenditures outweighs “losses in employment attributable to compensation gains,” so that overall, public sector unions increase both compensation and employment.<sup>9</sup> There are, however, spillover effects such that other, nonunionized department budgets decrease, resulting in reduced employment in nonunionized sectors.<sup>10</sup> In sum, while public unions have been shown to increase wages for their members as well as government expenditures, it is unclear if these wage increases represent a truly significant, or even a net, increase.

### III. Model

The model proposed is a least squares multiple regression model:

$$\text{Debt} = \beta_1 + \beta_2 E_i + \beta_3 L_i + \beta_4 P_i + \beta_5 G_{5i} + \beta_6 T_i + \beta_7 U_i + v_i$$

Each variable is defined below. The model suggests that state debt can be explained by spending on education, whether or not a state has tax and expenditure limits in place, GDP growth, tax rates, and public sector unionism, plus a random error.

#### *Debt: State debt per capita*

State debt per capita is the dependent variable in this model and is defined as a state’s accumulated debt, divided by its population, in fiscal year 2009. The per capita measurement is used to control for the fact that larger states, due to their population size, may incur more debt through the provision of similar services, but the additional debt may, in turn, be offset by revenue from a larger tax base.<sup>11</sup> State debt is accumulated over time, and thus measures long-term decisions and trends within a state budget.

#### *E: Education spending per-pupil*

Education spending is defined as spending on primary and secondary education per pupil by a state in fiscal year 2009. The use of per-pupil rather than absolute expenditure measures controls for state population size and age. In theory, high expenditures in education increase state debt, and union density, as the union density variable includes teachers unions. Education spending accounts for just over 29 percent of state

8 Zax, Jeffrey. "The Effects of Public Sector Unionism on Pay, Employment, Department Budgets, and Municipal Expenditures." Ed. Richard B. Freeman. *When Public Sector Workers Unionize*. By Casey Ichniowski. Chicago: University of Chicago, 1988. 355. Print

9 Zax 355

10 Zax 323-64

11 Trial regressions run using state debt rather than state debt per capita were also less statistically significant, especially for the unionization variable, which presented problems for analysis. Also, because the monetary units were so large, it was difficult to interpret and compare relative effects of all variables.

and local government budgets on average, so it can have a significant effect on debt.<sup>12</sup>

*L: Tax and expenditure limits*

The model includes a dummy variable for whether or not a given state had a tax or expenditure limit imposed on their budget by the state legislature in 2009. A tax limit is defined as a law in place restricting the amount or rate a government can tax either in general or on a specific item such as sales, income, or property. Expenditure limits are defined as restrictions on where certain funds can be diverted, or on the overall amount that a state can spend each year. The variable was coded “0” for states that did not have such a limit and “1” for states that did have such a limit. Tax and expenditure limits within a state theoretically indicate a public effort to rein in state debt. Thus, the tax and expenditure limit dummy variable is an attempt to capture the general sentiment of politicians and the public towards state spending and their level of concern surrounding the level of debt. There is an empirical basis for including this variable: previous research has cited an increase in public sector unions in the 1970s as the cause for the passage many of these laws, including Proposition 13 in California, as voters believed public sector unions' demand for benefits and wages drained state resources.<sup>13</sup> The sign of this dummy variable is expected to be negative on average, with states more concerned about their finances holding less debt.

*P: Population*

The natural logarithm of the state population in 2009 was also included as an independent variable in the model. By using the natural logarithm, I can better analyze the wide range of state populations, from 544,270 people in Wyoming to 36,961,664 people in California. The natural logarithm calculation scales the data for better analysis, in order to examine the change in debt per percentage change in population, rather than absolute population.

Accounting for population is important because theoretical expectations suggest that larger states may have less debt. One previous study found that larger countries have less debt per capita and more efficient governments; there are certain fixed costs associated with setting up a government and related institutions and economies of scale which exist in providing government services. Smaller countries have less diversified economies, and are therefore more volatile and subject to economic fluctuations.<sup>14</sup> These considerations may apply to American states as well, and therefore I expect a negative correlation between the logarithm of population and state debt per capita.

---

12 Davidson, Lec. "Utah 10th for Percentage of Budget Spent on Education | Deseret News." Salt Lake City and Utah Breaking News, Sports, Entertainment and News Headlines - Deseret News. Deseret News, 15 July 2010. Web. 01 May 2011. <<http://www.deseretnews.com/article/700048237/Utah-10th-for-percentage-of-budget-spent-on-education.html>>.

13 Ehrenberg, Ronald G., and Joshua L. Schwarz. Working paper no. 1179. Cambridge: National Bureau of Economic Research, 1983. NBER. Web. 1 May 2011.

14 Cas, Stephanie Medina, and Rui Ota. Big Government, High Debt, and Fiscal Adjustment in Small States. Working paper no. 08/39. International Monetary Fund, 2008. IMF. Web. 1 May 2011.



**G:** *Seven-year average real GDP growth*

This variable consists of the state-by-state average real gross domestic product (RGDP) growth in percent from 2003 to 2009. The variable is constructed by summing real GDP growth rates for each state, 2003-2009, and dividing by seven. This is an attempt to capture the longer-term growth of a state's economy, as single-year numbers can be misleading. The seven-year average is especially important considering the financial crisis that may have caused outlier GDP growth rates from 2007 to 2009.

If a state's economy is booming, it will see an increase in taxable income and sales, in addition to lower social welfare expenditures. Thus, the state's debt will decrease. If a state has consistently higher real GDP growth over time, theory predicts that their state debt will be lower. I expect the sign of this variable to be negative.

**T:** *Tax rate*

The tax rate is defined as the total combined state and local tax burden imposed on average on residents of each state relative to income levels. This variable, derived from data from the Tax Foundation<sup>15</sup>, is calculated by dividing the total amount paid by state residents in taxes by the state's total income to compute a tax burden. The tax burden is then calculated as a percentage of average per-capita personal income in the state, in order to derive an effect "tax rate" unique to each state. Theoretically, states with higher tax rates receive higher tax revenues for a given level of income. These larger revenues translate into more available funds for state expenditure, and therefore less required borrowing for any specific amount of state spending. Therefore, I expect the tax rate to be negatively correlated with state debt.

**U:** *Public sector union density*

The purpose of this model is to examine the effect of public sector union density, defined as the percentage of public sector workers within a state who belonged to a union in 2009. The unions represent workers for services provided by the national, regional, or local government, as wide-ranging as teaching, welfare administration, sanitation, and health care.

As discussed in the literature review, the theoretical expectation is that a higher density of public unions in a state drives up costs and, subsequently state debt, by increasing wages and negotiating power. In the private sector, this increase in wages translates into product prices. In the public sector, this translates into higher costs for government services, and therefore higher spending relative to some level of provision of services. The more prevalent unions are within a government, the more this effect occurs. As an independent variable, therefore, public sector union density is expected to have a positive impact on the amount of state debt.

15 Tax Foundation. "State Debt Per Capita and as a Percentage of State GDP, Fiscal Year 2009." The Tax Foundation. 25 Feb. 2011. Web. 01 May 2011. <<http://www.taxfoundation.org/research/show/268.html>>.

#### IV. Data

Data for this regression were obtained from sources such as the Tax Foundation, the US Census Bureau, and the US Department of Commerce. Data were available for all 50 states for all variables, so no data were extrapolated. The mean, standard deviation, and source for each variable data are presented in *Table 1*, and detailed in the rest of this section. Data for Washington, D.C. were not available for all variables, and since the government of the nation's capital is partially run at a federal level, I expected the city to represent an outlier on a number of metrics. For both of these reasons, Washington, D.C. was left out of the analysis, leaving 50 observations for the regression.

##### *Debt, State per capita debt:*

The dependent variable, state debt per capita in 2009, was obtained from the Tax Foundation, where it is calculated using data from the US Census Bureau. The average (mean) per capita state debt is \$3,747.72, with a standard deviation of \$2,218.85. The denominators used in calculating these data may be artificially low due to Census population counts, as discussed below. The debt component will be fairly reliable, as the numbers come from each state reporting its own data. Therefore, the debt data are as accurate as the states' own data. Since these numbers are the basis of policy in a given state, I assume that even if they are imperfect, they will be an accurate reflection of any state policy decisions or other factors.

##### *E, Education spending per pupil:*

States spend an average of \$10,299.71 per pupil per fiscal year on public elementary and secondary education, with a standard deviation of \$2,376.86. This high variation among states in education spending could contribute to varying levels of state debt. One strong outlier was Massachusetts, which spent \$13,454.47 per-pupil in fiscal year 2009, and has a state debt of \$11,357 per-capita. It is interesting to note that, overall spending per pupil is much higher and has a lower standard deviation than debt per citizen.

As seen in *Chart 1*, there is positive linear correlation between education spending-per-pupil and debt-per-capita. The added trend line supports this visual assessment, with a slope of 0.671. This indicates an average \$0.67 increase in state per-capita debt for each \$1 increase in per-pupil education spending. The standard  $R^2$  is fairly high for cross-sectional data as well, with a value of 0.51. This indicated a strong relationship between education spending and state debt. The data appear heteroscedastic, and a White test for heteroscedasticity revealed a probability of 0.0119, with an F statistic of 5.06, confirming the visual assessment.

Education spending per pupil was obtained from the US Census Bureau's *Public Elementary-Secondary Education Finance Report*, published in 2010 to cover Fiscal Year 2009. The Census Bureau relies on data compiled by states; each state is responsible for

collecting data on all their public school systems individually. Per capita population estimates derive from the Census' own counts, which are discussed below. While the data are not subject to sampling error, as the bureaus attempts to account for every school system in the nation, there are some non-sampling error possibilities. The report concedes the possibilities of an incomplete listing of all school systems, non-response error, or incorrect classification. The Bureau, however, performs cross-checks with other data sources and produces its own estimates to correct for inaccurate data.<sup>16</sup> In any case, these data are also considered to be the most comprehensive available.

*L, Tax and Expenditure Limits:*

For the dummy variable of tax and expenditure limits, 17 states were coded with a measure of 1, creating a sample average of 0.34 and a standard deviation of 0.47. A total of 17 out of 50 states had some sort of limit in place in 2009, while 33 did not. *Charts 2 and 3* show that the relationship between public union debt and state debt appears to be the same for states with or without tax and expenditure limits.

The data on tax and expenditure limits were obtained from Mcubbins and Moule (2010).<sup>17</sup> Mcubbins and Moule define a limitation as a statewide general revenue and property tax limit that cannot be overturned by regular legislative procedure. While general expenditure limits are not included in this metric, the authors believe that revenue limits can be considered to be a reasonable proxy for this type of public concern. Additionally, 49 of the 50 states (Vermont being the exception) have some sort of debt ceiling in place. With so little variation among states, general expenditure limits by themselves are an unreliable measure of relative state concern of valid state budgets.<sup>18</sup>

*P, Natural Logarithm of State Population:*

The average value for the natural logarithm of state population was 15.14, with a standard deviation of 1. *Chart 4* shows that the data for natural logarithm are highly clustered, while the data for actual state population range from 544,270 people in Wyoming to 36,961,664 people in California.

State population data were obtained from the US Census Bureau's 2009 popu-

16 Educational Finance and Special Statistics Branch, Governments Branch, US Census Bureau. Public Education Finances 2008. Rep. UC Census Bureau, 2010. Print.

17 The paper found, incidentally, that "taxation limits have negative effects on state and local revenues during fiscal crises. They cited the fact that revenue restrictions are especially limiting during downturns, as decreases in consumption and property values may decrease tax revenues from these sources, while rates of collection cannot be raised. Limits usually cause states to resort to extra fees and charges, from which revenue decreases during economic depressions (they are income-elastic). The researchers conclude that tax and expenditure limits make state budgets more volatile. For the model presented here, this indicates that states with tax and expenditure limits may have more debt.

18 National Conference of State Legislatures. NCSL Fiscal Brief: State Balanced Budget Provisions. Issue brief. National Conference of State Legislatures, Oct. 2010. Web. 1 May 2011. <<http://www.ncsl.org/documents/fiscal/StateBalancedBudgetProvisions2010.pdf>>.

lation estimates. The Census Bureau uses specific extrapolation methods as described in its methodology reports, and sums county populations to obtain state populations. County populations are calculated using a “population change method,” which uses births, deaths, and net domestic and international migration accounting to update population estimates.<sup>19</sup> This methodology is problematic because population estimates may not accurately estimate certain groups, such as undocumented immigrants, even though these groups pay sales tax and use state service. The Census Bureau uses the Census 2000 population estimates for the base population. While there are certain bias and accuracy concerns regarding these data, they are the best estimates available and are included in the model on this basis.

*G, Seven-Year Average Real GDP Growth:*

The mean value of seven-year average RGDP growth was 1.96 percent, with a standard deviation of 1.05 percent. States varied widely, from an average .38 percent increase (Ohio) to an average 4.28 percent increase (North Dakota) over seven years. There is one strong outlier, Michigan, which averaged a 1.38 percent decrease in real GDP over seven years.

The RGDP growth data were obtained from the US Census Bureau of Economic Analysis which produces annual estimates of GDP growth by state. The GDP for each state is calculated by summing the GDP of all industries within the state, which are based on national prices for goods and services produced that year. The Bureau admits that because it uses national prices to extrapolate GDP, state level calculations do not “capture geographic differences in the prices of goods and services.”<sup>20</sup> While the Bureau may have missed smaller productions within each state or will have missed black-market operations, once again, these estimates are the best available. It is assumed that GDP growth is a good approximation for economic growth within a state.

*T, Tax Rate:*

Effective tax rates averaged 9.36 percent across all states, with a standard deviation of 1.05 percent. Two clearly visible outliers are Alaska, with debt per capita of \$9,505 and an effective state tax rate on the lower side, at 6.30 percent. Another outlier was Massachusetts, with a middle-range tax rate of 10 percent but a high state debt of \$11,357 per capita. The data are also clustered in the 6 to 8 percent range, with some amount of variation.

There is a generally positive correlation between effective state tax rate and state debt, as shown in *Chart 6*. The simple regression shows an average of \$472.46

---

19 US Census Bureau. Methodology for the State and County Total Resident Population Estimates (Vintage 2009): April 1, 2000 to July 1, 2009. Tech. US Census Bureau. Web. 1 May 2011. <<http://www.census.gov/popest/topics/methodology/2009-st-co-meth.pdf>>.

20 Bureau of Economic Analysis. Regional Economic Accounts. News Release: GDP by State. Bureau of Economic Analysis. 18 Nov. 2010. Web. 1 May 2011. <[http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm)>.

increase in state debt per capita for each one percent increase in effective state tax rate. The correlation is fairly weak, however, with only 6 percent of the variation in state debt explained by tax rates in the state.

Tax rate data were obtained from the Tax Foundation, which calculates effective tax rates by state annually based on data from the Bureau of Economic Analysis (BEA) and the Internal Revenue Service. The Foundation uses a definition of income adapted from the Congressional Budget Office, in which income is defined as personal income plus “capital gains realizations, pension and life insurance distributions, corporate income taxes paid, and taxes on productions and imports less subsidies.”<sup>21</sup> The Foundation used the BEA definition of a tax, which is equivalent to all taxes collected by the IRS and state governments (including property and sales tax), plus special assessments, including occupational, business, and motor vehicle licenses.<sup>22</sup> This could be potentially problematic, as consumers may not think of these items as “taxes” in their consumption or residency decisions. However, these totals reflect the cumulative policy decisions of a state regarding revenue collection, and thus I can consider the tax rate to be a reliable measure of individual states’ attempts to gain revenue to cover their expenditures.

*U, Public Sector Union Density:*

Public sector union density had an average value of 32.15 percent, with a standard deviation of 18.34 percent. There is huge variation in the data; in some states, as few as 5.3 percent of public sector workers belonged to a union (Arizona) and in others as many as 70.5 percent (New York). Massachusetts is again an outlier on state debt, with a public sector union density of 62.1 percent and a per capita state debt of \$11,357.

There is a positive correlation between union density and state debt per capita, which *Chart 7* shows. Additionally, the chart shows an average \$78.75 increase in state debt per capita for each one percent increase in density. This is significant, with an  $R^2$  of 0.42, though the coefficient is low considering that \$78.75 is only 2 percent of average per capita state debt.

Union density statistics were obtained from the “Union Membership and Coverage Database from the Current Population Survey,” an online database developed by researchers at Trinity University and Georgia State University. The Current Population Survey, produced by the Bureau of Labor Statistics (BLS), samples around 60,000 households monthly, and obtains information through phone surveys on the labor force, employment and union membership. The BLS uses only wage and salary workers from one-quarter of the survey to extrapolate union membership. The data here are subject

21 Tax Foundation. "State Debt Per Capita and as a Percentage of State GDP, Fiscal Year 2009." The Tax Foundation. 25 Feb. 2011. Web. 01 May 2011. <<http://www.taxfoundation.org/research/show/268.html>>.

22 Prante, Gerald. Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview. Working paper no. 4. Tax Foundation, 7 Aug. 2008. Web. 1 May 2011. <<http://www.taxfoundation.org/files/wp4.pdf>>.

to sampling error, and may not represent true population union density values, but all analyses are carried out until the BLS is at the 90 percent confidence level. Other possible errors may be present in the data due to incorrect data provided to the researchers, or to the BLS's omitting from their sample a segment of the population.<sup>23</sup>

## V. Regression Results

Initial regression results yielded the following results (*Regression 1*), with t-values in parentheses below each variable.

$$\text{Debt} = 5608.68 + 0.53E + 867.16L - 451.90P - 156.72G - 166.76T + 34.73U$$

(1.39)      (4.00)    (1.87)   (-1.91)   (-0.71)   (-0.77)    (2.11)

For 50 observations and 6 variables, there are 43 degrees of freedom. I use a critical t-value at the five percent level of confidence, which, for a two-tailed test, is equal to 2.016. A detailed analysis of the initial regression follows.

*E*: The variable for education spending is highly statistically significant, with a t-statistic of 4.00. As expected, the sign for education spending is positive, indicating that as education spending per-pupil in a state increases, so does state debt. The coefficient, however, is extremely small; in effect, the regression says that only \$0.52 out of an average per capita state debt of \$3,747.72 can be explained by state spending on education.

*L*: The coefficient of the tax and expenditure limit dummy variable is positive, which is unexpected. The dummy variable indicates that if a state has laws in place limiting its taxing and spending activities, it has on average \$867.15 more debt per capita. Contrary to theory, the dummy could be interpreted to indicate that higher debt prompts states to become concerned about their budgets, and that such limits may not always be effective. The variable is not significant at the five percent level ( $t=1.87$ ), but it is significant at the ten percent level.

*P*: The logarithm of state population is negative, as expected, indicating that larger states have less debt. The coefficient is \$451.90, indicating that for each one percent increase in a state's population, state debt per capita decreases on average by \$451.90. The coefficient is not significant at the five percent level either, with a t-statistic of -1.91.

*G*: The coefficient for the seven-year average of RGDP growth is negative, as expected. States with booming economies might have less debt as social welfare expenditures decrease and tax revenues increase, but is highly insignificant, with a t-value of -0.71. The coefficient is -156.72, indicating a \$156.72 decrease of state debt per capita on average for each one percent increase in the seven-year average of RGDP growth.

*T*: The variable for effective tax rate is has a coefficient of -166.75, indicating that for each one percent increase in a state's effective tax rate, per capita state debt decreases on average by \$166.75. While the coefficient is negative, as expected, the

---

23 Bureau of Labor Statistics. "Union Membership Technical Note." U.S. Bureau of Labor Statistics. US Department of Labor, 21 Jan. 2011. Web. 01 May 2011. <<http://www.bls.gov/news.release/union2.tn.htm>>

variable is insignificant, with a t-value of -0.77.

*U*: The variable for public sector union density has a coefficient of 34.73. It is positive, as expected, and shows that for each one percent increase in the rate of unionization among public sector workers, per capita state debt will increase by \$34.73. The variable is statistically significant with a t-value of 2.11. It is interesting to note that the coefficient value explains less than one percent of average per capita state debt (\$3747.72).

The fit of the regression is fairly high for a cross-sectional data set, with an  $R^2$  of 0.6522. Indicating its overall significance, the regression has an F-statistic of 13.44. At a confidence level of five percent, with 5 degrees of freedom in the numerator and 44 in the denominator, I use a critical F value of 2.43. Therefore, the regression is overall significant.

Although graphs of the squared residuals against the estimated state debt (*Chart 8*) and public sector union density against the squared residuals (*Chart 9*) do not suggest that heteroscedasticity is present in the data, I use White's General Heteroscedasticity Test, including cross-terms so as to test for specification bias, to formally test for the presence of heteroscedasticity. This test revealed that the data do indeed have either specification bias or heteroscedasticity present, as the White value is 41.34, with a probability of 0.0286, using a significance level of five percent. I therefore correct for heteroscedasticity using the White correction, and obtain the following results (*Regression 2*):

$$\text{Debt} = 5608.58 + 0.53E + 867.16L - 451.90P - 156.72G - 166.76T + 34.73U$$

(1.61)      (2.74)      (1.70)      (-2.48)      (-0.71)      (-0.67)      (1.91)

The  $R^2$  for this regression is 0.65 and the F statistic is 13.44. None of the variable coefficients changed from *Regression 1*, indicating that there may be specification bias rather than heteroscedasticity in the regression. In other words, perhaps the proposed model is not the correct one to fit in order to explain state debt, and state debt may be better explained by other factors than the ones proposed in this model.

I now test for autocorrelation among the variables using the Durbin-Watson d-statistic at the 5 percent level. The d-statistic is 2.077. For six variables, and 50 observations, the lower limit is 1.291 and the upper limit is 1.822, with 2.077 following in the region in which the null of no autocorrelation cannot be rejected. I therefore conclude that autocorrelation is not a concern in this regression, which fits the cross-sectional data set.

I am concerned about signs of multicollinearity, most notably a high  $R^2$ , but many insignificant variables (four out of our six). *Table 2* displays the correlation table used to determine which variables might be correlated.

The table shows that education spending and union density have a 0.66 correlation, which is high enough to be of concern. This makes logical sense because teachers are included in our measure of union density; if states spend more on education to employ more teachers, union density may also increase. Additionally, union density

and tax rate have a correlation coefficient of 0.49, which is also relatively high. Graphs of the two variable combinations are presented in *Charts 10 and Chart 11*. Visually, there appears to be collinearity between union density and tax rate, as well as between union density and educational spending.

To explore this possibility, I drop the education spending (which is heteroscedastic as well) and tax rate variables to see if the overall fit of the regression improves.

I obtain *Regression 3*, as follows:

$$\text{Debt} = 13256.61 + 165.59L - 740.94P - 370.54G + 74.03U$$

$$(3.33) \quad (0.34) \quad (-3.03) \quad (-1.51) \quad (5.66)$$

For 50 observations and 4 variables, there are 45 degrees of freedom. I continue using a critical t-value at the 5 percent level of confidence, which is 2.014 for a two-tailed test. A detailed analysis of *Regression 3* follows.

*L*: The coefficient of the tax and expenditure limit dummy variable is again positive, which is still contrary to original expectations. Interestingly, the t-value of this variable decreased from 1.87 to 0.34, making it less significant in the second regression. The coefficient is also smaller and indicates a \$165.59 average increase in state debt for those states with tax and expenditure limits in place.

*P*: The logarithm of state population is again negative, as expected. The value of the coefficient increased in absolute value, and it is now statistically significant with a t-statistic of -3.03. The coefficient indicates that, for each percent increase in state population, per capita state debt decreases on average by \$740.94.

*G*: The coefficient for the seven-year average of RGDP growth is still negative, as expected. The coefficient is -370.54, which is also an increase in absolute value from the first regression, and indicates a \$370.54 decrease in average state debt for each percent increase in the seven-year average RGDP growth. The variable is more significant than before with a t-statistic of -1.50, but is still insignificant.

*U*: The variable for public sector union density remained positive, as was expected. There was an increase in the absolute value of the coefficient of the variable, and the regression indicates that for each 1 percent increase in the rate of unionization among public sector workers, per capita state debt will increase by \$74.03. The variable is more statistically significant with a t-value of 5.67. It is interesting to note that the coefficient value here still explains less than 2 percent of average per capita state debt (\$3747.72), and also that this is the most significant variable of any of those in the regression.

Despite a slight decrease, the fit of the regression in *Regression 3* remained fairly high for a cross-sectional data set, with an  $R^2$  of 0.522. The regression has an F-statistic of 12.317. At a confidence level of 5 percent, with 3 degrees of freedom in the numerator and 46 in the denominator, the critical F-value is 2.8. Therefore, the regression is overall significant, although slightly less than before. The suspicions of multicollinearity were confirmed, as the significance of many variables increased.

I now test for autocorrelation in *Regression 3*. The Durbin-Watson statistic is



1.96 here. With 4 variables and 50 observations, at 5 percent confidence, the upper and lower limits are 1.335 and 1.721. The Durbin-Watson here indicates that the null hypothesis of no autocorrelation cannot be rejected. I conclude that there is no concern for autocorrelation in *Regression 3*.

I also test which regression has better explanatory power, *Regression 1* or *Regression 3*, by using the F test of significance. At the 5 percent level, our critical value will be 3.199, with two degrees of freedom in the numerator and 46 in the denominator. The test yields an F value of 8.57, which is significant, indicating that despite multicollinearity, the inclusion of the effective tax rate and education spending per-pupil adds to the explanatory power of the model.

I made an additional attempt to correct multicollinearity by substituting data sources. I ran a regression with the tax burden<sup>24</sup> per capita, rather than the tax rate per capita, as a dependent variable. This regression had even more problems with multicollinearity, with the limit, GDP growth, tax burden, and union density variables all presenting insignificant. The full regression output for the variable can be found in *Appendix 3*, along with the other regression outputs.

I now move on to examine the possible presence of outliers in the data. From an initial analysis of the data, I saw that Massachusetts might be one outlier, among others, and formally tested for the presence of outliers. I ran the studentized residuals test, the scaled difference in fitted values test, the dropped residuals test, the covariance ratio test, the Hat Matrix test, and the scaled difference in coefficients test, the results of which are presented in *Table 3* and *Table 4*.

Two states, Massachusetts and Wyoming, emerged as clear outliers from the test results; both had more than three values flagged. These states were also outliers in *Charts 8* and *9*. I ran *Regression 2* without both of those observations, and achieved the following results (*Regression 4*):

$$\text{Debt} = 14985.26 - 193.06L - 831.98P - 356.07G - 62.91U$$

$$(4.28) \quad (0.45) \quad (-3.87) \quad (-1.68) \quad (5.46).$$

For 48 observations and four variables, there are 43 degrees of freedom. A critical t-value at the five percent level of confidence is used, which is 2.016 for a two-tailed test. A detailed analysis of *Regression 4* follows.

*L*: The coefficient of the tax and expenditure limit dummy variable is now negative, as expected originally, suggesting the outliers may have been influencing this variable. The coefficient indicates that states with limits in place have on average \$193.05 less in state debt per capita. The variable, however, is still not significant at the five percent level with a t-value of -0.45.

*P*: The logarithm of state population is still negative, as expected, indicating that larger states have less debt. The coefficient is -831.98, so that for each one percent

<sup>24</sup> Tax burden per capita was defined as the average amount of taxes paid to state and local governments per person within a state. Data was sourced from the Tax Foundation as well. The theoretical expectation was that it would mimic the effect of the tax rate in terms of determination of state revenues and therefore debt.

increase in a state's population, state debt per capita decreases on average by \$4831.98. The coefficient is now statistically significant with a t-value of -3.87.

G: The coefficient for the seven-year average of RGDP growth is negative, as expected. The coefficient is -356.07, indicating a \$356.07 decrease in state debt per capita on average for each one percent increase in the seven-year average of RGDP growth. The variable is still statistically insignificant, with a t-value of -1.68, though it is more significant here than in other regressions.

U: The variable for public sector union density has a coefficient of 62.91. It is positive, as expected, and shows that for each one percent increase in the rate of unionization among public sector workers, per capita state debt will increase by \$62.91. The variable is statistically significant with a t-value of 5.46, much higher than before, suggesting that Wyoming and Massachusetts, as outliers, influenced prior results. The coefficient value still explains less than two percent of average per capita state debt (\$3747.72).

The fit of the regression remains fairly high, at 0.5558  $R^2$ . This is a higher fit than is found in *Regression 3*, and lends support to the idea that Wyoming and Massachusetts were influential observations in prior regressions. As for the F-test of overall significance, the regression has an F-statistic of 13.45. At a confidence level of five percent, with four degrees of freedom in the numerator and 44 in the denominator, I use a critical F value of 2.58. The overall regression without the two influential observations is significant.

*Table 5* presents a comparison of all four regressions fitted.

## VI. Summary and Conclusions

This study explores four different specifications of a model about the effect, controlling for other factors, of union density on state debt per capita. The initial regression, *Regression 1*, indicated that all else constant, each percentage point increase in public union density explained an increase of \$34.73 of state per capita debt. I performed White's General Heteroscedasticity test and found that specification bias was likely, as indicated by *Regression 2*, such that these variables may not be the best indicators of state debt. The Durbin-Watson d-statistic showed no reason to suspect autocorrelation among the residuals. I then proposed *Regression 3*, dropping the tax rate and the education spending variables to correct for multicollinearity in the data. *Regression 3* indicated that each percentage increase in public union density is responsible for about a \$74.03 increase in state debt, or 1.9 percent of the average state per capita debt. I performed a Durbin-Watson test for autocorrelation in this regression, and the results of this test showed no evidence of autocorrelation. I also performed an F-test of overall significance, and found that despite multicollinearity, the two extra variables added explanatory power to my regression of state debt. Lastly, I performed a number of outlier tests and determined that Wyoming and Massachusetts were outlier states on a number of different variables. I then proposed *Regression 4*, in which a one percent increase in public union density explained \$62.91 of state per capita debt, or 1.4 percent of the

countrywide average.

Based on the regression results, I conclude that while public unions may have an impact on state budgets, the impact is small. Public sector union density consistently explained less than two percent of per capita state debt at a highly significant level. Other variables, with the exception of education, explained from four to twenty percent of average per capita state debt. While theory that public sector unions increase state debt on average holds true in this study, holding other factors constant, this relationship is not at a level that should result in policy changes.

Additionally, since my regression results indicated specification bias, it may be that none of the variables discussed in this paper provide significant explanations of state debt. Other variables, such as political affiliation, number of immigrants, state history, the types of issues toward which unions focus their efforts, level of public support for unions, types of union agreements, the amount of unfunded pension liabilities, incarceration and crime rates, and other social and economic factors were missing from this model. These variables, and others, may be greater contributing factors to the amount of debt in a state than a strong presence of public unions. Finding these factors will be an important area for further research.

My findings are consistent with previous research on the topic. As discussed in the *Literature Review*, prior empirical work found that while unions typically do have an effect on average wages, and while public unions typically do raise government expenditures, these effects do not add up to more than \$75 state debt per capita on average. The conclusions reached in this paper are supported by these results as well, as they indicate unions have a measurable but relatively small effect on raising prices.

These findings suggest that unions are not the largest cause of state debt; it may therefore be more efficient for politicians such as Governor Walker to focus on other realms of the state budget when working on cutting the deficit. While targeting unions may be an effective political strategy, it may not change the amount of state debt cumulated over time. Further research is needed to identify more effective strategies for reducing state debt.

---

*Aurette Amram is a senior at NYU, studying sociology and honors economics, with a minor in French. Her academic interests are in economic and social policy, including unionism, immigration, and urban resources. Aurette plans to go into economic consulting after graduation.*

---

## Appendix

Table 1: Mean, Standard Deviation, and Source of Variables

Variable	Mean	Standard Deviation	Minimum	Maximum	Source
State debt per capita	3,747.72	2,218.85	773.00	11,375.00	Tax Data 2009, Tax Foundation
Education spending	10,299.71	2,376.86	5,765.12	1,713.43	2008 State and Local Government Finance Report, US Census Bureau
Tax and expenditure limits (dummy)	0.34	0.47	0.00	1.00	Making Mountains of Debt Out of Molehills, McCubbins & Moule
Population	6,128,138.86	6,736,309.65	544,270.00	36,961,664.00	2009 Population Estimates, US Census Bureau
Seven-year average RGDP growth	1.96	1.05	-1.38	4.28	2009 & 2006 GDP by State, Bureau of Economic Analysis, US Department of Commerce
Tax rate	9.36	1.15	6.30	12.20	Tax Data 2009, Tax Foundation
Public sector union density	32.15	18.34	5.30	70.50	Union Membership and Coverage Database from the Current Population Survey

Table 2: Correlation coefficients among six initial variables (Regression 1)

	T	U	E	G	L	P
T	1.000000	0.494164	0.439985	-0.234407	-0.080020	0.293862
U	0.494164	1.000000	0.668882	-0.276145	0.082840	0.036707
E	0.439985	0.668882	1.000000	-0.289667	-0.243065	-0.111433
G	-0.234407	-0.276145	-0.289667	1.000000	0.018388	-0.379308
L	-0.080020	0.082840	-0.243065	0.018388	1.000000	0.044027
P	0.293862	0.036707	-0.111433	-0.379308	0.044027	1.000000

Table 3: Studentized Residuals Test (Rstudent), Scaled Difference in Fitted Values Test (DFFITS), Dropped Residuals Test (Drop Resid), Covariance Ratio Test (COVRATIO), Hat Matrix Test (flagged statistics in grey boxes)

Influence Statistics

Date: 05/01/11 Time: 17:00

Sample: 1 50

Included observations: 50

State	Resid.	RStudent	DFFITS	Drop Resid	COVRATIO	Hat Matrix
Alabama	-1005.911	-0.731421	0.185992	-1070.956	1.148862	0.060735
Alaska	1676.839	1.592880	-1.365988	2909.998	1.357112	0.423766
Arizona	150.7451	0.112918	-0.042841	172.4434	1.345906	0.125829
Arkansas	-1202.260	-0.922147	0.386812	-1413.803	1.205005	0.149627
California	-23.69814	-0.018812	0.010043	-30.45270	1.515026	0.221805
Colorado	1104.784	0.802592	-0.196639	1171.101	1.123517	0.056628
Connecticut	2033.924	1.595760	-0.683708	2407.295	0.924234	0.155100
Delaware	1461.340	1.082545	-0.322507	1591.039	1.058767	0.081519
Florida	-566.1931	-0.425328	0.162460	-648.7982	1.311031	0.127320
Georgia	-795.8855	-0.586947	0.185723	-875.5715	1.225013	0.091010
Hawaii	107.1815	0.078480	-0.023962	117.1732	1.287647	0.085273
Idaho	885.2275	0.686161	-0.315705	1072.626	1.321412	0.174710
Illinois	1374.519	1.015601	-0.299004	1493.659	1.081131	0.079764
Indiana	284.6812	0.209251	-0.066391	313.3390	1.288315	0.091459
Iowa	-644.0559	-0.469471	0.131057	-694.2470	1.225217	0.072296
Kansas	-490.1558	-0.354603	0.089826	-521.6080	1.228729	0.060298
Kentucky	37.63832	0.027971	-0.009940	42.39115	1.327769	0.112118
Louisiana	1124.062	0.849613	-0.323959	1287.491	1.198625	0.126936
Maine	-1068.473	-0.798664	0.279419	-1199.255	1.190855	0.109053
Maryland	-290.5870	-0.214696	0.071855	-323.1364	1.301096	0.100730

Massachusetts	4601.756	4.101943	-1.624927	5323.881	0.129004	0.135639
Michigan	-1843.110	-1.574124	1.001352	-2588.953	1.108778	0.288087
Minnesota	-2223.688	-1.739844	0.705665	-2589.493	0.843539	0.141265
Mississippi	527.1244	0.386155	-0.116209	574.8632	1.254328	0.083044
Missouri	829.5428	0.603826	-0.161158	888.6337	1.188888	0.066496
Montana	-0.350695	-0.000260	9.15E-05	-0.394001	1.324655	0.109915
Nebraska	-1735.486	-1.281807	0.340601	-1858.023	0.964950	0.065950
Nevada	-2221.061	-1.747938	0.736229	-2615.096	0.849153	0.150677
New Hampshire	1034.738	0.779880	-0.293819	1181.608	1.217500	0.124297
New Jersey	-403.7331	-0.321085	0.171925	-519.4859	1.491284	0.222822
New Mexico	415.1612	0.304688	-0.094404	455.0168	1.272426	0.087592
New York	-999.1718	-0.848298	0.566019	-1444.013	1.512932	0.308059
North Carolina	1146.366	0.851205	-0.276236	1267.096	1.156173	0.095281
North Dakota	-299.4058	-0.230482	0.104857	-361.3752	1.410553	0.171482
Ohio	-1029.120	-0.768722	0.268611	-1154.773	1.199748	0.108813
Oklahoma	584.7628	0.443305	-0.180926	682.1665	1.331231	0.142786
Oregon	-1038.724	-0.789639	0.317148	-1206.283	1.235043	0.138905
Pennsylvania	-1101.666	-0.811528	0.242832	-1200.306	1.152064	0.082179
Rhode Island	1001.831	0.805757	-0.440683	1301.498	1.375780	0.230248
South Carolina	939.6734	0.692548	-0.213719	1029.161	1.192672	0.086952
South Dakota	901.2589	0.682855	-0.271306	1043.528	1.263641	0.136335
Tennessee	-1003.558	-0.759603	0.296670	-1156.638	1.235119	0.132349
Texas	66.05627	0.052262	-0.027480	84.31898	1.504346	0.216591
Utah	1907.131	1.541900	-0.788674	2406.088	1.011750	0.207373
Vermont	-1226.135	-0.938035	0.385730	-1433.467	1.192207	0.144637
Virginia	559.5034	0.417036	-0.149401	631.3098	1.292443	0.113742
Washington	-412.0493	-0.319446	0.150765	-503.8310	1.417400	0.182168
West Virginia	-670.3882	-0.496451	0.166043	-745.3798	1.258340	0.100608
Wisconsin	674.7292	0.502145	-0.175947	757.5684	1.269492	0.109349

Wyoming	-3135.709	-2.896171	1.942992	-4547.041	0.477963	0.310385
---------	-----------	-----------	----------	-----------	----------	----------

Table 4: Scaled Difference in Coefficients Test (DFBETAS)

## Scaled Difference in Coefficients (DFBETAS)

Obs.	C	E	L	P	G	T	U
Alabama	-0.034369	0.068103	0.112263	-0.038346	0.000197	0.091052	-0.078097
Alaska	0.383520	0.443184	-0.191428	0.000523	0.028666	-1.128548	0.423204
Arizona	-0.012726	0.010553	0.027508	0.011947	0.008084	0.001407	-0.024826
Arkansas	-0.002175	-0.042751	-0.247155	0.102351	0.036395	-0.213863	0.247967
California	0.006441	0.000930	-0.002674	-0.006642	-0.003842	9.34E-06	-0.003784
Colorado	-0.025242	-0.018102	-0.096701	0.077680	0.072134	-0.075849	0.019071
Connecticut	-0.103517	-0.041307	-0.154713	-0.113093	0.089291	0.401585	0.181458
Delaware	0.185911	0.012386	-0.082256	-0.228860	-0.067844	0.061883	0.002046
Florida	0.098809	-0.049292	-0.096205	-0.108229	-0.031409	0.022961	0.047837
Georgia	0.049847	-0.053289	0.029702	-0.070298	0.043186	0.012528	0.107803
Hawaii	0.008886	-0.005435	-0.010633	-0.009331	0.004880	-0.000102	0.013367
Idaho	0.083066	-0.194808	-0.136817	-0.091162	0.120361	0.097593	0.091892
Illinois	-0.042022	-0.073010	-0.125374	0.086232	-0.135687	0.026098	0.029010
Indiana	0.005345	-0.005749	0.040892	-0.004194	-0.033793	0.011513	-0.014733
Iowa	0.000708	0.049450	0.066799	-0.000989	-0.070726	-0.018347	-0.043403
Kansas	-0.007125	0.000810	0.023752	0.022532	-0.001585	-0.044436	0.045551
Kentucky	0.001767	6.82E-05	0.006284	-0.002169	-0.005029	0.002451	-0.004582
Louisiana	0.070846	0.073945	-0.045744	0.000256	-0.182889	-0.094958	-0.155025
Maine	-0.179401	0.119733	0.112882	0.192088	0.125040	-0.081460	-0.108237
Maryland	0.042418	-0.054138	-0.000843	-0.028712	-0.026457	-0.004795	0.038531
Massachusetts	-0.588490	0.697396	0.942737	0.504685	0.193116	-0.315569	0.288977
Michigan	-0.296909	0.264963	-0.245998	0.147427	0.830525	0.010183	-0.161209
Minnesota	-0.163741	0.491889	0.391703	0.080556	0.123107	-0.087061	-0.545757
Mississippi	0.051821	-0.038441	-0.042657	-0.035103	-0.047305	0.013091	-0.036136

Missouri	0.032143	-0.028485	-0.062857	0.004033	-0.088669	-0.010051	-0.035834
Montana	-4.33E-05	1.67E-05	-4.13E-05	4.24E-05	-9.61E-06	9.08E-06	-2.92E-05
Nebraska	-0.158246	0.161674	0.156396	0.194829	0.029312	-0.167008	-0.026711
Nevada	-0.202096	0.186768	-0.183581	-0.042007	-0.086261	0.459597	-0.400949
New Hampshire	0.180583	-0.022886	-0.108357	-0.089464	-0.102343	-0.174891	0.121640
New Jersey	0.091406	-0.097878	-0.009637	-0.035334	-0.012550	-0.066753	0.044704
New Mexico	0.018254	0.022713	0.069087	-0.018014	-0.000850	-0.010804	-0.037021
New York	0.416768	-0.324374	-0.008987	-0.295127	-0.199037	-0.066182	0.020207
North Carolina	-0.047939	-0.066613	-0.084942	0.046457	-0.033589	0.111530	-0.106612
North Dakota	-0.018299	0.001770	0.017161	0.042685	-0.053509	-0.038682	0.020125
Ohio	-0.023393	0.115197	0.130594	-0.047099	0.139422	0.031101	-0.115577
Oklahoma	-0.054797	0.028552	0.097364	0.042400	0.114147	0.002758	-0.050277
Oregon	0.055526	0.073044	-0.105269	-0.038299	-0.174840	-0.016696	-0.158982
Pennsylvania	0.105556	-0.008374	0.096015	-0.135353	-0.009112	0.041086	-0.091799
Rhode Island	0.185507	0.000877	0.189381	-0.267157	-0.218415	0.135533	0.041550
South Carolina	0.057649	0.003457	-0.066377	0.012822	-0.098525	-0.088966	-0.053779
South Dakota	0.108692	0.018743	0.138528	-0.091087	0.052264	-0.071002	-0.031971
Tennessee	-0.092578	0.103394	0.133694	-0.046634	0.110974	0.167507	-0.063494
Texas	-0.013673	0.002763	-0.007418	0.022352	0.011067	-0.015557	0.002030
Utah	0.149491	-0.568092	-0.348950	-0.157152	0.212980	0.311310	0.209281
Vermont	-0.149868	-0.112915	0.024907	0.248499	0.062718	-0.108794	0.056875
Virginia	-0.082739	0.089918	-0.005015	0.079471	0.051917	-0.015665	-0.095625
Washington	0.029423	0.045499	-0.029164	-0.047301	-0.071255	0.033492	-0.102139
West Virginia	-0.054946	-0.015387	-0.115898	0.080394	0.058371	-0.049686	0.064535
Wisconsin	-0.015282	-0.005254	-0.027156	-0.031306	-0.054496	0.130984	-0.081309
Wyoming	0.060043	-1.472771	-0.237203	0.093909	-0.716402	0.572459	0.963582



Table 5: Comparison of regressions

Regression		1	2	3	4
Variable	Intercept	5,608.68	5,608.58	13,256.61	14,985.26
(T-Statistic)		(-1.39)	(-1.61)	(-3.33)	-4.28
	E	0.53	0.53		
		(-4.00)	(-2.74)		
	L	867.16	867.16	165.59	-193.06
		-1.87	(-1.7)	(-0.34)	(-0.45)
	P	-451.90	-451.90	-740.94	-831.98
		(-1.91)	(-2.48)	(-3.03)	(-3.87)
	G	-156.72	-156.72	-370.54	-356.07
		(-0.71)	(-0.71)	(-1.51)	(-1.68)
	T	-166.76	-166.76		
		(-0.77)	(-0.67)		
	U	34.30	34.73	74.03	62.91
		(-2.11)	(-1.91)	(-5.66)	(-5.46)

Chart 1: Education Spending per Pupil versus State Debt per Capita

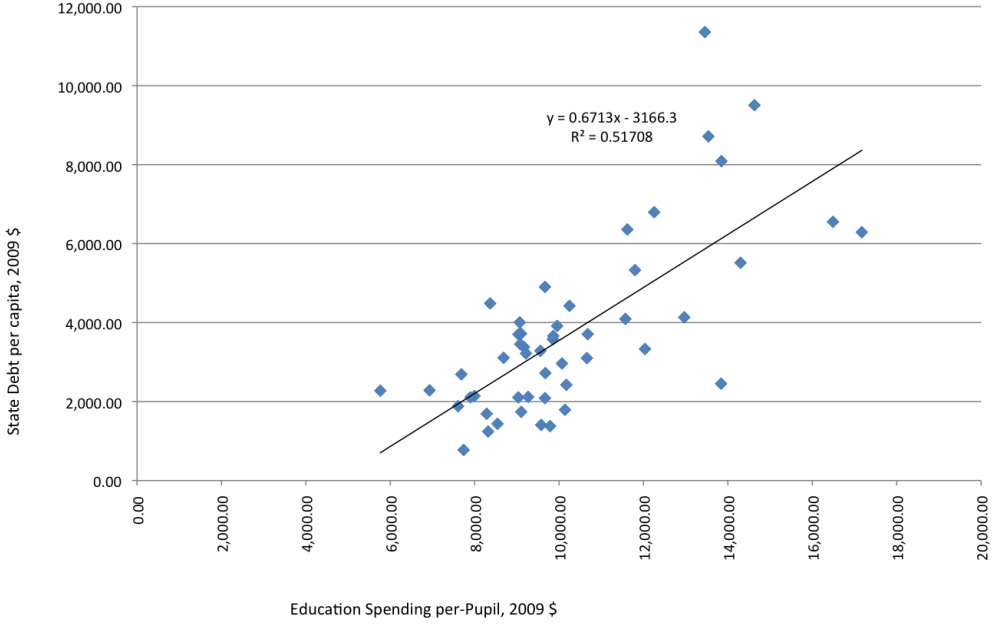


Chart 2: Public Sector Union Density vs. State per Capita debt for states with tax and expenditure limits

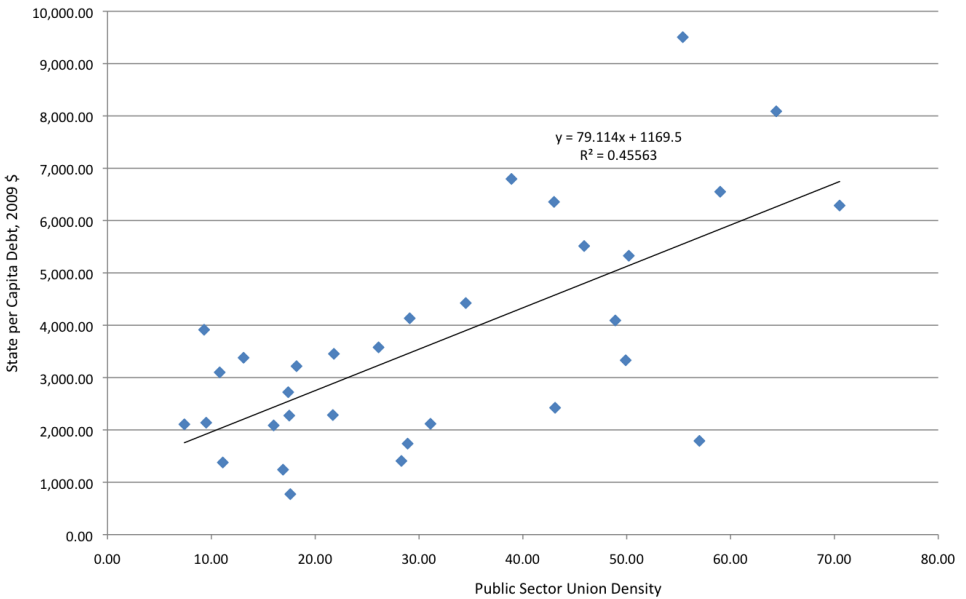


Chart 3: Public Sector Union Density vs. State per Capita debt for states without tax and expenditure limits

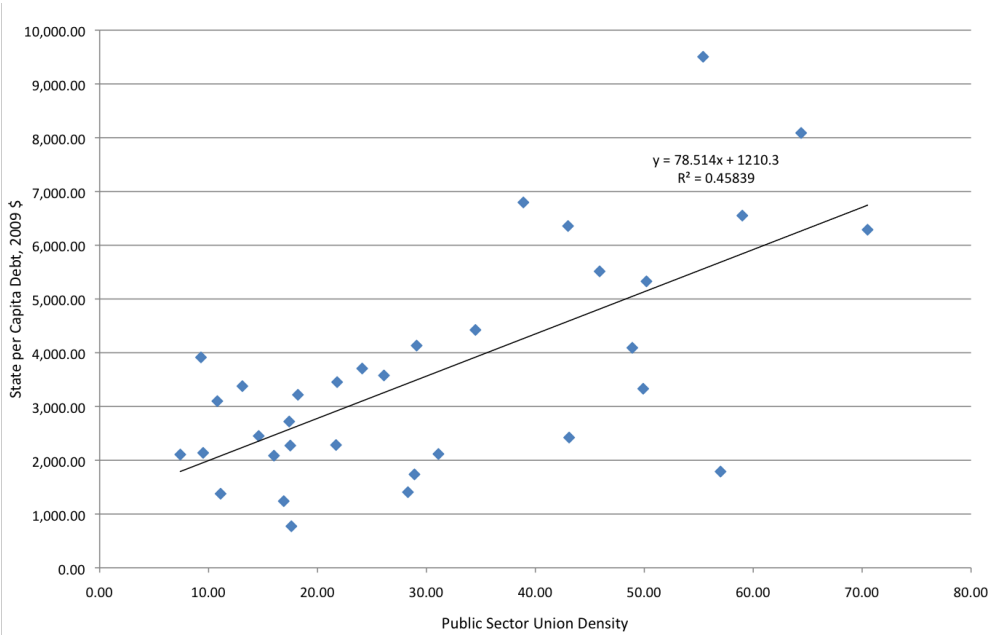


Chart 4: Natural Logarithm of Population vs. State per-Capita Debt

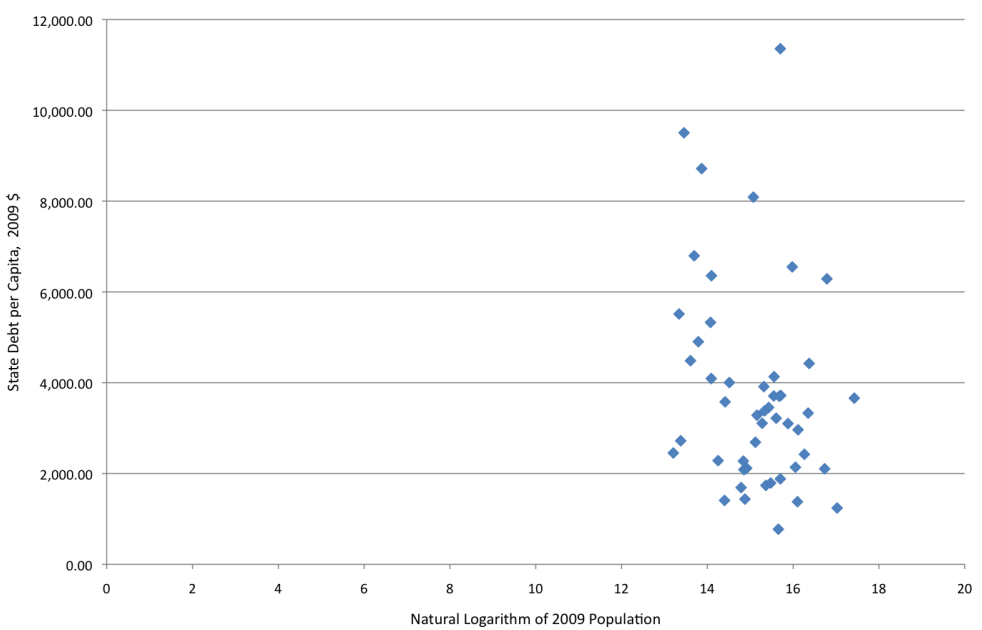


Chart 5: Seven-Year Average Real GDP Growth vs. State per-Capita Debt

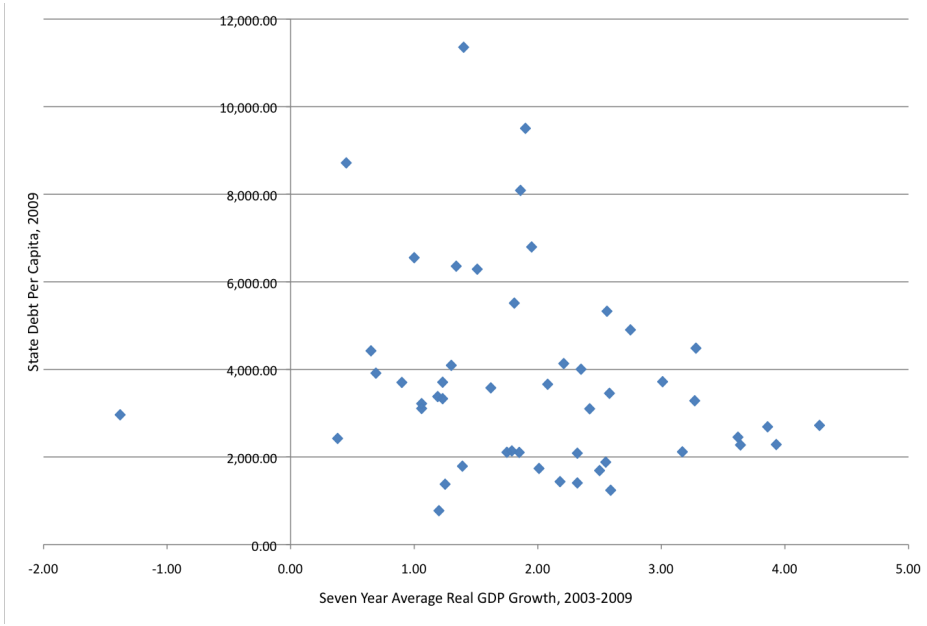


Chart 6: Tax Rate vs. State Per-Capita Debt

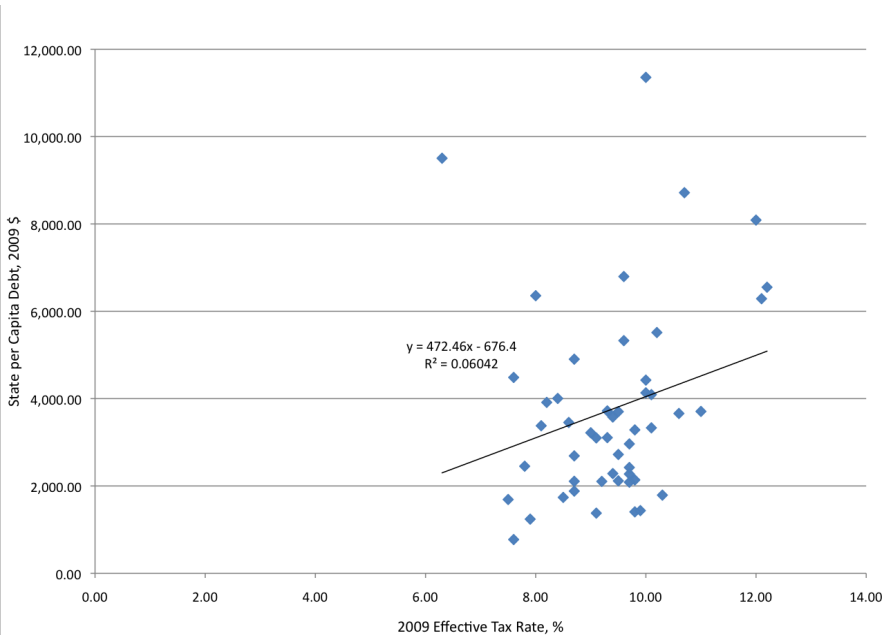


Chart 7: Public Sector Union Density vs. State Per-Capita Debt

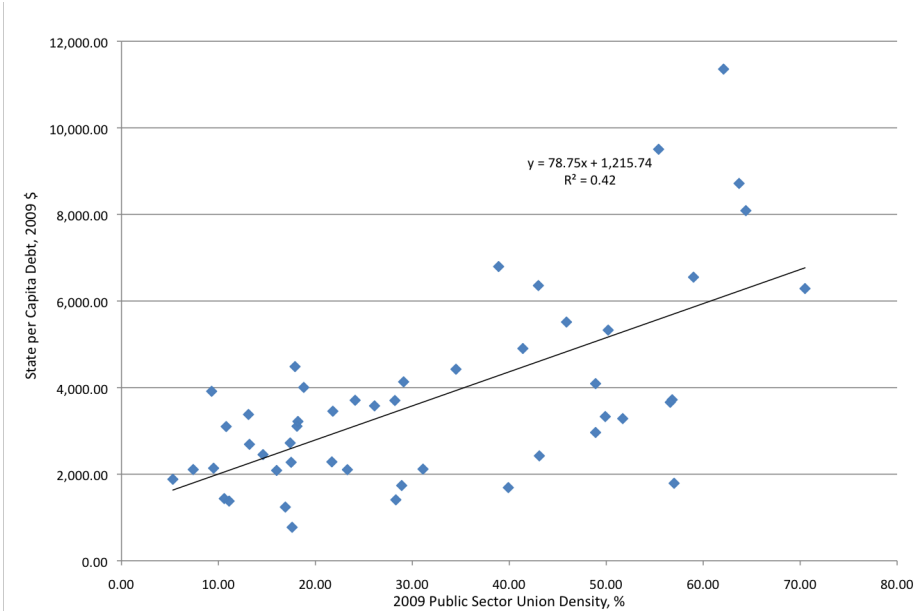


Chart 8: Estimated squared residuals – estimated state debt per capita versus squared residuals for Regression 1

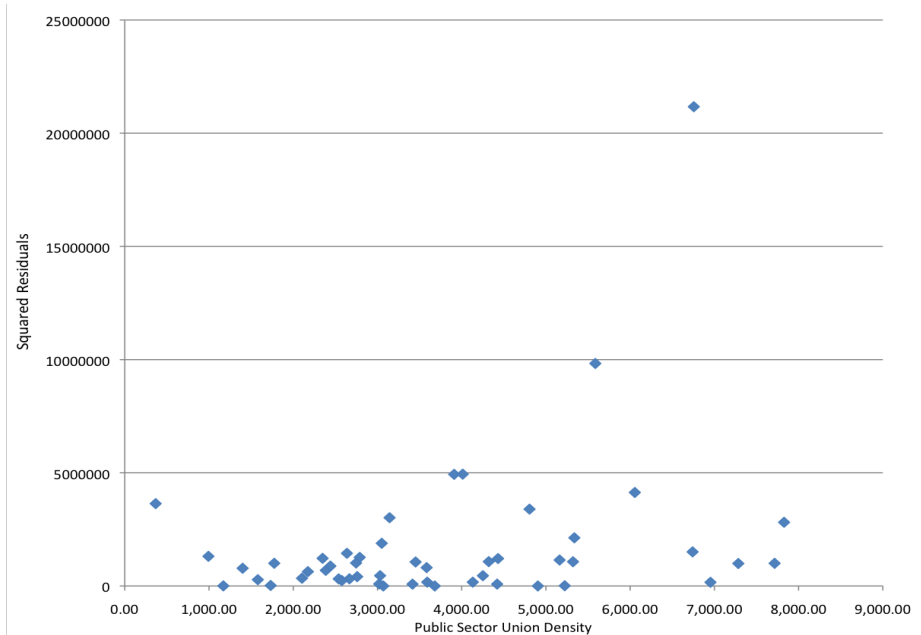


Chart 9: Est. squared residuals – public sector union density vs. squared residuals for Regression 1

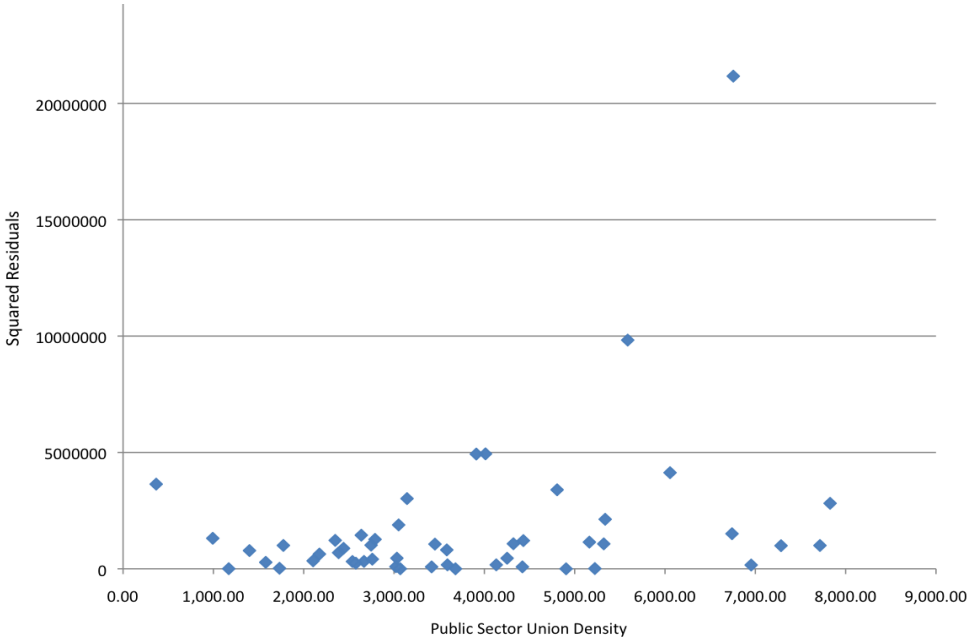


Chart 10: Correlation between public sector union density and tax rate

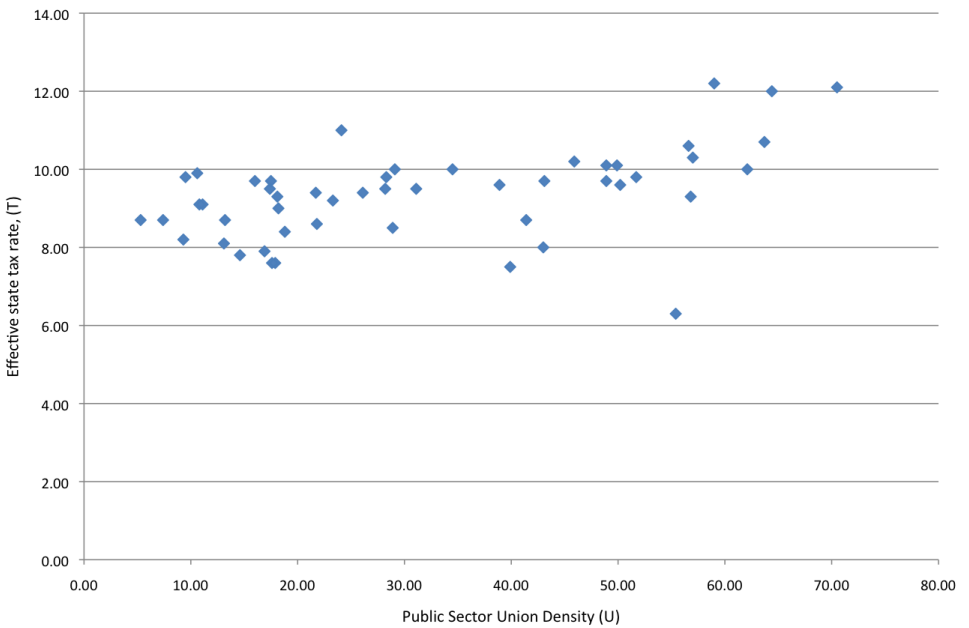
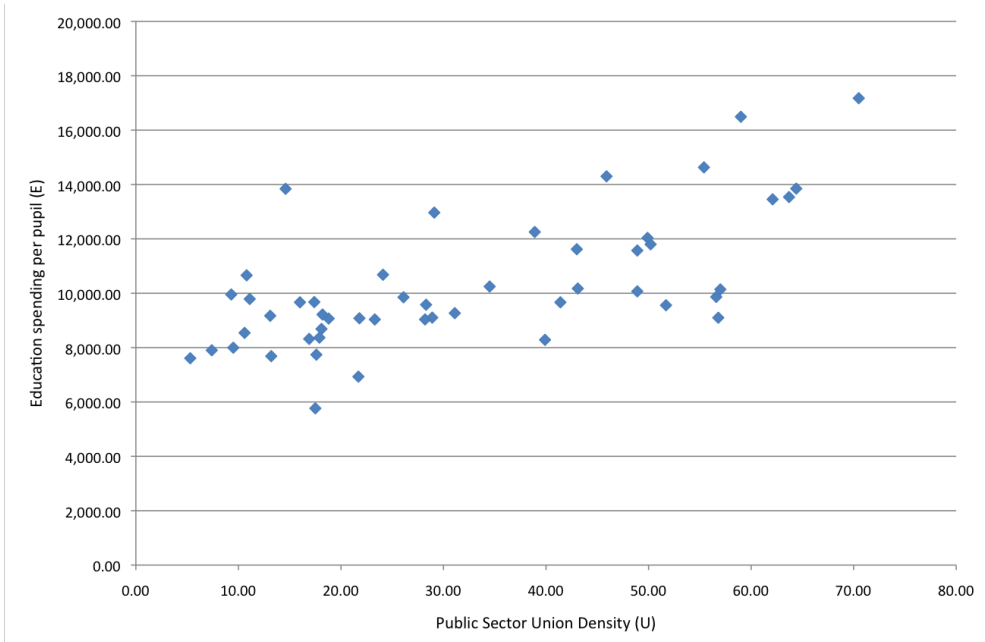


Chart 11: Correlation between public sector union density and education spending



**Regression 1:**

Dependent Variable: DEBT

Method: Least Squares

Date: 05/01/11 Time: 12:47

Sample: 1 50

Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5608.575	4029.004	1.392050	0.1711
E	0.528086	0.131955	4.002020	0.0002
L	867.1578	463.5515	1.870683	0.0682
P	-451.9015	236.1122	-1.913927	0.0623
G	-156.7266	221.0824	-0.708906	0.4822
T	-166.7577	217.2119	-0.767719	0.4468
U	34.73457	16.39987	2.117979	0.0400

R-squared	0.652212	Mean dependent var	3747.720
Adjusted R-squared	0.603684	S.D. dependent var	2241.374
S.E. of regression	1411.027	Akaike info criterion	17.47120
Sum squared resid	85612844	Schwarz criterion	17.73888
Log likelihood	-429.7800	Hannan-Quinn criter.	17.57314
F-statistic	13.43977	Durbin-Watson stat	2.077390
Prob(F-statistic)	0.000000		



**Regression 2:**

Dependent Variable: DEBT

Method: Least Squares

Date: 05/01/11 Time: 15:24

Sample: 1 50

Included observations: 50

White Heteroskedasticity-Consistent Standard Errors &amp; Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5608.575	3487.550	1.608171	0.1151
E	0.528086	0.192114	2.748823	0.0087
L	867.1578	510.1617	1.699770	0.0964
P	-451.9015	181.8618	-2.484862	0.0169
G	-156.7266	219.4196	-0.714278	0.4789
T	-166.7577	248.2618	-0.671701	0.5054
U	34.73457	18.22715	1.905650	0.0634

R-squared	0.652212	Mean dependent var	3747.720
Adjusted R-squared	0.603684	S.D. dependent var	2241.374
S.E. of regression	1411.027	Akaike info criterion	17.47120
Sum squared resid	85612844	Schwarz criterion	17.73888
Log likelihood	-429.7800	Hannan-Quinn criter.	17.57314
F-statistic	13.43977	Durbin-Watson stat	2.077390
Prob(F-statistic)	0.000000		

**Regression 3:**

Dependent Variable: DEBT

Method: Least Squares

Date: 05/01/11 Time: 14:17

Sample: 1 50

Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13256.61	3979.822	3.330955	0.0017
L	165.5889	485.4945	0.341073	0.7346
P	-740.9389	244.4490	-3.031057	0.0040
G	-370.5369	245.6402	-1.508454	0.1384
U	74.03468	13.06455	5.666838	0.0000

R-squared	0.522638	Mean dependent var	3747.720
Adjusted R-squared	0.480205	S.D. dependent var	2241.374
S.E. of regression	1615.958	Akaike info criterion	17.70788
Sum squared resid	1.18E+08	Schwarz criterion	17.89909
Log likelihood	-437.6971	Hannan-Quinn criter.	17.78069
F-statistic	12.31700	Durbin-Watson stat	1.964691
Prob(F-statistic)	0.000001		

**Regression 4:**

Dependent Variable: DEBT

Method: Least Squares

Date: 05/01/11 Time: 17:33

Sample: 1 20 22 49

Included observations: 48

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14985.26	3499.538	4.282069	0.0001
L	-193.0559	425.3806	-0.453843	0.6522
P	-831.9832	214.9498	-3.870594	0.0004
G	-356.0697	211.8763	-1.680554	0.1001
U	62.91094	11.51637	5.462743	0.0000

R-squared	0.555792	Mean dependent var	3616.188
Adjusted R-squared	0.514471	S.D. dependent var	1988.015
S.E. of regression	1385.247	Akaike info criterion	17.40348
Sum squared resid	82513134	Schwarz criterion	17.59839
Log likelihood	-412.6835	Hannan-Quinn criter.	17.47714
F-statistic	13.45040	Durbin-Watson stat	1.678236
Prob(F-statistic)	0.000000		

**Regression 5: Tax Burden, rather than Tax Rate**

Dependent Variable: DEBT

Method: Least Squares

Date: 05/04/11 Time: 00:36

Sample: 1 50

Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5636.578	3984.417	1.414656	0.1644
E	0.498726	0.128044	3.894959	0.0003
L	913.2131	458.4441	1.991983	0.0527
P	-553.8108	221.2452	-2.503154	0.0162
G	-167.9975	218.5226	-0.768788	0.4462
TAXBURDEN	0.250365	0.209685	1.194004	0.2390
U	27.68184	15.90601	1.740339	0.0890

R-squared	0.658759	Mean dependent var	3747.720
Adjusted R-squared	0.611144	S.D. dependent var	2241.374
S.E. of regression	1397.683	Akaike info criterion	17.45220
Sum squared resid	84001299	Schwarz criterion	17.71988
Log likelihood	-429.3049	Hannan-Quinn criter.	17.55413
F-statistic	13.83510	Durbin-Watson stat	2.150940
Prob(F-statistic)	0.000000		

## Full data set

State	Debt	E	L	P	G	T	U	Original Population
Alabama	1,738.00	9,103.36	0.00	15.36	2.01	8.50	28.90	4,708,708.00
Alaska	9,505.00	14,629.71	0.00	13.46	1.90	6.30	55.40	698,473.00
Arizona	1,882.00	7,607.74	1.00	15.70	2.55	8.70	5.30	6,595,778.00
Arkansas	1,436.00	8,541.25	1.00	14.88	2.18	9.90	10.60	2,889,450.00
California	3,660.00	9,863.39	1.00	17.43	2.08	10.60	56.60	36,961,664.00
Colorado	3,454.00	9,078.58	0.00	15.43	2.58	8.60	21.80	5,024,748.00
Connecticut	8,088.00	13,848.00	0.00	15.07	1.86	12.00	64.40	3,518,288.00
Delaware	6,796.00	12,253.17	0.00	13.69	1.95	9.60	38.90	885,122.00
Florida	2,104.00	9,035.00	1.00	16.74	1.85	9.20	23.30	18,537,969.00
Georgia	1,378.00	9,787.82	0.00	16.10	1.25	9.10	11.10	9,829,211.00
Hawaii	5,328.00	11,799.97	0.00	14.07	2.56	9.60	50.20	1,295,178.00
Idaho	2,284.00	6,931.04	0.00	14.25	3.93	9.40	21.70	1,545,801.00
Illinois	4,424.00	10,246.44	0.00	16.37	0.65	10.00	34.50	12,910,409.00
Indiana	3,702.00	9,036.14	1.00	15.68	0.90	9.50	28.20	6,423,113.00
Iowa	2,117.00	9,267.27	0.00	14.92	3.17	9.50	31.10	3,007,856.00
Kansas	2,086.00	9,666.56	0.00	14.85	2.32	9.70	16.00	2,818,747.00
Kentucky	3,107.00	8,685.84	1.00	15.28	1.06	9.30	18.10	4,314,113.00
Louisiana	3,914.00	9,954.12	0.00	15.32	0.69	8.20	9.30	4,492,076.00
Maine	4,092.00	11,571.69	0.00	14.09	1.30	10.10	48.90	1,318,301.00
Maryland	4,133.00	12,966.11	0.00	15.56	2.21	10.00	29.10	5,699,478.00
Massachusetts	11,357.00	13,454.47	1.00	15.70	1.40	10.00	62.10	6,593,587.00
Michigan	2,963.00	10,068.67	1.00	16.12	-1.38	9.70	48.90	9,969,727.00
Minnesota	1,790.00	10,140.24	0.00	15.48	1.39	10.30	57.00	5,266,214.00
Mississippi	2,107.00	7,901.00	0.00	14.90	1.75	8.70	7.40	2,951,996.00
Missouri	3,218.00	9,216.20	0.00	15.61	1.06	9.00	18.20	5,987,580.00
Montana	4,903.00	9,666.18	1.00	13.79	2.75	8.70	41.40	974,989.00
Nebraska	1,407.00	9,576.96	0.00	14.40	2.32	9.80	28.30	1,796,619.00

Nevada	1,690.00	8,284.80	1.00	14.79	2.50	7.50	39.90	2,643,085.00
New Hampshire	6,357.00	11,618.62	0.00	14.10	1.34	8.00	43.00	1,324,575.00
New Jersey	6,551.00	16,490.89	0.00	15.98	1.00	12.20	59.00	8,707,739.00
New Mexico	4,004.00	9,068.21	1.00	14.51	2.35	8.40	18.80	2,009,671.00
New York	6,288.00	17,173.43	0.00	16.79	1.51	12.10	70.50	19,541,453.00
North Carolina	2,138.00	7,995.65	0.00	16.05	1.79	9.80	9.50	9,380,884.00
North Dakota	2,721.00	9,675.11	0.00	13.38	4.28	9.50	17.40	646,844.00
Ohio	2,423.00	10,173.02	0.00	16.26	0.38	9.70	43.10	11,542,645.00
Oklahoma	2,689.00	7,685.12	1.00	15.12	3.86	8.70	13.20	3,687,050.00
Oregon	3,284.00	9,558.00	1.00	15.16	3.27	9.80	51.70	3,825,657.00
Pennsylvania	3,331.00	12,035.05	0.00	16.35	1.23	10.10	49.90	12,604,767.00
Rhode Island	8,716.00	13,538.77	1.00	13.87	0.45	10.70	63.70	1,053,209.00
South Carolina	3,379.00	9,169.75	0.00	15.33	1.19	8.10	13.10	4,561,242.00
South Dakota	4,485.00	8,366.69	1.00	13.61	3.28	7.60	17.90	812,383.00
Tennessee	773.00	7,739.37	0.00	15.66	1.20	7.60	17.60	6,296,254.00
Texas	1,240.00	8,320.13	0.00	17.03	2.59	7.90	16.90	24,782,302.00
Utah	2,274.00	5,765.13	0.00	14.84	3.64	9.70	17.50	2,784,572.00
Vermont	5,514.00	14,300.28	0.00	13.34	1.81	10.20	45.90	621,760.00
Virginia	3,100.00	10,659.11	0.00	15.88	2.42	9.10	10.80	7,882,590.00
Washington	3,719.00	9,098.86	1.00	15.71	3.01	9.30	56.80	6,664,195.00
West Virginia	3,578.00	9,852.08	1.00	14.41	1.62	9.40	26.10	1,819,777.00
Wisconsin	3,707.00	10,680.18	0.00	15.55	1.23	11.00	24.10	5,654,774.00
Wyoming	2,452.00	13,840.24	0.00	13.21	3.62	7.80	14.60	544,270.00

### VIII. Bibliography

- Blanchflower, David G., and Alex Bryson. "The Union Wage Premium in the US and the UK." Centre for Economic Performance (2004). London School of Economics, Feb. 2004. Web. 1 May 2011.
- Bureau of Economic Analysis. Regional Economic Accounts. News Release: GDP by State. Bureau of Economic Analysis. 18 Nov. 2010. Web. <[http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm)>.
- Bureau of Labor Statistics. "Union Membership Technical Note." U.S. Bureau of Labor Statistics. US Department of Labor, 21 Jan. 2011. Web. 01 May 2011. <<http://www.bls.gov/news.release/union2.tn.htm>>.
- Cas, Stephanie Medina, and Rui Ota. Big Government, High Debt, and Fiscal Adjustment in Small States. Working paper no. 08/39. International Monetary Fund, 2008. IMF. Web. 1 May 2011.
- Davidson, Lee. "Utah 10th for Percentage of Budget Spent on Education | Deseret News." Salt Lake City and Utah Breaking News, Sports, Entertainment and News Headlines - Deseret News. Deseret News, 15 July 2010. Web. 01 May 2011. <<http://www.deseretnews.com/article/700048237/Utah-10th-for-percentage-of-budget-spent-on-education.html>>.
- Educational Finance and Special Statistics Branch, Governments Branch, US Census Bureau. Public Education Finances 2008. Rep. UC Census Bureau, 2010. Print.
- Ehrenberg, Ronald G., and Joshua L. Schwarz. Working paper no. 1179. Cambridge: National Bureau of Economic Research, 1983. NBER. Web. 1 May 2011.
- Fang, Tony, and Anil Verma. "Union Wage Premium." Statistics Canada 75-001-XPE (2002): 17-23. Statistics Canada. Winter 2002. Web. 1 May 2011.
- Freeman, Richard B. "Unionism Comes to the Public Sector." *Journal of Economic Literature* XXIV (1986): 41-86. JSTOR. Web. 1 May 2011.
- Hirsch, Barry, and David Macpherson. Union Membership and Coverage Database from the CPS. Unionstats.com, 21 Jan. 2011. Web. 1 May 2011.
- Kaufman, Bruce E. "What Unions Do: Insights from Economic Theory." *Journal of Labor Research* 25.3 (2005): 351-82. SpringerLink. Web. 1 May 2011.
- McCubbins, Mathew D., and Ellen Moule. "Making Mountains of Debt out of Molehills: The Pro-Cyclical Implications of Tax and Expenditure Limitations." *National Tax Journal* 63 (2010): 603-21. Sept. 2010. Web. 1 May 2011.
- Mishel, Lawrence, and Matthew Walters. How Unions Help All Workers. Issue brief no. 143. Economic Policy Institute, Aug. 2003. Web. 1 May 2011. <[http://www.epi.org/publications/entry/briefingpapers\\_bp143/](http://www.epi.org/publications/entry/briefingpapers_bp143/)>.
- National Conference of State Legislatures. NCSL Fiscal Brief: State Balanced Budget Provisions. Issue brief. National Conference of State Legislatures, Oct. 2010. Web. 1 May 2011. <<http://www.ncsl.org/documents/fiscal/StateBalanced->

BudgetProvisions2010.pdf>.

- Prante, Gerald. Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview. Working paper no. 4. Tax Foundation, 7 Aug. 2008. Web. 1 May 2011. <<http://www.taxfoundation.org/files/wp4.pdf>>.
- Regional Economic Accounts, Bureau of Economic Analysis, US Department of Commerce. GDP by State, Advance 2009 Statistics. 18 Nov. 2010. Raw data.
- Sewell, Abby. "Protesters out in Force Nationwide to Oppose Wisconsin's Anti-union Bill - Los Angeles Times." Featured Articles From The Los Angeles Times. Los Angeles Times, 26 Feb. 2011. Web. 01 May 2011. <<http://articles.latimes.com/2011/feb/26/nation/la-na-wisconsin-protests-20110227>>.
- Surowiecki, James. "Public Support for Labor Unions Hits a New Low." The New Yorker. 17 Jan. 2011. Web. 01 May 2011. <[http://www.newyorker.com/talk/financial/2011/01/17/110117ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2011/01/17/110117ta_talk_surowiecki)>.
- Tax Foundation. "State Debt Per Capita and as a Percentage of State GDP, Fiscal Year 2009." The Tax Foundation. 25 Feb. 2011. Web. 01 May 2011. <<http://www.taxfoundation.org/research/show/268.html>>.
- Tax Foundation. State-Local Tax Burdens Fall in 2009 as Tax Revenues Shrink Faster than Income. Rep. no. 189. Tax Foundation, 23 Feb. 2011. Web. <<http://www.taxfoundation.org/research/show/22320.html>>.
- United States. US Census Bureau. American FactFinder. United States -- States GCT-T2\_R. Median Age of the Total Population (geographies Ranked by Estimate). Population Estimates Program. Web. 1 May 2011. <[http://factfinder.census.gov/servlet/GCTTable?\\_bm=y&-geo\\_id=01000US&-\\_box\\_head\\_nbr=GCT-T2-R&-ds\\_name=PEP\\_2009\\_EST&-format=U-40Sa](http://factfinder.census.gov/servlet/GCTTable?_bm=y&-geo_id=01000US&-_box_head_nbr=GCT-T2-R&-ds_name=PEP_2009_EST&-format=U-40Sa)>.
- United States. US Census Bureau. Public Elementary -- Secondary Education Finances Data 2008. Web. 1 May 2011. <<http://www.census.gov/govs/school/>>.
- US Census Bureau. Methodology for the State and County Total Resident Population Estimates (Vintage 2009): April 1, 2000 to July 1, 2009. Tech. US Census Bureau. Web. 1 May 2011. <<http://www.census.gov/popest/topics/methodology/2009-st-co-meth.pdf>>.
- Valletta, Robert G. "Impact of Unions on Municipal Expenditures and Revenues." Industrial and Labor Relations Review 42 (1989): 430-42. JSTOR. Web. 20 Mar. 2011.
- Zax, Jeffrey. "The Effects of Public Sector Unionism on Pay, Employment, Department Budgets, and Municipal Expenditures." Ed. Richard B. Freeman. When Public Sector Workers Unionize. By Casey Ichniowski. Chicago: University of Chicago, 1988. 323-64. Print.



# VALUABLE VIOLENCE: THE ROLE OF REBELLION IN SEPARATIST MOVEMENTS

MICHELLE HOEFER

---

*To date, nearly half of the separatist movements worldwide that have gained independence have employed violence to achieve their goals. The results of this study suggest that separatists carry out violence against authorities strategically, because doing so improves the likelihood of obtaining difficult government concessions. Through both ordered probit and probit analyses, I argue that there is a positive causal relationship between rebellion and concessions, and that this relationship is strongest when concessions are defined as land rights (autonomy or independence). Polity, country size, and region also affect concessions. These findings support a rational decision-making characterization of domestic actors, and have implications regarding the methods that separatists may choose to gain concessions.*

---

## Introduction

The term “separatism” is often subtly considered synonymous with “terrorism,” a conflation that highlights an important but deemphasized component of some separatist movements: violence. In the context of autocratic states, separatist movement leaders have limited strategies at their disposal to employ in their struggle to win concessions costly to their governments. Separatists might act as insurgents to persuade governments to grant their demands for autonomy or independence. States that grant autonomy and independence demands risk losing valuable land, resources, and population while setting a precedent that other separatist groups would take note of.

This study evaluates the effectiveness of violence targeted at authorities in achieving government concessions. The results will demonstrate that separatists strategically carry out violence because it improves the likelihood of their demands being met. When both violent and nonviolent movements across regime types and regions are examined, a positive, causal relationship between separatist movement rebellion and government concessions emerges. To appropriately analyze the success of this type of violence, a variable for nonviolence is also used as a measure of comparison. Ultimately, the violence variable has a robust statistical significance while the nonviolence variable does not. Examining the role of violence in achieving the separatist goal of government concessions offers empirical evidence as to how violence may be an effective tool.

In a globalized world in which borders seem increasingly obsolete, border disputes remain a major source of conflict for various religious, ethnic, and politically

motivated groups or governments of varying levels of democracy and economic power. Human rights groups, such as Amnesty International, publicize disputes in areas where human rights violations are prominent, in particular, cases of ethnic cleansing, such as the breakdown of the former Yugoslavia (Beary 2009).

Media attention has focused on recent developments in Sudan and Chechnya, drawing new attention to secessionism. The Chinese and Indonesian governments remain in the public spotlight as they continue to combat separatist movements. Older European rebellions, such as the Basque and the Quebec separatist movements, have already found their way into textbooks.

As group identities merge and split over time, these movements follow suit. The importance of understanding the role of violence in separatist conflicts in the 21<sup>st</sup> century is heightened by the argument that modernization will only increase group tensions as groups previously segregated from one another are pushed to interact (Hewitt and Cheetham, 2000). Moreover, a movement toward cultural hegemony will strain groups unable or unwilling to assimilate, resulting in stronger grievances (Hewitt and Cheetham 2000). The aim of this research is not to discuss the moral or legal legitimacy of separatist movements, but to instead examine the effect of separatist violence toward achieving difficult demands. These demands result in the violation of governments' interests in maintaining territorial control, despite modern notions of the right to self-determination and nationalism.

## **Literature Review**

As of 2006, there were 26 ongoing self-determination conflicts and 5,000 ethnic groups worldwide. Violence has accompanied nearly half of the successful movements to date (Beary 2009). The ambiguity of international law on secession has led to a complex discussion of the legitimacy of separatist demands. The definitions of concepts essential to the discussion, such as nationalism and self-determination, are somewhat ambiguous due to disagreement on their acceptability in different circumstances. Liberal notions of the right to self-determination have existed since the 17<sup>th</sup> and 18<sup>th</sup> centuries. Self-determination is praised in former colonies yet chastised as 'destabilizing' for separatists. Geldenhuys (2009), in his case studies of contested states, addresses the inherent paradox of states that accept the right to statehood and yet do not recognize declarations of independence from separatist groups within what they believe to be their territory. He compares unrecognized states to rogue countries, non-state actors, and other non-conformist countries; entities viewed by the international community and academics as unique. Separatists have political objectives, and movement leaders must gather political support from their constituencies (Brooker 2010).

Geldenhuys (2009) distinguishes between secession and partition: partition is the consensual division of territory, while secession is intrinsically characterized by conflict. Both separatists and governments have various options at their disposal for dealing with conflict, including organized violence. Brooker (2010) expanded the concept philosophized by Clausewitz that classified war as a political instrument with the inclu-

sion of organized violence. If violence is a tool available to and repeatedly utilized by separatist movements, then testing its success has great implications for analyzing the decision-making of this particular non-state actor. Conflict literature examines the outcome of violence between state actors, so the same approach should extend to violence carried out by separatist, non-state actors, and its outcome as determined by government concessions.

Without government concessions, separatists cannot achieve reform, autonomy, or sovereignty. Separatist movements are therefore defined by opposing forces: nationalism driven by the group and resistance driven by the government. Nationalism and group identity derive from a variety of sources, and literature has pointed to common motivations, such as ethnicity and colonial pasts, that affect identity and produce tension. Governments may favor one group over another or exploit differences for administrative purposes during colonization, engendering anger and creating economic inequality. The arbitrary boundaries drawn as a result of colonization prevent political citizenship from corresponding to important elements of group identity. Through the solidarity of a common identity, separatists look to break from a majority that does not share that identity and, on occasion, aim to join another existing state (Hewitt and Cheetham 2000).

Gurr (1970) traces the causes of political violence, contending that differences between what an individual or a group believes it currently has access to and what it believes it should have access to will produce discontent. This difference can involve what other groups are capable of having under the status quo. Politicization and actualization of this discontent might then occur. Gurr (1970) argues that limited violence can be useful, citing the American and Mexican Revolutions as examples.

Governments resist conceding to separatist demands because of territorial costs and subsequent power loss. Authoritarian governments are less tolerant of deviance and are therefore less likely to grant concessions. Even in liberal states, separatist demands are not easily met. Flowers (1984) traces the conflict and discrimination felt by Quebecers noting interestingly that national growth and representative political power may actually increase minority demands as there is greater desire to share in the economic and political benefits. Due to the difficulty of its goal, a separatist group may take extreme actions against government resistance, leading to increased levels of violence and lengthy civil wars.

Researchers have argued that escalations in violence are the result of signaling games in which both rebelling groups and governments show off their strength in hopes of deterring their competitor (Walter 2006 a, b, 2009; Öberg 2002). Violence and intimidation are therefore signaling tools for obtaining maximum results. In situations of imperfect information, this signaling tool may falsely reflect a competitor's capabilities or preferences, leading both parties to escalate the use of violence in hopes of encouraging the competitor to back down. Separatists aim to persuade governments to grant concessions by strategically using violence.

The model developed by Walter (2006 a) is effective in explaining variation in

success rates for separatist movements and enhances existing literature on territorial disputes and challenger capabilities through the use of a reputation; building argument driven by the chain store paradox. Governments have an incentive to act tough toward earlier challengers when they fear future challenges from other groups. She remarks, however, that the research does not test the strategies of the movements themselves. In additional work, Walter (2006 b, 2009) further analyzes the reputation-building model, studying the role of violence using a single dummy variable of violence or non-violence for each movement based solely a measure of rebellion against the government. The statistical relevance of this variable is mixed. Walter, nonetheless, draws attention to the problems created by failing to distinguish between violent and nonviolent challenges to the government and a need for empirical analysis of violence in separatist movements.

In a different study within the same publication by Walter (2009), he argues that separatist movements are strategic when they decide to challenge the government. Given that separatists intentionally choose violence as a tool, it is necessary to analyze separatist movement violence in a way that addresses its effectiveness in achieving concessions.

Arguments in favor of nonviolence have interesting implications; however, the results lack external validity in terms of the causes and types of governments for which they are applicable. Using specific case studies to examine when violence is likely to be successful, Gurr (2000 b) campaigns for nonviolence and the opportunities it may offer minorities for achieving rights or autonomy. He also acknowledges that in some countries, such as Iran or China, nonviolence is unlikely to be successful. Gurr (2000 b) further argues that most achievements made by minorities were the result of peaceful strategies in the second half of the twentieth century; for instance, African Americans in the United States during the Civil Rights Movement obtained rights by working within the traditional political system. This is, however, an example of reform that requires fewer government concessions than autonomy or sovereignty. Britain, in granting India its independence, was bound by the growing notion of self-determination that prevented it from strongly repressing a nonviolent movement. Gurr (2000 a) also posits that ethnic warfare is decreasing as parties take advantage of the lower costs granted by accommodation relative to extended confrontation and fighting. This arguably supports the theory that violence is effective in altering government decisions.

Many case studies demonstrate the role of violence in affecting change while acknowledging the difficulties brought about by each movement. Following a war in 1991, Armenians in Azerbaijan, who demanded independence or unification with Armenia, now run the *de facto* independent territory “Nagorno-Karabakh.” This conflict has left thousands dead and displaced, caused isolation from the international community, and spread poverty in the region. Lezgins, another group in Azerbaijan, have not had the same conflict with the government and have not received the same level of territorial control as the Armenians. Incidents of protest and violence are related to the government’s draft policy rather than to territorial demands. Their territorial grievances derive from post-Cold War divisions of former USSR land, but the group has not been well organized in expressing these grievances. Over time, the group’s demands

have decreased, and they have been integrated into society.

Berbers in Algeria have followed conventional methods of political action, with limited instances of rioting and police conflict; yet have failed to receive government concessions. The possibility of rebellion in the future exists if the government does not address religious and linguistic tensions between the Berbers and Islamic militants. The group is likely to receive concessions only from a democratic government, and the current Algerian government remains unstable.

Other groups who have obtained concessions include the Québécois of Canada and the Moros of the Philippines. Although, their strategies and the regimes from which they have received these concessions have been quite different. The Québécois have received concessions from a democratic government with limited manifestations and incidents of violence. Beliefs that the province could sustain itself economically and join existing trade agreements are strong motivations for the separatist party. The group does not face discrimination or disadvantages, however, there are linguistic and cultural tensions. The Philippine government granted the Moros, a collection of Muslim tribal groups, autonomy in 1989 after signing a ceasefire agreement. The conflict has continued within the territory, and the group has historically been divided on the issue of whether to seek autonomy or independence. Through violence, the group obtained a peace agreement, which granted autonomy (Minorities at Risk Project 2009). The success of peace agreements in achieving lasting change is brought into question as parties comply for short periods or fail to comply with agreements (Ginty 2006). This study uses concrete concessions, rather than agreements, to measure a movement's success.

Rebellion does not always have successful results, particularly in repressive states. Both the Nigerian and Burmese governments have denied concessions to separatists despite the high levels of rebellion. The military regime in Nigeria has arrested leaders of the separatist movement, and the Burmese government has led counterinsurgency campaigns, using Chinese arms and training (Minorities at Risk Project 2009).

## Theory

Separatists and governments hold inherently opposing preferences. Governments that grant autonomy or independence risk losing territory, resources, and civilians. Governments are not motivated to give in to separatist demands for altruistic or humanitarian purposes, such as granting concessions to reduce discrimination. They are, on the other hand, assumed to seek minimization of loss, which may result from either concessions or from the costs of violence to the state. They may choose to make concessions, but prefer to avoid internal violence when it is not carried out by the state.

Considering these contradictory interests, I suggest that separatist movements will need to exert pressure on the government to achieve demands and may do so through violence in the form of rebellion.

*H: Government concessions increase as a result of increases in rebellion.*

According to the rational actor theory of violence, actors will not rebel when

the costs outweigh the gains or when nonviolent options would better serve their objectives. Following this model, actors apply a cost-benefit analysis in their decision making process. The rational choice theory generally does not argue using psychological or moral rationales for why violent actors hold specific preferences. In spite of misinformation, uncertainty, and separatists' awareness of the difficulty of their objectives, those who pursue violence will increase their likelihood of gaining concessions.

### Data Description

The study relies on a cross-sectional examination of 102 cases coded for government accommodation by Walter (2006), with the separatist movement as the unit of analysis. The cases span various regions, periods, regime types, violence levels, and success in gaining concessions. The cases do not show bias towards any particular variable. Researchers have noted the relative absence of separatist movements in Latin America, despite the existence of stark racial differences and combative leftist forces. Peru, for example, experienced a period of insurgency in the 1980s and 1990s, but the violence aimed to overthrow the government and replace it with a Communist system.

It is important to note the natural tendency toward fewer concessions or no concessions in separatist movements, with few groups ever achieving full sovereignty. This trend would underestimate the effect of violence.

Table 1: Movements by Region

Region: 102 obs.	Number of Movements	Percentage of Total Movements
Eastern Europe	21	20.6%
Middle East	7	6.9%
Asia	28	27.5%
Africa	25	24.5%
Latin America	7	6.9%
West	14	13.7%

The study includes both state-level controls designed to measure the propensity of the government for concessions and group controls to determine a movement's ability to achieve its demands. The main independent variable, *Rebellion*, is a group measure, as are *Protest*, *Coercion*, and *Organization*. In the scope of this study, violence constitutes actions against authority. A measure of inter-group violence was included in preliminary tests, but there were not sufficient data to test the variable for a large enough sample. Additionally, inter-group violence is difficult to measure because it is not always clear which the perpetrator is, and the Minorities At Risk (MAR) database does not make

this distinction. Actions taken against the sample group would receive the same coding as actions taken by the group because both would constitute inter-group violence.

### **Independent Group Variables**

All scaled measures use the highest value available for multiple-year data. The data are from the MAR dataset, and the original codes are listed. *Rebellion* and *Protest* are scaled values of zero to five and zero to seven, respectively (PROT, REBEL).

*Rebellion* measures the level of violent actions taken against authorities:

- 0: None reported
- 1: Political banditry, sporadic terrorism
- 2: Campaigns of terrorism
- 3: Local rebellions, ex. armed attempts to take power
- 4: Small-scale guerrilla activity
- 5: Intermediate guerrilla activity
- 6: Large-scale guerilla activity
- 7: Protracted civil war

This variable coding is distinct from the Walter dummy variable coding, which sets a score of four on the rebel scale as the minimum requirement for a group to be considered violent. There are requirements for judging activity size. For example, small-scale activity must include less than six attacks per year with a limited number of fighters.

*Protest* is quantified on the following scale:

- 0: None reported
- 1: Verbal opposition, ex. letter writing
- 2: Symbolic resistance, ex. sit-ins
- 3: Small demonstrations, ex. strikes/ rallies less than 10,000
- 4: Medium demonstrations, ex. less than 100,000
- 5: Large demonstrations, ex. greater than 100,000.

*Coercion*, forcefully gaining local support, is a categorical variable that judges whether by organizations representing the group use force as a strategy (ORG1ST8, ORG2ST8, and ORG3ST8).

The original MAR coding was converted to the following:

- 0: Coercive support not used
- 1: Used as a tertiary strategy

- 2: Secondary strategy
- 3: Primary strategy.

In regards to larger theoretical frameworks, civil war theories provide useful insights into violence as a strategy. The same concern of bias toward government capabilities without regard for domestic group motivations and abilities to influence government decisions remains in the separatist movement discussion. Cunningham, Gleditsch, and Salehyan (2009) have found that rebel capacity is essential for determining conflict duration. They contend that strong rebels are able to carry out short wars and receive concessions, whereas weak rebels will not receive concessions but may still carry out a prolonged conflict when alternative political avenues are not available.

*Organization* is used as a measure of rebel strength as it quantifies the number of organizations representing the group and the level of support they receive from the group (MAR database, ORGCOH). The general coding is as follows:

- 0: No organizations recorded
- 1: Coalition of diverse interests
- 2: One or several organizations but only with limited support
- 3: One or several organizations with medium support
- 4: Several organizations with no greater than large support
- 5: One organization with large support
- 6: Several organizations one of which has dominant support
- 7: One organization with dominant support.

### **Independent State Variables**

*Polity* has continuously been found to affect both violence and government action, and therefore is taken as a control. It was determined by the highest ranking achieved by the state throughout the length of the movement on the Polity IV -10 to 10 scale (through 2001 for ongoing movements). The average rating was also considered in preliminary tests. Democratic governments are expected to grant more concessions than autocracies, as democracies are less likely to carry out repressive tactics against their citizens and more likely to respond to citizens' demands. In the developed world, ethno-territorial movements, though potentially violent, have moderated their demands in order to increase their support base and construct reachable objectives (Rudolph and Thompson 1985). Polity therefore shapes separatist strategies. In democracies, separatists may wish to work within the government apparatus and choose peaceful methods when it is more effective for gaining power.

Since the international community affects government treatment of groups living within their borders, an Alliance control is added to reflect the influence of agreements with the United States on the domestic policy of other nations. Lack of international attention and action may be the result of viewing separatist movements as "fam-



ily matters,”—a domestic issue. (Flowers 1984). Even regional organizations may feel it is not within their role to intervene or influence government actions when separatist demands are made. Pokalova (2010) argues, through the Kosovo case, that whether a separatist movement is labeled terrorism and accepted as such depends on international factors. *US Ally* is defined as having entered into an alliance with the United States during the length of the movement or prior to the movement if the alliance continued past the movement’s start. The data were obtained from The Correlates of War Project’s Formal Alliance database. All of the agreement types (pact, treaty, or entente) were included in the coding.

Walter (2006) has shown the number of ethnic groups in a country has an effect on government accommodation, although according to Fearon and Laitin (2003) ethnic diversity does not lead to a higher probability of civil violence. Countries with a large number of ethnic groups and histories of separatist movements are expected to grant fewer concessions because; they have either already lost territory or fear losing additional territory. Therefore, the analysis uses Central Intelligence Agency (CIA) data on the number of *Ethnic Groups* in each state.

The regional dummy *West* accounts for any omitted variable bias for the liberal Western states that *Polity* and *GDP* do not take into account. The *West* regional dummy includes Western European countries as well as the United States, Australia, and Canada. In earlier tests, the regional dummy was split into European and North American regions as a robustness check.

Although a territory variable is also considered, *Country Size* is another measurement of a government’s willingness to make concessions. Larger countries with more land at their disposal are expected to make greater concessions. Country area was measured in square kilometers and logged. Data for this variable come from both the CIA World Factbook and the UN.

*Territory Future Groups* measures the proportion of the country’s territory belonging to groups that might rebel after witnessing the government grant concessions to another group (Walter 2006). Governments that fear rebellion from other groups and the loss of additional territory are less likely to grant concessions to the original group. In other words, governments must account for the implications of their present actions and the potential of those actions to spark rebellion from groups in the future.

*India*, whose separatist movements made up the largest portion of the sample, was included as a dummy country to control for any selection bias towards other movements.

To address structural causes of violence, a GDP control was also tested. Civil war and guerrilla warfare have been found to be most common when conditions such as poverty are present (Fearon and Laitin 2003). These conditions worsen the effects of violence, particularly in societies where a large portion of the population lives at or below the poverty line. The data permitted a limited number of observations. Even though the GDP control is a state-level control, it must correspond to the timeline of the separatist movement. Therefore, the GDP control was not available for less estab-

lished states and those with earlier movements. GDP data from the World Bank were originally used but were later replaced by the more comprehensive Penn World Table data. As state-level controls, *Polity* is more effective in estimating concessions than *GDP*.

### Dependent Variable

In the **Ordered Probit** models, the dependent variable, *Government Concessions*, is an ordered categorical variable (0 to 3) taken from the Accommodation variable created by Walter (2006). It offers four possible results:

0: No accommodation

1: Limited accommodation not over territory

2: Accommodation that includes territorial autonomy

3: Independence based on the highest level of concessions granted by the government to the group throughout the length of the movement.

The general failure of separatist movements highlights the need for a scaled dependent variable when measuring government concessions. Of the groups included in the data set, only two achieved full independence. The separation of reform and territorial autonomy from independence is therefore essential in determining concessions. The **Bivariate Probit** models use a collapsed, dummy form of the dependent variable described later.

### Results

Table 2: Summary Statistics

Variable	Obs.	Mean	Std. Dev.	Units
Concessions	108	.75	.908	0-3 Ordered categorical
Rebellion	108	3.96	2.67	0-7 Ordered categorical
Protest	106	3.52	1.02	0-5 Ordered categorical
Coercion	103	.466	1.01	0-3 Ordered categorical
Organization	104	4.17	1.63	0-7 Ordered categorical
Country Size	107	12.98	1.78	Log km <sup>2</sup>
West	108	.139	.347	Regional dummy

Variable	Obs.	Mean	Std. Dev.	Units
Polity	108	3.44	6.46	-10-10 Ordered categorical
Territory Future Groups	107	2.13	13.58	Percentage of total land
Ethnic Groups	108	17.66	49.70	Number of ethnic groups
India	108	.211	.211	Country fixed effect
Alliances	108	.287	.454	Dummy
GDP	77	1.05	1.05	Log constant GDP

To preserve degrees of freedom, some controls are substituted rather than added.

The baseline treatment measures the change in the probability of gaining higher concessions in the largest sample size allowed by the data.

### Ordered Probit Models

Both the ordered probit and probit models follow the same hypothesis that violence in the form of *Rebellion* against the government has a positive effect on occurrences of government concessions while *Protest* does not have a statistically significant effect. *Coercion* is also suggested to have a positive effect on occurrences of concessions. The null hypothesis for violence is rejected in three of the four models, and protest is not found to have an effect, positive or negative, in any of the models. The null hypothesis for coercion, however, is not rejected.

Table 3: Ordered Probit Models, positive effect of rebellion on government concessions

Government Concessions	Ordered probit: Inclusive	Ordered probit: Exclusive
GROUP LEVEL		
<b>Rebellion</b>	.141*(.064)	.143*(.060)
Protest	.231(.157)	.169(.145)
Coercion	-.168(.146)	-.171(.142)
Organization	.128(.098)	.146(.092)

Government Concessions	Ordered probit: Inclusive	Ordered probit: Exclusive
STATE LEVEL		
Country Size	-.211*(.084)	-.261**(.077)
West	1.99**(.543)	2.07**(.492)
Polity	.098**(.029)	.098**(.027)
Territory Future Groups	.010(.010)	--
Ethnic Groups	-.007(.008)	--
India	-.840(.733)	--
Alliances	-.138(.367)	--
N	101	102
Pseudo R squared	.2499	.2362
$\wedge p < .10, *p < .05, ** p < .01$		

The standard errors are in parentheses. The unit of analysis is the movement.

### Inclusive Model:

Government Concessions =  $\beta_1$ (Rebellion) +  $\beta_2$ (Protest) +  $\beta_3$ (Coercion) +  $\beta_4$ (Country Size) +  $\beta_5$ (Organization) +  $\beta_6$ (Polity High) +  $\beta_7$ (West) +  $\beta_8$ (India) +  $\beta_9$ (US Ally) +  $\beta_{10}$ (Territory of Future Groups) +  $\beta_{11}$ (Ethnic Groups) +  $\epsilon_1$

The inclusive model aims to test the wide range of controls against three measures of violence and nonviolence. *Rebellion* is statistically significant at the 5% level while *Polity* and *West* are significant at the 1% level. As expected, *Rebellion*, *Polity*, and the *West* regional dummy each have a positive effect on government concessions. The null hypothesis stating that violence has no effect on government concessions may be rejected, supporting the theory that violence is useful, not detrimental. Existing research supports the conclusion that governments and separatists hold opposing preferences but that liberal governments are more willing to compromise within their borders. Thereby, they limit the escalation of violence by granting concessions. The causality of the relatively low levels of violence paired with concessions in democratic states separates these states from the others in the sample. The separatists in these states have managed concessions not because of non-violent actions, but instead due to the nature of their governments. In turn, the concessions remove any incentives to commit violence. *Protest* and *Coercion* are not significant.

It is important to note that the regional dummy is maintained in addition to *Polity*, as *Polity* alone does not capture the differences in a government's willingness to reform and provide land rights. At the five percent level, the *Country Size* control becomes

significant, though it is unexpectedly shown to have a negative effect on concessions. The original theory suggests that larger countries would have an improved likelihood of giving in to separatist demands, as they would have more territory at their disposal. It can also be argued that a larger country has more to fear from future separatist movements if it is home to a greater number of ethnic groups or other minorities and would resultantly react harshly to minority demands. The ethnic group control was tested to measure the role of other groups in the success of the separatist group but was not found to have statistical significance. It can be argued instead that larger countries may have military resources that allow them to quell separatist movements and that the relationship between size and power is more compelling than the relationship between size and minority groups.

### Exclusive Model:

In dropping non-significant controls, the exclusive model has a greater degree of freedom and clarifies the results of the earlier model. The results are as expected and *Rebellion* is significant at the five percent level with improved coefficient and P-values. *Organization* unexpectedly remains insignificant. The other controls may overshadow the importance of this group-level control. The more organized the group, the more consistent and strong the attacks it can carry out. Unorganized groups may be able to mount some limited attacks, but the attacks will not convey the same message to the government than those of organized groups. Additionally, the group's level of organization advises the government that the attacks are not the work of a few individuals but rather a coordinated movement with demands.

### Bivariate Probit Models

Table 4: Bivariate Probit Models, effect of rebellion on government concessions

Government Concessions	Probit: Land	Probit: Reform
GROUP LEVEL		
<b>Rebellion</b>	.166*(.076)	.100(.066)
Protest	.127(.182)	.077(.157)
Coercion	-.151(.175)	-.162(.164)
Organization	.081(.117)	.160(.105)
STATE LEVEL		
Country Size	-.325**(.097)	-.307**(.089)
West	2.97**(.713)	2.13**(.664)
Polity	.087*(.034)	.096**(.029)

Government Concessions	Probit: Land	Probit: Reform
Constant	1.51(1.49)	2.02(1.39)
N	102	102
Pseudo R squared	.3854	.3005
$\wedge p < .10, *p < .05, ** p < .01$		

The positive causal relationship between violence and concessions is robust for the land model.

### Land Model:

$$\text{Government Concessions Land Dummy} = \alpha_1 + \beta_{12}(\text{Rebellion}) + \beta_{13}(\text{Protest}) + \beta_{14}(\text{Coercion}) + \beta_{15}(\text{Country Size}) + \beta_{16}(\text{Organization}) + \beta_{17}(\text{Polity High}) + \beta_{18}(\text{West}) + \epsilon_2$$

Collapsing the categorical concession variable allows for a probit analysis and confirms the results found in the ordered probit models. The first concession dummy divides government response into dummy variable categories of land rights and no land rights. Concessions previously coded as a zero or one are recoded as zeros, while those previously marked as a two or three become ones. Separatist movements are ultimately striving for control over land, so this model groups movements who obtain reforms, but no land rights, with those that achieve no concessionary response from the government.

### Reform Model:

$$\text{Government Concessions Reform Dummy} = \alpha_2 + \beta_{19}(\text{Rebellion}) + \beta_{20}(\text{Protest}) + \beta_{21}(\text{Coercion}) + \beta_{22}(\text{Country Size}) + \beta_{23}(\text{Organization}) + \beta_{24}(\text{Polity High}) + \beta_{25}(\text{West}) + \epsilon_3$$

For a secondary probit analysis, the dependent variable is collapsed into an alternate dummy. Any form of concession is coded as a one. This model therefore defines the success of a movement as any positive response from the government. Under this coding, the controls remain significant, but the significance of *Rebellion* is lost. Table 3 evaluates the movements' success distributions for the concession dummies. Logically, Model 4 is the most giving in its measure of success, which helps explain the loss of significance for the primary independent variable. Given that the success threshold is lower, movements that did not carry out higher levels of violence, thereby only obtaining reform, would still be considered successful. The reduction in the Rebellion P-value is understandable, and this model is more suitable for minority movements seeking more subtle changes, such as the expansion of civil rights.

If lessening the concession threshold reduces the effectiveness of violence, one implication of this model is that lessening demands might reduce the incentive for vio-

lence. Violence is a strategy selected for its results, and if it were not effective for lesser demands, groups would not employ it. The practicality of convincing separatists to seek reform rather than land rights and converting them into minority leaders, not separatists, is certainly questionable.

Table 5: Probit Analyses

Probit Dummies	Land Concession	Reform Concession
Successful Movements	32	47
Unsuccessful Movements	70	55

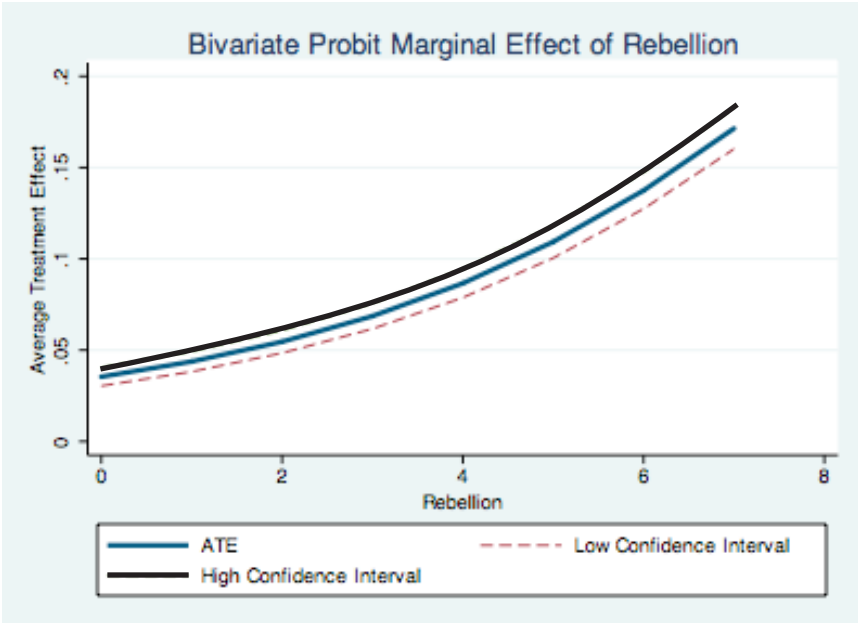
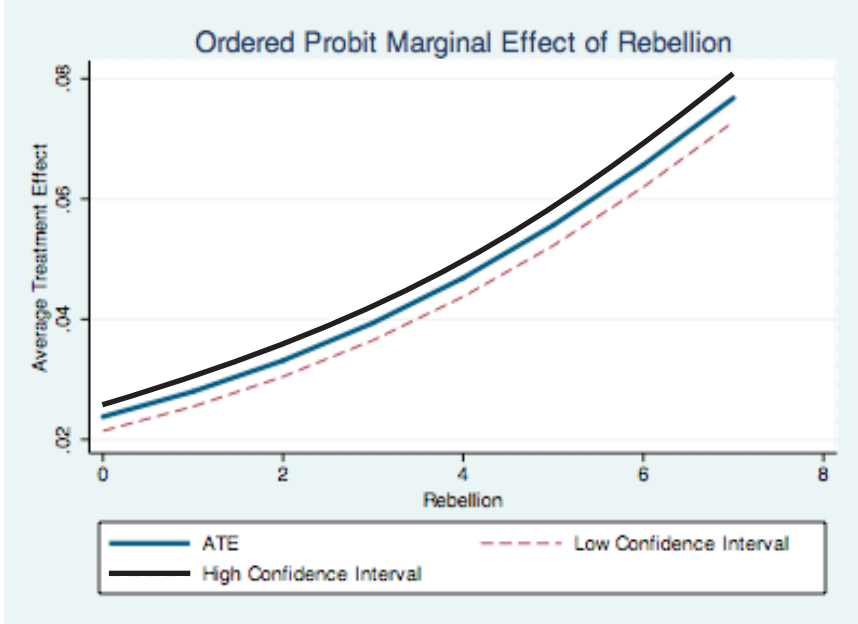
The table notes the number of movements considered successful in each probit model. It is clear that the threshold for success is lowered in the reform model as 15 additional movements are shifted to the successful movement category.

*Rebellion* preserves its statistical significance throughout three of the four models while *Protest* never reaches the minimal 10 percent level. Once nonessential controls are removed after the first model, the P-value moves further from the threshold needed for statistical significance. Future studies with more complete data for violent strategies employed by separatist organizations may find *Coercion* to be an important variable whereas this study did not. One explanation is that the MAR coding does not provide enough variety in coding of *Coercion* for meaningful analysis. The other variables are coded across larger scales, and for that reason, most likely provide a more accurate image of separatists' strategies.

*Country Size* had a remarkable level of statistical significance given the existing literature's emphasis on the territory under claim by the separatist movement rather than on the country's total amount of land. This negative relationship is the most surprising result in the study.

### Average Treatment Effects

The average treatment effects for the exclusive ordered probit model and the land bivariate probit model show that the marginal effect of rebellion on concessions increases as the level of rebellion increases. In other words, a movement from a level five (intermediate guerilla activity) rebellion to a level six (large-scale guerrilla activity) increases the likelihood of concessions at a greater rate than a movement from a level two (campaigns of terror) to a level three (local rebellions). These results are not surprising given the severity of the upper-level rebellion categories. Additionally, the marginal effect is stronger in the probit model than in the ordered probit model, though both are very relevant.





## Conclusion

These findings have useful implications for predicting why domestic actors would decide to pursue violent or nonviolent strategies in their interactions with individuals, groups, and the state. Ethnic, indigenous, and other minority groups striving to obtain reforms rather than sovereignty may find distinct strategies more suitable, and future research could illuminate how separatist movements are interpreted in the context of minorities in general.

Time-series analysis, through the collection of original data on concessions by year, could present additional support for the effect of violence by separatist movements on government decisions by carrying out empirically what is now only available qualitatively in case studies. This type of study could also provide the basis for a large-scale analysis of the effectiveness of concessions in quelling grievances and carrying out reforms promised by governments that do not grant full sovereignty.

The aim of this research is not to show that nonviolence in general is ineffective but rather to argue that separatists, like other state and non-state actors, carry out violence as the result of rational decision-making. Current research on strategies for preventing conflict, conflict management, and peace agreements can shed light on the effects of reducing violence. The costs and benefits of violence could be altered so that separatists seek outlets other than rebellion or so that governments grant concessions before violence escalates. One argument suggests that governments may be pushing groups to secede by not offering sufficient autonomy alternatives and influence in the government (Beary 2009).

Further research could address the role of the international community through the addition of control variables for support or recognition of movements through additional control variables. For example, recognition could divide major powers, the UN, and formal acknowledgment of the succession by other states. Support could use the same divisions for concrete backing of a movement in the form of funds, arms, and military personnel.

More complete concession data would improve the statistical value of this study by increasing the number of observations. Such data could be gathered for earlier movements and for additional movements in countries with a large quantity of ethnic groups.

Expanding the scope of rebellion to include groups under protectorate, international, and other legal statuses might make for an interesting comparison between groups that have made formal demands for secession and groups working toward other power-sharing or autonomy arrangements.

The global power structure that existed at the end of the Cold War led many to believe that the 1990s would be a period of separation as new nations and groups emerged. The continuation of the decentralizing trend after the turn of the century, however, has produced mixed reactions to the future role of separatist movements in global politics. One argument suggests that separatism will only grow in the future. New states are prone to divisions, and neighboring groups may see successes in the region as

reason to rebel. Nevertheless, globalization and regional agreements may limit the need for state boundaries and discourage separatist sentiments.

---

*Michelle Hoefler graduated from NYU in 2011 with a double major in international relations and Spanish language and culture. While at NYU, Michelle studied abroad in Prague, Buenos Aires, and Madrid. She is currently a Grant Researcher at Chilean Mapuche Artisans' Organization for Cultural Development.*

---

## References

- Anonymous. 2010. "China's JiaQinglin urges Xinjiang people to fight terrorism, separatism." *BBC Monitoring Asia Pacific*, 23 August.
- Beary, Brian. 2009. "Separatist Movements." In *Global Issues*, Selections from CQ Researcher. Washington, D.C.: CQ Press.
- Brooker, Paul. 2010. *Modern Stateless Warfare*. Basingstoke: Palgrave Macmillan.
- Cunningham, David E., Kristian S. Gleditsch, and IdeanSalehyan. 2009. "It Takes Two: A Dyadic Analysis of Civil War Duration and Outcome." *Journal of Conflict Resolution*, 53 (4): 570-597.
- Fearon, James D., and David D. Laitin. 2003. "Ethnicity, Insurgency, and Civil War." *American Political Science Review*. 97 (1): 75-91.
- Flowers, Mary K. 1984. "Canada and Quebec." In *Ethnic Separatism and World Politics*, ed. Frederick L. Shiels. Lanham: University Press of America.
- Geldenhuis, Deon. 2009. *Contested States in World Politics*. Basingstoke: Palgrave Macmillan.
- Ginty, Roger M. 2006. *No War, No Peace: The Rejuvenation of Stalled Peace Processes and Peace Accords*. Basingstoke: Palgrave Macmillan.
- Gurr, Ted R. 2000. "Ethnic Warfare on the Wane." *Foreign Affairs*. 79 (3): 52-64.
- Gurr, Ted R. 2000. "Nonviolence in Ethnopolitics: Strategies for the Attainment of Group Rights and Autonomy." *PS: Political Science & Politics*. June: 155-160.
- Gurr, Ted R. 1970. *Why Men Rebel*. Princeton: Princeton University Press.
- Hewitt, Christopher and Tom Cheetham. 2000. *Encyclopedia of Modern Separatist Movements*. Santa Barbara: ABC-CLIO.
- Macedo, Stephen and Allen Buchanan, eds. 2003. *Secession and Self-Determination*. New York: New York University Press.
- Minorities at Risk Project. 2009. "Minorities at Risk Dataset." College Park, MD: Center for International Development and Conflict Management. Retrieved

from <http://www.cidcm.umd.edu/mar>.

- Öberg, Magnus. 2002. *The Onset of Ethnic War as a Bargaining Process: Testing a Costly Signaling Model*. Uppsala: Uppsala University.
- Pokalova, Elena. 2010. "Framing Separatism as Terrorism: Lessons from Kosovo." *Studies in Conflict & Terrorism*. 33: 429-447.
- Rudolph, Joseph R. Jr. and Robert J. Thompson. 1985. "Ethnoterritorial Movements and the Policy Process: Accommodating Nationalist Demands in the Developed World." *Comparative Politics*. 17 (3): 291-311.
- Sánchez-Cuenca, Ignacio. 2009. "Revolutionary Dreams and Terrorist Violence in the Developed World: Explaining Country Variation." *Journal of Peace Research*. 46 (5): 687-706.
- Shiels, Frederick L., ed. 1984. *Ethnic Separatism and World Politics*. Lanham: University Press of America.
- Walter, Barbara F. 2006. "Building Reputation: Why Governments Fight Some Separatists but Not Others." *American Journal of Political Science*. 50 (2): 313-330.
- Walter, Barbara F. 2006. "Information, Uncertainty, and the Decision to Secede." *International Organization*. 60: 105-135.
- Walter, Barbara F. 2009. *Reputation and Civil War*. Cambridge: Cambridge University Press.

# THE IMPACT OF LEGAL ORIGIN ON CONSTITUTIONAL PROVISIONS

SARAH WALTON

---

*Previous research about the legal origins theory has focused on its relation to statutory law. This study expands this discussion by analyzing the relationship between legal origin and constitutional provisions for judicial review. In particular, this paper examines whether legal origin has an impact on provisions for abstract judicial review, which provides legislators, the chief executive, and members of the executive branch with an opportunity to challenge the constitutionality of a statute even in the absence of a concrete case. Using a sample of 143 countries, the results show that countries with civil law origins are more likely to include provisions for abstract review in their respective constitutions than are common law countries. This conclusion indicates that legal origin precedes not only statutory law, but also the formation of constitutional provisions, namely the presence or absence of judicial review.*

---

## I. Introduction

My research question examines the relationship between a country's legal origin and its constitutional provisions for abstract judicial review. Judicial review provides for the evaluation of the constitutionality of a law or statute. Abstract judicial review allows judges to assess the constitutionality of a statute without the presence of a concrete case. Judicial review is not instituted in the constitution in all countries. For example, Canada's provisions for judicial review are found in a statute, which can be changed or struck down by the legislature at any point. Because the core principles in a country's legal structure are presented in its constitution, this paper only analyzes provisions for abstract judicial review found in constitutions.

Most legal institutions derive their origins from common law or civil law. Legal institutions that follow common law principles rely on precedent from similar cases to determine outcomes, whereas institutions referring to civil law use civil codes without regard to previously decided cases. The United States and England share common law origins, and do not have provisions for abstract judicial review. France and Germany, on the other hand, derive their origins from civil law; their constitutions contain an abstract judicial review provision. These facts prompt the question: Does legal origin influence the presence or absence of constitutional provisions for abstract judicial review?

## II. The Legal Origins Theory

The impact of legal origin on the structure of judicial institutions dates back to the twelfth and thirteenth centuries.<sup>1</sup> England used common law principles to create a jury system. France originally used the English common law system, but later switched to civil law for reasons of practicality; local feudal lords had great political leverage, and lawmakers believed that external pressure could be adversely applied to affect the jury. As a result, France instituted a system of state-employed judges, believing that these judges would not succumb to such pressure.

Between roughly the fifteenth and eighteenth centuries, during the reign of the Ancien Régime, the legal system in France granted judges noble status and immense political power. Individuals occupying judicial positions were exempt from paying taxes and could pass on their noble status to their descendants.<sup>2</sup> When France faced a fiscal crisis in the late eighteenth century, in an effort to increase the size of the taxable population, the monarchy retracted the judges' aristocratic privileges. Judges resisted these changes, and the monarchy feared that this tension would influence judicial rulings against the political wishes of the sovereign leader.

After the French Revolution, the newly established constitutional French monarchy transformed the national legal system by creating an expansive set of legal codes. By designing a system of codes that could be applied during the adjudication process, the French sovereign could easily detect judges who were not properly applying the rules. The term "royal judges" originally referred to the loyalty of judges in the civil law system to the sovereign power. During Napoleon's reign, these same legal codes were instituted in Italy, Belgium, the Netherlands, Western regions of Germany, and parts of Poland.<sup>3</sup>

Conversely, in England, juries were an independent body of citizens overseen by judges. Judges ensured that the relevant legal principles were applied in each case to lead the jury to an impartial decision. Instead of applying legal codes, judges interpreted precedent from previous cases as a guide for future disputes.

The legal origins theory suggests that a country's economic development is influenced by the legal tradition from which its system of laws originated. Previous research has addressed legal origins theory regarding contract enforcement, property rights, and market regulation. La Porta et al. examined the significance of a country's legal origin regarding finance, specifically statutory provisions for investor protections and corporate governance, and the structure of equity markets. They compared the rights of corporate shareholders and creditors respectively in common and civil law countries, and measured variations in legal rules protecting corporate shareholders, such as those delineating voting rights or specifying legal protections against expropriation by management. Then they analyzed the respective enforcement mechanisms of these rules. They evaluated creditors' rights using regulations derived from bankruptcy

1 Glaeser, Edward, and Andrei Schleifer. "Legal Origins." *The Quarterly Journal of Economics* 117.4 (2002): 1193-1229.

2 Mahoney, Paul. "The Common Law and Economic Growth." *Journal of Legal Studies* 3.2 (2001): 503-525.

3 La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Schleifer, Robert Vishny. "Law and Finance." *Journal of Political Economy* 106.6(1998): 1113-1155.

and reorganization laws. The empirical results indicated that legal origin was a significant indicator of investor protections, leading La Porta et al. to conclude that countries with common law origins offer greater protection to potential investors. La Porta et al. used the empirical outcomes to further predict that greater investor protections are one indicator for higher levels of economic growth.<sup>4</sup>

Mahoney contends, however, that finance is not the primary environment in which legal origin affects economic growth, arguing that diverging beliefs over separation of powers between common and civil law traditions resulted in systematic differences in observed judicial institutions.<sup>5</sup> Designing a government that employs a system of checks and balances prevents one branch from enforcing its interests at the expense of another branch. Mahoney hypothesized that the mechanism for judicial checks on the legislature in common law countries may better protect corporate shareholders' and creditors' rights from undue governmental influence than the equivalent check in civil law countries, stabilizing the channels and criteria for investor protections, and thereby promoting economic growth. He measured this effect by using property rights and contract enforcement as the independent variables, and legal origin as the dependent variable in 102 countries. Mahoney concluded that common law countries have higher levels of economic growth; he attributed this positive difference to a fundamental divergence between the institutional judicial structure and established system of checks and balances of common and civil law countries respectively.

Beck et al. traced the effects of legal origin on the development of financial markets and adaptability channels.<sup>6</sup> The researchers were specifically interested in the relationship between the structure of institutions and the ability of markets to adapt to changing circumstances. In their measure of judicial institutions, they included tenure of Supreme Court judges, case law, and legal justification as dependent variables. Legal justification was measured in terms of whether outcomes were based on statutory law or equity. They hypothesized that legal systems with higher levels of judicial tenure would lead to greater judicial independence (on an individual level), offering financial markets a higher chance of encountering legally recognized adaptability channels. Beck et al. also predicted that countries with restrictive legal codes would be less likely to adapt to changing circumstances in financial markets.

Beck et al.'s empirical results supported their hypothesis that higher levels of market freedom and property rights are associated with common law countries and civil law countries with German legal origins. The study specifically focused on the channels that affect the development of financial markets, leading them to exclude constitutional provisions, which generally do not have a significant effect on financial systems.

---

4 Ibid.

5 Mahoney, Paul G. "The Common Law and Economic Growth: Hayek Might Be Right." *Journal of Legal Studies* 30 (June 2001): 503-25.

6 Beck, Thorsten, Asli Demirguc-Kunt, and Ross Levine. "Law and Finance: Why Does Legal Origin Matter?" *Journal of Comparative Economics* 31 (December 2003): 653-675

Beck et al., like Mahoney and La Porta et al., have compared statutory provisions in common law and civil law countries to more precisely determine the influence of legal origin on economic growth. This paper seeks to broaden the discussion of the legal origins theory by examining the relationship between legal origin and constitutional provisions. Abstract Judicial Review is a provision that not only affects the structure of legal institutions but also might influence economic growth.

La Porta et al. included abstract judicial review in their analysis, evaluating the relationship between legal origin and political and economic freedoms; abstract judicial review can be measured empirically as an independent variable, delineating who can bring a constitutional case to court.<sup>7</sup> For example, provisions for judicial review in France only allow legislators to bring cases to the Constitutional Council, barring the citizenry from this process. Thus, France received a different score for abstract judicial review than countries that allowed all citizens to bring constitutional challenges to court.

La Porta et al. focused on the effects of judicial review on economic and political outcomes, rather than on its relationship with legal origin. While they concluded that legal origin is a strong indicator of economic freedoms, they did not examine the relationship between judicial review and legal origin, choosing to group both as independent variables. Maintaining legal origin as an independent variable while changing abstract judicial review to a dependent variable would yield more indicative results about the relationship between legal origin and the formation of constitutional provisions.

La Porta et al. hypothesized that legal rules can serve as indicators for legal origins. The study's overarching results indicate that a country's legal origin contributes to the formation of its legal rules, especially in relation to economic and financial regulations. Though legal origin is an important determinant of legal rules at large, La Porta, et al. limit their investigation to the effect of legal origin on economic regulations. Their study only views this relationship in the context of statutory language and law. Expanding this query by examining the effects of legal origin on constitutional provisions would widen the scope of legal origins theory.

Divergent procedures in common and civil law countries also reflect different applications of theories of jurisprudence. Legal formalism suggests that the law endures across contexts, independent of certain questions of policy or substantive justice, and that judges act within the pre-prescribed legal order. Courts in civil law countries have more observed applications of legal formalism, indicating that judges are more likely to rule on a fixed set of legal codes. Djankov et al. researched the efficiency of court systems as related to the structure of the legal system, and concluded that the consequences of heightened legal formalism place additional restrictions on judges in the decision-making process, resulting in less efficiency.<sup>8</sup>

7 La Porta Rafael, Florencio Lopez-de-Silanes, Cristian Pop-Eleches, and Andrei Shleifer. "Judicial Checks and Balances." *Journal of Political Economy* 112.2 (2004): 446-469.

8 Djankov, Simeon, Rafael La Porta, Florencio Lopez de Silanes, Andre Schleifer. "Courts." *The Quarterly Journal of Economics* 18.2 (2003): 453-515.

While some have speculated that legal procedure has merged over the last 60 years, La Porta et al. found that legal formalism has increased in civil law countries and decreased in common law countries from 1950 to 2000.<sup>9</sup> This finding implies that countries with legal bases in civil law are more likely to award legislatures, rather than the judiciary, with the power to determine the substantive relevance of a law. La Porta et al. used Djankov et al.'s legal formalism index, which measured how strictly the law regulates legal procedure. The divergence over levels of applied legal formalism in common and civil law countries indicates that legal origin plays a role in the variation of judicial institutions. An analysis of abstract judicial review will further explain the relationship between legal origin and constitutional provisions that account for the structural differences between the judicial institutions of common and civil law countries

### III. The Development and Emergence of Abstract Judicial Review

At first glance, abstract judicial review appears to encourage activist judges to inject their opinions into the policy-making process. There are two types of abstract judicial review, *a priori* and *a posteriori*. Though it may vary slightly from country to country, *a priori* review generally provides the president, members of parliament, and, in some cases, the attorney general with an opportunity to challenge the constitutionality of a statute before its passage in parliament. *A posteriori* review permits the same individuals to challenge the law after its promulgation. A concrete case is not required for either type of abstract judicial review. If judges may rule on a piece of legislation based on its textual provisions alone, they are often forced to make assumptions about the effects the statute will or could have. This also forces the legislative body to shape the language of the statute to account for the court's expected reaction to challenges of constitutionality.

While most analysis of abstract judicial review has been theoretical, the provision's implications make it worthy of empirical analysis. Some scholars have argued that reviewing a law without the presence of a concrete case gives judges a role in the policy-making process.<sup>10</sup> Instead of evaluating a dispute between two individuals, judges are inserted into a parliamentary debate and the inherent political influences.

The politics of the judiciary have become a salient issue in the political sphere, both in America and abroad. Judges who are constrained to the facts of a particular case can only interpret a given law from a limited perspective, making any political decision more apparent to the constituency. However, abstract judicial review gives judges significantly more leverage in issuing a potentially political decision about a statute. This makes abstract judicial review an important provision to investigate further.

Stone Sweet et al. reflected on the political consequences of abstract judicial re-

---

9 La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Schleifer. "The Divergence of Legal Procedure." *American Economic Journal of Economic Policy* 1.2 (2009): 138-62.

10 Stone Sweet, Alec, D.J. Jackson, and C.N. Tate. "Abstract Constitutional Review and Policy-Making in Western Europe." *Policy Studies Journal* 19.1 (1990) 81-95.



view on policy output and judicial activism, concluding that that the provision encourages judges to become political actors in the legislative process.<sup>11</sup> Their research shows that abstract judicial review is increasingly political, even as a method of obstructing a bill's passage through parliament by the minority party. Though the process of abstract judicial review and all associated policy outcomes may evoke political incentives within the legal system, the origins of these provisions may have had even greater implications within the different contexts of common and civil law countries.

Scholars devoted particular attention to the development of legal institutions after the fall of the Soviet Union and the Communist Bloc. Utter and Lundsgaard evaluated judicial review from a comparative perspective while much of Eastern Europe was constructing a legal framework for open markets, contract enforcement, and property rights.<sup>12</sup> They analyzed legal institutions through the lens of judicial review, contending that it was an important variable relating to separation of powers and the protection of human rights.

When many Eastern European countries created their legal institutions, they chose to incorporate abstract judicial review, concrete review, or both. Concrete review is the form of judicial review applicable only when a case is brought to the appropriate court. Utter and Lundsgaard asserted that there was no relationship between abstract judicial review and legal origin, but their evidence did not use a sample that was representative enough to validly test their argument. Their first point contrasted the legal institutions in the United States and Canada, both of which are common law systems. The federal courts in the United States do not offer advisory opinions on proposed legislation, which Utter and Lundsgaard equated to abstract judicial review. Conversely, Canada employs "reference jurisdiction," which allows the Supreme Court to lend an opinion about proposed legislation at the request of the Governor-in-Council. While Canada and the United States do share similar legal traditions, Utter and Lundsgaard did not cite any empirical analysis to support this claim. The addition of empirical work would provide a strong base to examine the strength of this conclusion.

Furthermore, Utter and Lundsgaard juxtaposed the United States and Canada with Germany, a civil law country whose constitution provides for both abstract judicial review and concrete judicial review. The authors argued that the presence of concrete judicial review in addition to abstract judicial review in Germany showed that legal origin is not a differentiating element between the two systems. If a country only employed abstract judicial review, it would require legislators and members of the executive branch to challenge the constitutionality of every law that could possibly lead to a dispute. This system would not allow citizens to challenge the law after its enforcement, prohibiting them from suing on constitutional grounds.

The incorporation of concrete judicial review by civil law countries says less about legal origin than it does about the constitutional framework that allows citizens access to the justice system. Most civil law systems use concrete judicial review in con-

<sup>11</sup> Ibid.

<sup>12</sup> Utter, Robert, and David Lundsgaard. "Judicial Review in the New Nations of Central and Eastern Europe: Some Thoughts from a Comparative Perspective." *Ohio State Law Journal* 54 (1993): 559-606.

junction with abstract judicial review for reasons of practicality. Not all laws will be challenged by the legislature, especially if a challenge would be politically risky. Concrete judicial review gives citizens the opportunity to raise constitutional questions outside of the legislative process, mitigating the possibility of enforcing an unconstitutional law.

While France stands out as the most notable counterexample to the argument about concrete review, Merryman<sup>13</sup> concluded that France is more of an exception than a rule. France's civil code served as the model for many other legal systems, but France's Constitutional Council is more isolated than most, only permitting challenges by government officials. Merryman concluded that the French Constitutional Council is inherently political, supporting his contention that countries such as Germany that had originally based its legal institutions on France's structure chose not to implement France's exact model for judicial review.

#### **IV. Causal Theory**

Previous research about abstract judicial review has contended that its implementation was inherently political. However, the collective presence or absence of this provision in countries that share collective legal origins could suggest that legal origin is a factor in determining the structure of legal institutions. While the outcomes of abstract judicial review may be political in nature, perhaps its origin can be attributed to a variable other than politics.

Legal origin may be the defining variable that explains the presence of abstract judicial review in particular countries. Previous research has already analyzed the influence of legal origin on the structure of statutory provisions in several areas addressed by the legal system, from investor protections to property rights. This paper contends that the legal origin has also influenced constitutional provisions. If the structure of judicial institutions and the law-making body differ from common law to civil law countries, it follows that constitutional provisions for judicial review would differ as well.

The structure of the judiciary in common and civil law countries diverges over the role of judges in the adjudication process. In countries with origins in common law, judges are trained both to apply and interpret the laws in the context of a particular case. Judges play a more active role in the adjudication process, using both precedent and the facts of a case to guide their decision. On the other hand, judges in civil law countries assume more of an administrative role. While they are no longer subservient to any sovereign's wishes, they continue to operate within a strict set of legal codes. Judges apply the content of statutes and codes to the specific facts of a case, without regard to previously decided cases or issues of constitutionality. When some civil law countries implemented judicial review powers, they maintained the administrative role of judges by creating a separate constitutional court with different responsibilities. Judges serving on constitutional courts only decided issues pertaining to constitutional questions, isolating them from the rest of the judicial branch.

---

<sup>13</sup> Merryman, John Henry. "The French Deviation." *The American Journal of Comparative Law* 1 (1996): 109-119.

As a result, legal scholars designed a system of judicial review that accounted for the administrative role that judges in civil law countries serve outside of the constitutional court. If constitutional questions could only be decided under the jurisdiction of one court, the constitution needed to provide alternative means to ensure that administrative judges would not be obligated to enforce an unconstitutional statute. Therefore, the framers of constitutions in civil law countries designed a provision that would allow a constitutional court to evaluate constitutional questions posed by government officials in the abstract. This aimed to ensure that no unconstitutional statute would be questioned under an administrative judge.

Furthermore, legal scholars in civil law countries have traditionally looked down upon “judge-made” law. Judge-made law refers to the common law system’s use of precedent as a way for judges to hand down decisions in accordance with what previous rulings have already dictated. Many scholars in civil law countries believed that only the legislature should make the law. By allowing legislators to enact abstract judicial review, the constitutional court issues a decision directly to the law-making body. This ultimately allows the legislature to make the law, either by reforming any legislation or passing it in its most current form. This system stands in contrast to the adjudication process in countries with common law, where judges do not issue their decisions directly to the legislature. Unless the legislature chooses to counteract the decision by pursuing alternative legislation, the court’s ruling remains in effect.

Some constitutional courts in civil law countries cannot reject applications from the legislature for abstract judicial review. Constitutional questions that originate in the legislature warrant a response from the constitutional court, and in some cases, the constitution dictates a time frame for the decision. This stands in contrast to the Supreme Court of the United States, which has the discretion to pick and choose the cases it hears, a power granted by precedent within the legal system. This speaks to the power of lawmakers in civil law countries versus the reliance on precedent in countries with common law.

## **V. Hypothesis**

I hypothesize that constitutional provisions for abstract judicial review will be more prevalent in civil law countries than in common law countries. I attribute this variation to the differing role of judges and attitudes towards judge-made law in common and civil law systems, which gives rise to different provisions for judicial review. The structure of the civil law system not only invites more interaction between the branches of government, but also looks to the legislative branch as the sole lawmakers. Abstract judicial review allows legislators to maintain this role by permitting them to challenge the constitutionality of statutes, giving legislators an opportunity to reform the law in the event that it is unconstitutional. In common-law countries, there is less interaction between the branches of government. When judges strike down a law as unconstitutional, constitutional scholars view this as a check on the powers of the legislature. Ultimately, these fundamental differences will increase the probability of abstract judicial

review in civil law countries while decreasing the probability in common-law countries.

## VI. Endogeneity

There are three ways in which a country's legal tradition can be established. The two primary channels are conquest and colonization. Additionally, some countries in parts of the world that were not heavily colonized voluntarily adopted a legal system similar to that of another country. Ultimately, these countries pose the largest issues with endogeneity in this analysis. A country's history, legal culture, and religion might influence which country's legal system it chooses to adopt. Similarly, the same variables might affect constitutional provisions. For example, because of its history, a country might adopt a neighboring country's legal system. Its history may also motivate the establishment of a particular type of court system. Countries that voluntarily create independent legal systems have a greater tendency to choose both legal origin and constitutional provisions based on an exogenous factor such as legal culture or religion than those countries whose legal origin is determined by force or colonization. Such independent creation of a legal system poses the biggest risk for endogeneity, as countries choose both their constitutional provisions and legal origin.

## VII. Independent and Dependent Variables

The independent variables in this analysis are common and civil law legal origins. This paper will use the countries that were sampled in La Porta et al.'s "Economic Consequences of Legal Origin" dataset.<sup>14</sup> Countries with English legal origins use the common law system to decide constitutional questions. Judges rely on precedent in previous cases to guide their decisions in future cases, instead of using civil codes. Countries with civil law origins developed as a result of the French Revolution, when France diverged from common law principles to institute civil codes. France was at the forefront of instituting civil codes for judges to use, allowing them to apply the law, rather than interpret it. Eventually, this type of adjudication spread to countries in close proximity to France and its colonies. Judges occupy a more administrative role in civil law countries, abiding by each country's civil code for adjudicating cases.

Both the common and civil law variables in this study are coded as dummy variables. If a country derives its origin from civil law, it is coded as one in the civil law category and zero in the common law category. Countries with common law origins have the reverse coding rule. I have also included a control that measures for variation at ten regional levels. I accounted for regional controls because countries that are looking to redesign their legal systems might model them after existing institutions in neighboring countries without regard to legal origin. For example, most countries in the former Communist Bloc created constitutions after the fall of the Soviet Union. At the time, each country had access to similar legal scholarship about the creation of a democratic government from neighboring countries that were simultaneously writing

---

14 LaPorta, Rafael, Florencio Lopez-De-Silanes, and Andrei Shleifer. "The Economic Consequences of Legal Origins." *Journal of Economic Literature* 46.2 (2008): 285-332.

constitutions. This variable will control for these types of regional influences.

I collected this data from the United Nation's regional dataset that accounted for 17 regional variations.<sup>15</sup> However, I condensed this data to account for North America, Central America, South America, Europe, Africa, West Asia, East Asia, Northern Asia, Southern Asia, and the Pacific in my study. This variable is also coded as a dummy variable.<sup>16</sup> If a particular country falls into one of the ten regions, it receives a code of one in that specific region and a code of zero in the remaining nine regions.

In addition, I have added a second control that measures for the type of democracy in each country. Previous research by Vanberg cites that many parliamentary democracies have provisions for abstract judicial review.<sup>17</sup> As opposed to presidential democracies, parliamentary democracies provide the legislature with an opportunity to dissolve the government with a vote of no confidence. Presidential democracies are more majoritarian in nature, requiring that the people elect new leaders. There is a strong doctrine of separation of powers in presidential democracies, whereas the lines between the legislature and the executive are less defined in parliamentary democracies. Thus, controlling for the type of democracy in each country will eliminate the possibility that a specific system of government is provoking the presence or absence of abstract judicial review.

I used the World Bank's Database for Political Institutions as my measure for type of democracy.<sup>18</sup> The coding rule assigns countries with parliamentary democracies with a code of two and countries with an assembly-elected president with a code of one. Presidential democracies receive a code of zero.

The dependent variable in this analysis is the presence of abstract judicial review in a country's constitution.<sup>19</sup> I will add abstract judicial review as a dependent variable to La Porta et al.'s previous analysis, coding each country according to its provisions for judicial review. I used the Oceana Law database to access each country's constitution. Constitutions with provisions for either a priori or a posteriori judicial review will be coded with one. Countries that do not have provisions for abstract judicial review will receive a code of zero. There are 144 countries in this sample.

15 United Nations Statistics Division – National Accounts Main Aggregates Database. Last modified: December 2010, <http://unstats.un.org/unsd/snaama/dnllist.asp>.

16 N.B. When Stata converts a dataset with numeric values into dummy variables, it automatically drops one of the variables. The first regional variable, North America, was dropped as a result of this process. Thus, it is not represented in any of the regression results in this paper.

17 Vanberg, Georg. "Abstract Judicial Review Legislative Bargaining, and Policy Compromise." *Journal of Theoretical Politics* 10.3(1998): 299-326.

18 The World Bank – Data and Research. Last modified: November 2011, <http://econ.worldbank.org>.

19 Oceana Law Online. <http://www.oceanalaw.com>.

### VIII. Equation

$$Y \text{ (Abstract Judicial Review)} = B_1 \text{ (Common Law Legal Origin)} + B_2 \text{ (Civil Legal Origin)} + B_3 \text{ (Type of Democracy)} + B_4 \text{ (Central America)} + B_5 \text{ (South America)} + B_6 \text{ (Europe)} + B_7 \text{ (Africa)} + B_8 \text{ (Northern Asia)} + B_9 \text{ (Southern Asia)} + B_{10} \text{ (West Asia)} + B_{11} \text{ (East Asia)} + B_{12} \text{ (Pacific)} + B_{13} \text{ (North America)} + e$$

### IX. Expected Coefficients

I expect that countries with civil law origins will have a positive relationship with abstract judicial review and countries with common law origins will have a negative relationship with abstract judicial review. The constitutions of countries with common law origins will primarily be missing this provision, which gives rise to a negative relationship. There will be more variation in countries with civil law origins. Countries with civil law origins span a much larger number of countries than common law origins, making it difficult for countries in different parts of the world to adopt a universal system of judicial review. Nevertheless, I expect a strong relationship in a negative direction for countries with common law and a positive direction for civil law countries.

### X. Inferences

The empirical results from this research design will not only reveal any causal relationship between legal origin and provisions for abstract judicial review, but also the broader effects of legal origin on the formulation of specific constitutional provisions. La Porta et al.'s initial research showed that a country's legal rules are indicative of its legal origin. Their previous research has focused on the effects of legal origin pertaining to statutory law, but these results will assess the value of legal origin in constructing constitutions. This will indicate whether a country's legal rules in relation to judicial institutions, rather than finance, have a similar relationship with legal origin.

### XI. Limitations

The data signifying a country's constitutional provision, or lack thereof, for abstract judicial review are presented in the Appendix. As I collected my data, I found that more countries than I had anticipated failed to establish a court system or jurisdictional rules in their constitutions. The civil law countries that did not establish a court system with jurisdictional rules received a code of zero, indicating that they lacked provisions for abstract review. Abstract judicial review may be established in these countries through statutes or by acts of Parliament, but this research design only accounted for these countries by coding them according to the presence or absence of abstract review. This may partially explain why countries representing either civil or common law origins were coded in ways that may not be completely indicative of their provisions for abstract judicial review.

On the other hand, I argued earlier in this paper that results based solely on constitutional provisions hold more weight in terms of the strength of the relation-

ship between legal origin and abstract review. The legislative body can change judicial systems established by statutory law relatively easily, whereas amending a constitution traditionally requires a larger consensus. Analyzing countries with abstract review in statutes may have changed the results of the regression, but this would have been less telling about the strength of the relationship between abstract review and legal origin. Perhaps using a coding rule that accounts for both constitutional provisions and statutes would have yielded stronger results for civil and common law countries.

## **XII. Implications**

The results of the regression are presented in Table 1. Common law countries have a negative relationship with abstract judicial review, while civil law countries had a positive relationship with abstract review. The relationship between abstract judicial review and legal origin in common and civil law countries is weakly significant in the predicted direction at the 10 percent level of significance. While previous research had shown that legal origin had an influence on statutory law, these results indicate that legal origin also has an effect on constitutional provisions.

Without the control for type of democracy, the results are even stronger at the 5 percent level of significance. This shows that there may be a type of democracy that is more conducive to provisions for abstract judicial review than others. This also indicates that the type of democracy in a particular country may be an important factor in determining provisions for abstract review. Table 1 also presents the results without the regional controls. The results were significant at the 10 percent level, but were weaker than the initial regression with both controls included. While regional controls may be somewhat important in determining provisions for abstract judicial review, the results without each control indicate that type of democracy is of greater importance in relation to abstract review than regional variables.

In examining the results, the derivative of the logit function lends itself to analyzing the probability of abstract judicial review in common and civil law countries. Because the derivative measures the change in one variable over the change in another, it is fitting to use this function as way to quantify the results of the regression. The derivative shows the change in probability for abstract review in a country's constitution while manipulating specific independent variables in the equation. In this case, manipulating common and civil law origins in conjunction with the regional variables will reveal changes in the probability for abstract review. This provides a quantitative measure of its relationship between abstract review and legal origin. Even though the logit function is most commonly used to measure small changes as opposed the larger changes being studied in this paper, it still provides the best way to quantify the results of the regression into more concrete figures.

In the first hypothetical, I analyzed the probability of abstract judicial review in East Asian countries. These countries have presidential democracies and derive their origins from either common or civil law. The results of the derivation are presented in Panel A of Table 2. They indicate that when comparing common and civil law coun-

tries in East Asia, civil law countries have a 2.6 percent greater chance of containing provisions for abstract judicial review than common law countries. While this difference may not appear substantial on the surface, the results are significant at the 10 percent level. This shows that legal origin is a factor in determining the presence of abstract review in East Asian countries.

Africa presents even stronger results. Panel B shows that the derivative is statistically significant at the 5 percent level, making the strength of the legal origin theory in Africa even greater than in East Asia. The coefficient indicates that civil law countries in Africa have a 6.6 percent greater chance of containing abstract review provisions than common law countries. Likewise, Europe also shows significant results as reflected in Panel C. The derivative is significant at the 10 percent level, and the coefficient shows that civil law countries in Europe have a 5.3 percent greater chance of containing abstract review provisions than common law countries.

While these results are consistent in the predicted direction, I expected that the coefficients would be larger, thereby creating a greater difference in the probability for abstract review between common and civil law countries. This may be due to narrowing the sample of countries to a particular region, rather than looking at the relationship among all regions. In addition, all of the variables in this study were coded as dummy variables, with the exception of the type of democracy control. This may have generated results that are less robust than a research design that uses exact figures. Finally, the derivative of the logit function is best at measuring small changes, rather than the large changes that are characteristic of dummy variables. This may also have contributed to a less robust result. Nevertheless, the statistically significant results indicate that these figures hold weight in the discussion of legal origin and its relationship to constitutional provisions for judicial review.

The results show that in a sample of countries with both common and civil law origins, countries with civil law origins have a significantly higher chance of containing provisions for abstract review in its constitutions. The regions in this sample covered different parts of the world, showing that there is not one particular region where this theory holds more weight than others. This extends the legal theory origin theory outside of the realm of finance, showing its impact on constitutional provisions that serve as the foundation for legal institutions.

### **XIII. Conclusion**

The empirical results support the theory that judicial institutions in civil law countries are fundamentally different from the systems in common law countries. The derivative of the logit function indicates that countries with civil law origins are more likely to contain constitutional provisions for abstract judicial review than common law countries. This shows that the impact of legal origin reaches beyond the scope of finance and statutory law and into the realm of legal institutions.

While this paper extended the discussion about legal origin into the formulation of constitutional provisions, there may be other structural aspects of legal institu-



tions that likewise relate to the legal origin theory. The results of this project may contribute to a recent conversation in the legal community about the relationship between legal origin and colonization. Some scholars have contended that legal origin is only useful in analyzing the variance of specific legal rules, rather than the judicial structure as a whole. Specifically, scholars have cited colonization and the forces of the political economy as two important variables that could affect the overall structure of the legal system.<sup>20</sup> The relationship between legal origin and specific constitutional provisions provides a useful measure in relation to this argument by revealing the strength of civil and common law origins in relation to the structure of judicial institutions. Going forward, this area may be the next opportunity for research relating to legal origin and constitutional provisions.

---

*Sarah Walton graduated cum laude from New York University in 2011 with a double major in journalism and politics. During her time at NYU, she received the Chesler Pre-Law Scholarship and the Dean's Award in Politics. She is currently working as a legal assistant in the Law Offices of Barbara H. Katsos, P.C. in New York. She plans to attend law school in the near future.*

---

20 Roe, M.J. "Juries, and the Political Economy of Legal Origin." *Journal of Comparative Economics* 35 (2007): 294-308.

Table 1: The Relationship Between Legal Origin and Abstract Judicial Review

Abstract Judicial Review	With Controls	Without Control for Type of Democracy	Without Control for Region
Legor_Civil	.8581* (.4731)	.9802** (.4620)	.6725* (.3549)
Type of Democracy	-.4390 (.2827)		-.3226 (.1723)
Central America	17.7535 (3149.357)	17.5360 (2298.282)	
South America	17.1320 (3149.357)	16.8892 (2298.282)	
Europe	18.3328 (3149.357)	17.4416 (2298.282)	
Africa	17.8301 (3149.357)	17.5641 (2298.282)	
Northern Asia	16.4310 (3149.357)	16.0386 (2298.282)	
Southern Asia	15.4847 (3149.357)	15.0104 (2298.282)	
West Asia	(Omitted)	(Omitted)	
East Asia	18.3605 (3149.357)	17.7136 (2298.282)	
Pacific	(Omitted)	(Omitted)	
Observations	144	144	165

Table 2: Quantifying the Probability of Abstract Judicial Review

---

**Panel A**

The Probability of Abstract Judicial Review in East Asian Countries

Legor_Civil	.0264*	
		.0137
Type of Democracy	-.0134	
		(.0080)
Number of Observations		16

\*=p<.10   \*\*=p<.05   \*\*\*=p<.01

---

**Panel B**

The Probability of Abstract Judicial Review in African Countries

Legor_Civil	.0662**	
		(.0336)
Type of Democracy	-.0337	
		(.0212)
Number of Observations		46

\*=p<.10   \*\*=p<.05   \*\*\*=p<.01

---

**Panel C**

The Probability of Abstract Judicial Review in European Countries

Legor_Civil	.0530*	
		(.0294)
Type of Democracy	-.02701	
		(.0169)
Number of Observations		37

\*=p<.10   \*\*=p<.05   \*\*\*=p<.01

**Code Book**

Dependent Variable:

*Abstract Judicial Review*: This constitutional provision allows judges to review the constitutionality of a statute without the presence of a concrete case. This is a dummy variable, coded as either zero or one.

Independent Variables:

*Legor\_UK*: English legal origin, a dummy variable coded as either zero or one.

*Legor\_Civil*: Civil legal origin, a dummy variable coded as either zero or one.

Controls:

*Type of Democracy*: Measures the type of democracy in a particular country. Countries with parliamentary democracies receive a score of two. Countries with an assembly-elected president receive a score of one. Countries with a presidential democracy receive a score of zero. This data was retrieved from the World Bank.

*North America*: Countries in the North American region of the world, a dummy variable coded as either zero or one.

*Central America*: Countries in the Central American region of the world, a dummy variable coded as either zero or one.

*South America*: Countries in the Southern American region of the world, a dummy variable coded as zero or one.

*Europe*: Countries in the European region of the world, a dummy variable coded as zero or one.

*Africa*: Countries in the African region of the world, a dummy variable coded as zero or one.

*West Asia*: Countries in the West Asian region of the world, a dummy variable coded as zero or one.

*East Asia*: Countries in the East Asian region of the world, a dummy variable coded as zero or one.

*Northern Asia*: Countries in the North Asian region of the world, a dummy variable coded as zero or one.

*Southern Asia*: Countries in the South Asian region of the world, a dummy variable coded as zero or one.

*Pacific*: Countries in the Pacific region of the world, a dummy variable coded as either zero or one.

**Appendix**

Country Name	Code	legor_uk	legor_civil	Abstract Judicial Review
Afghanistan	AFG	0	1	1
Angola	AGO	0	1	1
Albania	ALB	0	1	1
UAE	ARE	1	0	1
Argentina	ARG	0	1	0
Armenia	ARM	0	1	1
Australia	AUS	1	0	0
Austria	AUT	0	1	1
Azerbaijan	AZE	0	1	1
Burundi	BDI	0	1	1
Belgium	BEL	0	1	1
Benin	BEN	0	1	1
Burkina Faso	BFA	0	1	1
Bangladesh	BGD	1	0	1
Bulgaria	BGR	0	1	1
Bahrain	BHR	1	0	1
Bahamas, The	BHS	1	0	0
Bosnia and Herzegovina	BIH	0	1	1
Belarus	BLR	0	1	1
Belize	BLZ	1	0	0
Bolivia	BOL	0	1	1
Brazil	BRA	0	1	1
Barbados	BRB	1	0	0
Bhutan	BTN	1	0	1

Botswana	BWA	1	0	0
Central African Republic	CAF	0	1	1
Canada	CAN	1	0	0
Switzerland	CHE	0	1	0
Chile	CHL	0	1	1
China	CHN	0	1	0
Cote d'Ivoire	CIV	0	1	1
Cameroon	CMR	0	1	1
Congo	COG	0	1	1
Colombia	COL	0	1	1
Comoros	COM	0	1	0
Cape Verde	CPV	0	1	0
Costa Rica	CRI	0	1	0
Cuba	CUB	0	1	0
Cyprus	CYP	1	0	0
Czech Republic	CZE	0	1	0
Germany	DEU	0	1	1
Djibouti	DJI	0	1	1
Denmark	DNK	0	1	0
Dominican Republic	DOM	0	1	0
Algeria	DZA	0	1	1
Ecuador	ECU	0	1	1
Egypt	EGY	0	1	0
Spain	ESP	0	1	1
Estonia	EST	0	1	1
Ethiopia	ETH	0	1	0
Finland	FIN	0	1	0

Fiji	FJI	1	0	0
France	FRA	0	1	1
Gabon	GAB	0	1	1
United Kingdom	GBR	1	0	1
Georgia	GEO	0	1	1
Ghana	GHA	1	0	0
Guinea	GIN	0	1	1
Gambia	GMB	1	0	0
Guinea-Bissau	GNB	0	1	0
Equatorial Guinea	GNQ	0	1	1
Greece	GRC	0	1	0
Grenada	GRD	1	0	0
Guatemala	GTM	0	1	1
Guyana	GUY	1	0	0
Honduras	HND	0	1	1
Croatia	HRV	0	1	1
Haiti	HTI	0	1	0
Hungary	HUN	0	1	1
Indonesia	IDN	0	1	0
India	IND	1	0	1
Ireland	IRL	1	0	1
Iran	IRN	0	1	0
Iraq	IRQ	0	1	0
Iceland	ISL	0	1	0
Israel	ISR	1	0	0
Italy	ITA	0	1	0
Jamaica	JAM	1	0	0
Jordan	JOR	0	1	0

Japan	JPN	0	1	0
Kazakhstan	KAZ	0	1	1
Kenya	KEN	1	0	0
Kyrgyz Republic	KGZ	0	1	0
Cambodia	KHM	0	1	1
Korea South	KOR	0	1	0
Kuwait	KWT	0	1	0
Laos	LAO	0	1	0
Lebanon	LBN	0	1	1
Liberia	LBR	1	0	0
Libya	LBY	0	1	0
St. Lucia	LCA	1	0	0
Sri Lanka	LKA	1	0	1
Lesotho	LSO	1	0	0
Lithuania	LTU	0	1	1
Luxembourg	LUX	0	1	0
Latvia	LVA	0	1	0
Morocco	MAR	0	1	1
Moldova	MDA	0	1	1
Madagascar	MDG	0	1	1
Maldives	MDV	1	0	1
Mexico	MEX	0	1	1
Macedonia	MKD	0	1	0
Mali	MLI	0	1	1
Malta	MLT	0	1	0
Myanmar	MMR	0	1	1
Mongolia	MNG	0	1	1
Mozambique	MOZ	0	1	1



Mauritania	MRT	0	1	1
Mauritius	MUS	0	1	0
Malawi	MWI	1	0	1
Malaysia	MYS	1	0	1
Namibia	NAM	1	0	1
Niger	NER	0	1	1
Nigeria	NGA	1	0	0
Nicaragua	NIC	0	1	0
Netherlands	NLD	0	1	0
Norway	NOR	0	1	1
Nepal	NPL	1	0	0
New Zealand	NZL	1	0	0
Oman	OMN	0	1	0
Pakistan	PAK	1	0	0
Panama	PAN	0	1	1
Peru	PER	0	1	0
Philippines	PHL	0	1	0
Papua New Guinea	PNG	1	0	0
Poland	POL	0	1	1
Korea North	PRK	0	1	0
Portugal	PRT	0	1	1
Paraguay	PRY	0	1	0
Qatar	QAT	0	1	0
Romania	ROM	0	1	1
Russia	RUS	0	1	1
Rwanda	RWA	0	1	1
Saudi Arabia	SAU	1	0	0
Sudan	SDN	1	0	1

Senegal	SEN	0	1	1
Singapore	SGP	1	0	1
Solomon Islands	SLB	1	0	0
Sierra Leone	SLE	1	0	0
El Salvador	SLV	0	1	1
Somalia	SOM	1	0	0
Suriname	SUR	0	1	0
Slovak Republic	SVK	0	1	1
Slovenia	SVN	0	1	0
Sweden	SWE	0	1	0
Swaziland	SWZ	1	0	0
Syria	SYR	0	1	1
Chad	TCD	0	1	1
Togo	TGO	0	1	1
Thailand	THA	1	0	1
Tajikistan	TJK	0	1	0
Turkmenistan	TKM	0	1	0
Trinidad and Tobago	TTO	1	0	0
Tunisia	TUN	0	1	1
Turkey	TUR	0	1	1
Taiwan	TWN	0	1	0
Tanzania	TZA	1	0	0
Uganda	UGA	1	0	0
Ukraine	UKR	0	1	1
Uruguay	URY	0	1	0
United States	USA	1	0	0
Uzbekistan	UZB	0	1	0
St. Vincent and the Grenadines	VCT	1	0	0

Venezuela	VEN	0	1	1
Vietnam	VNM	0	1	0
Vanuatu	VUT	1	0	1
Samoa	WSM	1	0	1
Yemen	YEM	0	1	0
Serbia and Montenegro	YUG	0	1	1
South Africa	ZAF	1	0	1
Democratic Republic of Congo	ZAR	0	1	1
Zambia	ZMB	1	0	1
Zimbabwe	ZWE	1	0	0

## References

- Beck, Thorsten, Asli Demirguc-Kunt, and Ross Levine. "Law and Finance: Why Does Legal Origin Matter?" *Journal of Comparative Economics* 31 (December 2003): 653-675.
- Djankov, Simeon, Rafael La Porta, Florencio Lopez de Silanes, Andre Schleifer. "Courts." *The Quarterly Journal of Economics* 118.2 (2003): 453-515.
- Glaeser, Edward, and Andrei Schleifer. "Legal Origins." *The Quarterly Journal of Economics* 117.4 (2002): 1193-1229.
- Herron, Erik S., and Kirk A. Randazzo. "The Relationship Between Independence and Judicial Review in Post-Communist Courts." *Journal of Politics* 65.2 (2003): 422-38.
- LaPorta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. "The Economic Consequences of Legal Origins." *Journal of Economic Literature* 46.2 (2008): 285-332.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Cristian Pop-Eleches, and Andrei Shleifer. "Judicial Checks and Balances." *Journal of Political Economy* 112.2 (2004): 446-469.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Schleifer. "The Divergence of Legal Procedure." *American Economic Journal of Economic Policy* 1.2 (2009): 138-62.

- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Schleifer, Robert Vishny. "Law and Finance." *Journal of Political Economy* 106.6(1998): 1113-1155.
- Mahoney, Paul. "The Common Law and Economic Growth: Hayek Might Be Right." *Journal of Legal Studies* 3.2 (2001): 503-525.
- Merryman, John Henry. "The French Deviation." *The American Journal of Comparative Law*. 1 (1996): 109-119.
- Stone Sweet, Alec. "Why Europe Rejected American Judicial Review - and Why it May Not Matter." *Michigan Law Review* 101 (2003): 201-37.
- Stone Sweet, Alec, D.J Jackson, and C.N Tate. "Abstract Constitutional Review and Policy Making in Western Europe." *Policy Studies Journal* 19.1 (1990) 81-95.
- Roe, M.J. "Juries, and the Political Economy of Legal Origin." *Journal of Comparative Economics* 35 (2007): 294-308.
- Vanberg, Georg. "Abstract Judicial Review Legislative Bargaining, and Policy Compromise." *Journal of Theoretical Politics* 10.3(1998): 299-326.
- Utter, Robert, and David Lundsgaard. "Judicial Review in the New Nations of Central and Eastern Europe: Some Thoughts from a Comparative Perspective." *Ohio State Law Journal* 54 (1993): 559-606.

# HUMAN RIGHTS RECORDS AS DETERMINANTS OF FOREIGN DIRECT INVESTMENT

CHERE SEE

---

*The literature on the impact of human rights (HR) records on foreign direct investment (FDI) is divided. Some scholars argue that host countries compete in a “race to the bottom” for investment from multi-national enterprises (MNEs), suggesting that FDI is directed to countries with poor HR records; others suggest that respect for HR facilitates growth of human capital, attracting FDI. I argue that the HR record of investor countries affects patterns of FDI flows. Investor countries are more likely to invest in host countries with HR preferences similar to their own, because the HR preferences of MNE shareholders and executives are a function of national norms, consumer sanctions, and shareholder discipline. An OLS Regression of dyadic FDI inflows, controlled for country fixed effects, reveals that dyadic FDI flows are higher when the HR records of the host and investor countries are more similar. This selection effect suggests that transnational acculturation strategies to improve HR records via FDI are ineffective, especially with the rise of Brazil, Russia, India and China, collectively known as the BRIC countries.*

---

## Introduction to the Puzzle

Foreign direct investment (FDI) is the primary mechanism through which capital flows across national boundaries. FDI forms a significant proportion of many countries' Gross Domestic Product (GDP). In 2009, international FDI flows were worth over USD \$1,114 billion. Attracting FDI is now considered pivotal in boosting a country's GDP as well as for the development and sustenance of a country's long-term economic growth. It is no wonder, then, that developing countries are highly motivated to become more attractive candidates for FDI. What factors influence a multinational enterprise's (MNE) decision to shift or expand production overseas? Like any other corporate decision, this choice turns on weighing expected costs and benefits in relation to corporate goals. These costs are not just economic, but also take into consideration socio-political factors, such as commitment to democracy and respect for human rights. This paper focuses on human rights records as a determinant of FDI.

Results of analyzing human rights record as a determinant of FDI have been contradictory. Some academics argue that human rights are a negative determinant of FDI, as firms choose to invest in countries where labor and resources can be exploited at the lowest cost. Others argue that human rights are a positive determinant of FDI, because human rights abuses result in direct (reputation sanctions) and indirect (human

capital) costs. This paper posits that the existing tension in the literature can be resolved by looking at a yet-unexplored area: the investor country's human rights record. This gap in the literature is especially important to address given the rise of Brazil, Russia, India and China (BRIC) as sources of FDI; while traditional investor nations, predominantly in the West, have well-established commitments to human rights, this is not always the case among the BRIC nations.

I hypothesize that the investor country's human rights record explains whether FDI originating from that country is more likely to flow to a host country that has high or low levels of human rights. An investor country with a poor human rights record is less likely than an investor country with a strong human rights record to suffer reputation sanctions from within should it invest in another country with a poor human rights record. The elites in countries with poor human rights records support oppressive strategies domestically and internationally to secure benefits for the elite, while non-elites are unable to exert any influence over FDI policies. In addition, foreign and external sanctions from the international community are unlikely to have a significant marginal cost, since it is likely that the investor country already suffers from criticism for its own human rights record. Since MNEs are attracted to invest in host countries with higher returns on investment, MNEs in countries with poor human rights records would thus prefer to invest in countries like their own, in which they can generate cost savings through exploitation with freedom from the risk of consumer sanctions.

On the other hand, countries with strong human rights records would suffer both internal and external sanctions if they were to invest in countries with poor human rights records. The hypocrisy of obvious differences between human rights protections for workers at home but not for workers abroad would elicit sanctions from the domestic population in the investor country. Furthermore, the international community would have higher expectations of MNEs regarding respect for human rights from such countries, and castigate them for being complicit with the abuses of the host countries. The costly sanctions would deter MNEs in countries with strong human rights records from investing in countries with relatively worse human rights records, despite the potential economic returns on investment from these countries.

This paper examines whether the difference between the host and the investor countries' human rights records determine dyadic FDI flows, and evaluates whether MNEs from investor countries prefer to invest in host countries with human rights records similar to their own. If so, the investment choices of MNEs in Brazil, Russia, India, and China will differ from the investment choices of MNEs from nations that are traditional sources of FDI, such as the U.S. and Europe, since BRIC countries have significantly poorer human rights records than traditional investor nations. The results of this paper indicate that, holding other investment incentives constant, MNEs from countries with poor human rights records will invest in countries with similarly poor human rights records, where they can exploit labor and resources without fear of sanctions. MNEs from countries with strong human rights records will invest in countries with similarly strong human rights records, due to the costs of consumer sanctions and the influence of national norms on executives' preferences and shareholder discipline.

## Literature Review

### *Determinants of FDI*

John Dunning's (1993, 2001) paradigm of international production states that FDI is determined by the Ownership, Location, and Internalization (OLI) advantages. For an MNE to engage in FDI, it must have ownership-specific advantages over other foreign firms that make it relatively competitive in the host nation. These advantages might include superior productivity, a differentiated product, or exclusive control of resources and rights in the host nation. Second, the MNE must have location-specific advantages that are nontransferable, such as reduced distance to target markets, leading to reduced transportation costs. Third, the MNE must have internalization advantages that lead it to expand or increase its own production in the host country, rather than simply selling, licensing, or subcontracting its ownership-specific advantage to another firm.

FDI is determined by location advantages offered by the proximity of the host country to other export markets, the market size of the host country, capital costs, relative wage rates, and economies of scale that may result from agglomeration or concentrating production (Kravis and Lipsey, 1982; Wang and Swaine, 1995; Brainard, 1997; Barrell and Pain, 1999). Host country regime type and rule of law, which leads to protection of property rights, also affect FDI (Root and Ahmed, 1979; Biswas, 2002; Lee and Mansfield, 1996). While recent literature has expanded to include socio-political determinants of FDI, the examination of factors that determine FDI under the OLI framework is by no means exhausted. Human rights represent a new area of research within the field.

Human rights research is particularly prescient given the moral imperative to ensure the global economic system does not encourage countries to repress human rights to attract FDI. There is controversy in the literature as to whether respect for human rights has a positive or negative relationship with FDI. One school of thought is that respect for human rights and FDI are fundamentally antithetical and human rights will be negatively related to FDI inflows. This long-standing theory draws from Lenin's (1919) criticism of capitalism, wherein capitalist firms go abroad when domestic markets are saturated and specifically target countries with developing markets to exploit labor and resources. According to this school of thought, MNEs are attracted to countries with poor human rights records in which they can take advantage of local labor with little political or judicial recourse to accept low wages and working conditions. Hymer (1975) and Greider (1998) concur that MNEs seek the poorest and most abused populations since "the absence of democratic rights makes it much easier to suppress wages." According to this theory, countries are engaged in a "downward bidding spiral of the labor conditions and wages of workers" and actively repress political rights to suppress civil activism in a 'race to the bottom'. Thus, they are more attractive to MNEs who stand to gain from lower production costs in host countries (Collingsworth, Goold and Harvey, 1994). MNEs can even reinforce abuse of human rights, since an MNE

“that has made strategic investments based on the cost advantages offered by repressive societies can hardly be expected to advocate their abolition” (Greider, 1998, p. 38).

Empirical analysis, on the other hand, supports the opposing theory that strong human rights records are a positive determinant of FDI (Spar, 1999; Blanton and Blanton, 2006, 2007, 2009). Blanton and Blanton’s Two Stage Analysis (2006) revealed that while human rights abuse is not a significant factor in the initial decision that MNEs make to invest in a country, human rights abuse is negatively correlated with the subsequent level of FDI made by MNEs. Human rights are also argued to have direct consequences on the economic performances of FDI. A study by Isham, Kaufmann and Pritchett (1997), which examines variation in the performance of World Bank-financed projects across countries, found a strong statistical relationship between respect for civil liberties and project performance, suggesting a causal relationship between the two. Harms and Ursprung (2002) also found that FDI is attracted to host countries where civil liberties and political freedom are respected. FDI inflows have also been positively tied to democratic institutions, an indication that FDI is attracted to host countries with greater respect for political rights (Jensen 2003). As disinvestment is costly, MNEs look to make long-term investments in stable and robust political systems to decrease the long-term risk of political instability.

To explain the tension in the literature, Spar (1999) argues that human rights records have shifted from a negative to a positive determinant of FDI due to globalization. With increased global information flows, more activists groups have been mobilized to use domestic institutions to pressure MNEs to invest in countries with relatively good human rights records (Spar 1999). In addition to this phenomenon, Spar (1999) suggests that a shift from heavy resource-based industries to light manufacturing and service industries has influenced the allocation of FDI. Instead of investing in countries where resources are abundant and easily exploitable, MNEs are attracted to host countries with human capital. Accordingly, human rights are increasingly important because they are tied to providing a stable environment, a precondition of a large and high quality workforce. Blanton and Blanton’s (2009) sectoral analysis provides further evidence that the positive significance of human rights records in determining FDI is most pronounced in highly skilled industries, where human capital is of the greatest importance. Other studies, however, continue to demonstrate that human rights are negatively correlated to FDI (Tuman and Emmert, 2004), suggesting that changes in industry type and an increased transparency, due to globalization across time, are insufficient to explain the contradictory findings that human rights are both a positive and negative determinant of FDI.

The opposing viewpoints have remained divided within the literature. The questions remain: are host country human rights records a positive or negative determinant of FDI? Based on what conditions does this answer vary? The answer may lie in the gap that exists within the current literature. Surprisingly little work has focused on investor countries’ human rights records as determinants of FDI. Existing empirical studies have either examined total FDI inflows without specifying investor countries, or looked at the distribution of FDI from a single source, usually the U.S. (Spar, 1999;



Harms and Ursprung, 2002; Biswas, 2002; Jensen, 2003; Blanton and Blanton, 2006, 2007, 2009).

### *FDI as a Determinant of Human Rights*

This paper focuses on human rights as a determinant of FDI, but there is also a distinct set of literature focusing on the reverse causality: FDI as a determinant of protection of human rights. As with human rights records as a determinant of FDI, academics are divided as to whether FDI is a positive or negative determinant of human rights records. Those who hold firmly to the notion that FDI and human rights are naturally antithetical believe the latter to be true: that MNEs are not just attracted to countries with poor human rights records where they may easily exploit labor and resources, but also uphold and perpetuate systems of political repression in order to maintain these economic advantages (Hymer, 1975; Greider, 1998). Studies by Meyer (1996) and Richards, Gelleny, and Sacko (2001), on the other hand, show that FDI is positively correlated with political rights and civil liberties as well as social and economic rights. Although the literature is divided on whether FDI has a positive or negative effect on human rights, both sides consider FDI a significant factor. This raises the likelihood of a two-way relationship and endogeneity.

### **Theory**

When an MNE decides to expand operations abroad, it can choose to direct FDI to countries with strong or poor human rights records. MNEs are not unitary actors, but rather consist of executives and shareholders, each of whom is assumed to be a rational individual seeking to maximize profit for the organization. This rationality ensures the survival of the company and personal profit, as well as maximizes utility according to individual preferences. The human rights preferences of executives and shareholders, as well as those of consumers, are significantly influenced by the national norms of the investor country, due to socialization and acculturation pressures. Hence, MNEs are assumed to be profit-maximizing companies that also value human rights. The human rights preference of an MNE is a function of the human rights preferences of its executives and influence by their native (investor) country. MNEs decide which host country to direct FDI to or withdraw FDI from based on current information. The preferences of MNEs may shift as the values of their executives and shareholders change. Lastly, MNEs interact with the consumers from both the investor nation and the host nation, all of whom have the ability to sanction and impose costs on MNEs. Consumers can impose a reputation sanction on MNEs by refusing to purchase goods and the costs of this sanction are factored into the MNE's initial decision.

### *Preferences of Executives and Shareholders (Influence of National Norms)*

Given the above framework, countries with strong human rights records likely have social norms that demand the protection and upholding of a variety of human

rights. This includes empowerment rights such as the freedom of speech and assembly, physical integrity rights prohibiting torture, and socio-economic rights in the form of workers' rights. Executives and shareholders of companies in these countries are predominantly citizens and residents. Their human rights preferences are shaped by social norms and both persuasion and acculturation mechanisms. These norms affect preferences and dissuade investment in countries with poor human rights records even given possible economic advantages. Because these individuals' normative values make them unwilling to exploit human capital and resources in the host country, the economic advantage of investing in a country with poor human rights decreases. Instead, these executives are accustomed to a certain degree of institutional stability and security as exists in the home country. Thus, they trust political and social rights as an indicator of a robust society able to withstand any external shocks, internal turmoil, and maintain political and social stability, ultimately protecting the long-term security of their investments. The importance of respect for human rights would increase expected returns to investment in countries with good human rights and cause these countries to choose these countries for FDI.

In countries with poor human rights records, the individuals that make up the executives and shareholders of MNEs are often agnostic about poor human rights records in host countries, and are not deterred by the notion of working with contractors and governments who abuse human rights. They are willing to exploit workers and resources in the host country, as they often exploit workers in a similar way in their own country. All things equal, there is a strong economic incentive to invest in countries with poor human rights records over countries with strong human rights records.

#### *Presence of Institutions leading to Consumer Sanctions*

Strong domestic institutions that safeguard empowerment rights and an active civil society often characterize countries with good human rights records. These countries have constitutional protections for the freedoms of the press, assembly, and association, as well as safeguards for workers' rights. These institutional protections are crucial in mobilizing consumer pressure and sanctions against human rights abuses. Furthermore, consumers are likely to have stronger preferences on human rights records if they are from countries that value human rights due to the influence of socialization and acculturation. Consumer pressure influences MNE behavior through consumer boycotts and legal suits. Even if MNEs did not exploit the resources of the host country, the MNEs would be at risk of a consumer boycott both at home and abroad in protest of their support of a foreign government that abuses human rights in the host country. The risk of endangering their reputation and performance in their home markets discourages MNEs from countries with strong human rights records from investing in countries with poor human rights records.

For countries with poor human rights records, consumer pressure is not a major concern. The media is often strictly censored and public interest groups lack access to the political system. MNEs from these countries are free to exploit workers and re-

sources in host countries without risk of costly repercussions. The economic incentive of exploiting the poor human rights in a host country with few risks makes MNEs more likely to invest in these host countries, where they are able to exploit the labor force and resources. Furthermore, MNEs from countries with poor human rights records would fear sanctions by the host country's consumers if the host country had a relatively better human rights record, reducing the returns on investment. The consumers are more likely to place a higher value on human rights and thus impose sanctions on MNEs.

## Hypotheses

Human rights records of host countries alone are a limited determinant of FDI inflow. Even if found to be significant, the coefficient is expected to be very small because this factor alone fails to explain mixed levels of FDI received by countries with similar human rights records. Hypothesis A predicts that host country human rights records, when viewed independently from investor country human rights records, are either of no significance in determining FDI inflows, or, if they are significant, that the magnitude of the effect is extremely slight.

$H_{A0}$ : *The level of human rights of a host country does not determine the country's total level of FDI inflows*

$H_{A1}$ : *An increase (or decrease) in the level of human rights of a host country causes a corresponding increase (or decrease) in the country's total level of FDI inflows*

The second part of this model tests the theory that the human rights of the host country become a significant determinant of FDI when interacted with the human rights of the investor country. Both theories predict that MNEs from countries with poor human rights records will direct FDI to host countries with similarly poor human rights records, and MNEs from countries with strong human rights records will choose to invest in host countries with strong human rights records. Hence, the hypothesis is that the more similar the human rights records of the host and investor countries, the higher the level of FDI from the investor to the host country. This paper attempts to measure this hypothesis in two ways: by measuring the impact of the sum of the human rights records of both countries and by measuring the impact of the difference between their respective human rights records.

$H_{B0}$ : *The combined level of human rights of a host and investor country does not determine the host country's level of FDI inflow from the investor country*

$H_{B1}$ : *The combined level of human rights of a host and investor country determines the host country's level of FDI inflow from the investor country*

Hypothesis B looks at the sum of the human rights ratings. Dyads where both countries have poor human rights records would have a low combined sum rating, while dyads consisting of countries with strong human rights records would have a much higher combined sum rating. Mixed pairs combining a low investor rating with a high host rating, or a high investor rating with a low host rating, would have median sum scores. The theory suggests that countries with poor human rights ratings would

prefer to invest in countries with similarly low human rights ratings, and countries with high human rights ratings would prefer to invest in countries with similarly high human rights ratings. Hypothesis B predicts that as the sum human rights rating of the country pair increases, FDI first decreases then increases in a U-shaped curve. Dyads with low sum ratings (both have poor human rights) would have high levels of FDI inflow, since countries with poor human rights invest in host countries with similar human rights standards where the enterprise can take advantage of resources and capital. Dyadic FDI inflows then decrease as sum ratings increase to represent mixed dyads ratings (since one country has a high rating and the other has a low rating) because MNEs prefer to invest in countries with similar human rights standards as their own. As the sum ratings increase further, this increase represents dyads where both countries have high human rights ratings and believe in human rights as an indicator of positive human capital and thus long-term returns on investment. High levels of FDI flows are predicted and the level of FDI should increase as the combined sum rating increases after the initial decrease to accommodate for the mixed pairs.

$H_{C0}$ : *The difference in the level of human rights between the host and the investor country does not cause a change in the host country's level of FDI inflow from the investor country*

$H_{C1}$ : *As the difference in the level of human rights between the host and the investor country increases, the host country's level of FDI inflow from the investor country decreases*

Hypothesis C uses the difference in the human rights ratings between the host and the investor country in order to test the theory that similar countries are more likely to have higher dyadic FDI flows than countries with relatively different levels of human rights. Hypothesis C differs from Hypothesis B in that MNEs from investor countries with low levels of human rights may not invest in countries with extremely poor human rights if the disparity between both countries is too great. The MNE may invest in a country with a stronger human rights record as long as the difference is smaller. Rather than disregarding human rights and looking for the country where exploitation would be the easiest, as in the race to the bottom theory, these MNEs from countries that do not respect human rights look for countries that share similarly poor human rights records.

Rather than search for the country with the strongest human rights record, a country with a strong human rights record may invest in countries with more modest levels comparable to their own, since the baseline of acceptable levels of human rights protection is defined by their own local standards. This would suggest that the preferences of MNEs do not direct them either to value or to disregard but rather to prefer countries that have the same norms and values as their own. The hypothesis that emerges from this reasoning is that the smaller the difference in the human rights level of the host and the investor country, the higher the level of dyadic FDI flow.

## **Research Design**

The study is a quasi-experimental large N study with a panel study design. The research uses an Ordinary Least Squares (OLS) regression with robust standard errors

to test the combined impact of human rights records of host countries and investor countries on FDI flows from the investor to the host country. For the first hypothesis, the unit of analysis is the country year. In the second, the unit of analysis is the dyad year. The panel data cover all countries from 1990 to 2009. The year 1990 is used as the start date as it marks the transition into the post Cold-War era where the movement of FDI became increasingly free across the blocs and nations, as it was no longer restricted by the geopolitics of the Cold War. 2009 is the latest year for which FDI data is available. The panel data of both host and investor countries are taken from the world's 60 largest economies for the years 1990 to 2009 (Appendix 1). Hence, all country pairs analyzed consist of dyads where both countries are ranked among the 60 largest economies in the world.

The data were selected on the basis of their availability through the Economist Intelligence Unit (EIU), but present a clear selection problem. Since the countries selected are the 60 largest economies in the world, countries with small developing economies are excluded. The inclusion of such countries would significantly increase the variation in human rights; by excluding them, the worst human rights offenders are excluded. As the selection is purely based on the size of the economy, however, there is still human rights variation amongst the 60 countries, as well as in a particular country over time, somewhat mitigating the bias in the data. The 60 countries are spread across different regions and include both developed and developing countries. Finally, focusing first on total FDI inflows regardless of source and then moving on to dyadic FDI flows allows the latter research to isolate the investor nation's role as a conditioning factor of the human rights record of the host country. Because FDI predominantly originates from these 60 countries, there is less of a selection bias in considering the impact of these 60 sources of FDI. Data are not available for a number of dyad pairs made up by the 60 countries and data for many dyads are incomplete over 1990 to 2009. While incomplete, the data serve the purpose of this study, whose focus is not on the change in trend but on the overall causal relationship.

*Dependent Variable A: FDI Inflows into a Country*

Data for total FDI Inflows ( $FDI_{it}$ ) into a country are measured by the United Nations Conference on Trade and Development (UNCTAD). FDI inflows refer to the flow of capital into a host country from a non-resident individual, state, or corporation.

*Dependent Variable B: FDI Inflows between the Country Pair*

Data for FDI Inflows between country pairs ( $FDI_{ijt}$ ), compiled by the Economist Intelligence Unit (EIU), are taken from various sources including the International Monetary Fund (IMF), the UNCTAD, the Organization for Economic Co-operation and Development (OECD), and local and national sources. The EIU also provides bilateral inward FDI flow forecasts that are included in the data for FDI inflows between country pairs for this study. The EIU forecast data are generated through a "constrained fixed effect gravity model" that includes country pair fixed effects aside from

GDP and “distance,” accounting for cultural similarities and common language in addition to geographical distance.

The data examine the 60 largest economies. “Offshore financial centers or financial staging posts” such as Luxembourg and Bermuda are excluded, since they are not represented by origin. As a result, for some countries, as much as 30 to 50 percent of the total FDI flow may be unaccounted for, as it comes from economies outside of the 60 selected or offshore financial centers and staging posts. While this means the data are largely incomplete, the EIU still presents the most comprehensive dataset available due to poor data collection or issues of confidentiality within the 60 countries covered by the EIU and even more so for the countries outside of the selected 60. Furthermore, by pooling the data, the N sample is large enough for the test to be sufficiently reliable.

#### Independent Variables

All independent variables are lagged by one year, unless otherwise indicated, to replicate the process wherein MNEs make decisions for the following year based on information in the current year.

To get a robust representation of *Human Rights* as a whole, the human rights variable is created by aggregating indexes for *Physical Integrity Rights*, *Empowerment Rights*, and *Women’s Social Rights* (HRHOST and HRINV). For Hypothesis B, an additive variable consisting of the human rights index of the host country and the human rights index of the investor country is created (HRSUM). Hypothesis C uses a variable measuring the difference between the human rights indices of both countries (HRDIFF) as an alternate way of measuring the impact of the relative difference (or similarity) of human rights records between the two countries in a dyad on FDI flows. All human rights data are taken from the Cingranelli and Richards (CIRI) Human Rights Dataset.

To test the robustness of the results and focus on the importance of the different types of human rights, the model is run using the components of the above-mentioned human rights index. *Physical integrity rights* (PIHOST and PIINV) are measured using the CIRI Physical Integrity Rights Index, which combines the indicators for Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance. The index ranges from zero to eight, where eight represents complete government protection against these four HR violations. The composite variable will sum both countries’ scores (PISUM) and a variable reflecting the difference of both scores (PIDIFF) will also be created. According to Kucera (2002), labor standards, including the right to collective bargaining and labor rights for women and children, are often positively linked to FDI inflows.

This study will examine Empowerment Rights, which include workers’ rights, as well as *Women’s Rights* to identify and test whether the interaction of these specific categories of rights in both host and investor country are significant determinants of FDI. The rights are measured using the CIRI New Empowerment Rights Index (EMPHOST, EMPSUM, EMPDIFF) and the CIRI Women’s Social Rights Index (WOMENHOST, WOMENSUM, WOMENDIFF). The New Empowerment Rights Index is an additive index of the indicators for Foreign Movement, Domestic Movement, Freedom of Assembly & Association, Workers’ Rights, Electoral Self-Determination,

and Freedom of Religion, and ranges from zero (least respect) to 14 (greatest respect). For the Women's Social Rights Index, a score of zero indicates systematic gender discrimination embedded in the law. A score of one indicates that while women had some social rights under the law, these rights were not effectively protected. A score of two indicates that women had some social rights under law, and the government effectively upheld these rights but still allowed a low level of discrimination to persist. Finally, a score of three indicates that nearly all of women's social rights were legally guaranteed and vigorously enforced by the government.

Lastly, democracy has been established as a significant determinant of FDI since the presence of democracy provides a stable environment for foreign investment (Biswas, 2002; Jensen, 2003; Blanton and Blanton 2007) and is also linked to stronger human rights records. This assertion is tested with a fifth model using *Democracy* as the main independent variable. Democracy is measured using the Polity IV scores (POLITYHOST, POLITYSUM, POLITYDIFF), which measure the qualities of democratic and autocratic authority. The original Polity scores range from -10 to 10, but are rescaled to positive values from zero to 20 to prevent the scores of two different countries from canceling each other out when aggregating the scores to form POLITYSUM. A higher Polity score indicates a higher level of democracy. Since there is an established relationship between democracy and human rights, there is the potential problem of collinearity in this model (Davenport, 1999; Poe and Tate, 1994; Bueno de Mesquita et al., 2005). There is still variation in human rights records even holding democracy constant.

#### *Control Variables*

MNEs target host countries with larger *Market Size* (MARKET), as measured by GDP, since they can generate profits through sales to the host country's domestic market. *Economic Growth* (GROWTH), as measured by the year-to-year percentage change in GDP, is similarly important, as it indicates the size of the potential market that will become available in the host country. In addition, MNEs prefer host countries with high levels of economic development and large GDPs, which indicate strong infrastructure and communications that would enable MNEs to efficiently transport goods, export to other countries, and operate efficiently. This is measured through the Market Size and Population (POPLN). *Trade Openness* (TRADE) is also relevant, as it affects the MNE's ability to export goods or services back to the investor country or to other countries, and to engage in inter-firm trade (Blanton and Blanton, 2007). Trade Openness is measured as the sum of imports and exports as a proportion of GDP (Blanton and Blanton, 2006, 2007, 2009). A higher value represents greater trade openness. Finally, *Government Consumption* (GOVTCON) is controlled as it crowds out FDI (Jensen, 2003).

On the supply side of the equation, I also control for the presence of Education (EDUC) as a measurement of available human capital. Human capital has been consistently measured through education and through life expectancy (Harms and Ursprung 2002; Blanton and Blanton 2007, 2009). This study uses gross secondary school enroll-

ment rates lagged by ten years in order to reflect the delayed impact of education on the labor force. Population (POPLN) is also controlled to reflect the size of the available workforce. These factors are controlled because MNEs increasingly look for host countries with a skilled labor force to carry out work that includes everything from operating call centers to interpreting medical scans. Furthermore, MNEs require skilled labor to manage and operate their foreign offices due to the cost of relocating executives and management staff. Host countries with a large skilled labor force are thus more attractive than those without skilled labor forces. In fact, Blanton and Blanton (2009) argue that it is the increased reliance on human capital that has altered the impact of human rights records as a determinant of FDI.

The test also controls for *Internal Conflict* (INTCONF) and External Conflict (EXTCONF) using data from the EIU's Country Risk Service, which takes its data from the PRS Group. Internal conflict and external conflict are all deterrents to FDI, since FDI is generally seen as a long-term investment (Jensen 2003). Political risk, internal conflict, and external conflict all pose risks to investments. Property may be seized or damaged as a result of violent conflict, and operations could cease if conditions become too dangerous or staff have to be evacuated. MNEs will consider these risks and adjust their FDI accordingly. The ratings range from 0 (lowest risk) to 12 (highest risk). Internal Conflict consists of three components worth four points each: Civil War/Coup Threat, Terrorism/Political Violence, and Civil Disorder. External Conflict is similarly measured through War, Cross-Border Conflict, and Foreign Pressures.

Specific to dyad data, the test controls for the *Investor's Market Size*, as measured in GDP (INVMARKET), as the investment flowing from a source country is directly affected by the GDP of that nation. The greater the GDP, the more FDI is expected to flow from a given country. Lastly, since existing literature argues that FDI is a determinant of human rights (Hymer, 1975; Greider, 1998; Meyer, 1996; Richards, Gelleny and Sacko, 2001), this model faces an issue of internal validity due to endogeneity problems. I address this problem by testing the impact of human rights of the prior dyad year (t-1) on FDI inflows in a given dyad year (t). FDI in a given year can hardly be expected to impact the level of human rights in a prior year, accounting for any endogeneity problems.

### Table 1: Summary Statistics



Variable	Definition	Obs.	Mean	S.D.	Min	Max
FDI <sub>ijt</sub>	Net capital FDI flows from an investor to a host country, measured in 2005 constant million USD (EIU)	2267	72162	112E+4	-2.81E+7	3.63E+7
PI Rights Sum Squared	Squared sum of the scores of the host and investor	2267	150	66.8	1	256
PI Rights Diff	Difference between the scores of the host and investor	2267	2.09	1.95	0	8
Empowerment Rights (Host)	CIRI New Empowerment Rights Scores; a higher score indicates better empowerment rights	2267	11.4	3.40	1	14
Emp. Sum	Sum of the scores of the host and investor	2267	22.9	5.07	2	28
Emp. Sum Squared	Squared sum of the scores of the host and investor	2267	550	199	4	784
Emp. Difference	Difference between the scores of the host and investor	2267	3.09	3.44	0	14
Women's Rights (Host)	CIRI Women's Social Rights Scores; A higher score indicates better women's rights	2267	2.04	.833	0	3
Women's Rights Sum	Sum of the scores of the host and investor	2267	4.19	1.29	0	6
Women's Rights Sum Squared	Squared sum of the scores of the host and investor	2267	19.2	10.6	0	36

Government Consumption	Real Government Consumption, measured in 2005 constant USD (EIU)	2267	2.14 E+11	3.27E+11	1.23E+11	2.43E+11
Internal Conflict	Rating by the PRS Group; A higher rating indicates lower risk of internal conflict	2267	10.0	1.44	3.5	12
External Conflict	Rating by the PRS Group; A higher rating indicates lower risk of external conflict	2267	10.4	1.26	7	12
Education	Gross Secondary School Enrollment Rates (%) (WB)	2267	89.7	26.4	24.3	155
Population	Population of a country in millions (EIU)	120	293	3.85	1263	

## Estimation Equations

### Hypothesis A:

$$FDI_{it} =$$

$$\alpha + \beta_1 HRHOST_{it-1} + \beta_2 \ln(MARKET)_{it-1} + \beta_3 \ln(GROWTH)_{it-1} + \beta_4 \ln(TRADE)_{it-1} + \beta_5 EDUC_{it-10} + \beta_6 INTCONF_{it-1} + \beta_7 EXTCONF_{it-1} + \beta_8 \ln(POPLN)_{it-1} + \beta_9 GOVTCON_{it-1} + \epsilon_{it}$$

Hypothesis A is then run under alternative models substituting HRHOST with PIHOST, EMPHOST, WOMENHOST, and POLITYHOST.

### Hypothesis B:

$$\ln(FDI_{ijt}) =$$

$$\varphi + \delta_1 (HRSUM)_{ijt-1} + \delta_2 HRSUM_{ijt-1} + \delta_3 \ln(MARKET)_{it-1} + \delta_4 \ln(GROWTH)_{it-1} + \delta_5 \ln(TRADE)_{it-1} + \delta_6 EDUC_{it-10} + \delta_7 INTCONF_{it-1} + \delta_8 EXTCONF_{it-1} + \delta_9 \ln(INVMARKET)_{it-1} + \delta_{10} \ln(POPLN)_{it-1} + \delta_{11} GOVTCON_{it-1} + \epsilon_{ijt}$$

Hypothesis B is also run under alternative models substituting HRSUM with PISUM, EMPSUM, WOMENSUM, and POLITYSUM.

**Hypothesis C:**

$$\ln(\text{FDI}_{ijt}) = \theta + \varphi_1(\text{HRDIFF})_{ijt-1} + \varphi_2 \ln(\text{MARKET})_{it-1} + \varphi_3 \ln(\text{GROWTH})_{it-1} + \varphi_4 \ln(\text{TRADE})_{it-1} + \varphi_5 \text{EDUC}_{it-10} + \varphi_6 \text{INTCONF}_{it-1} + \varphi_7 \text{EXTCONF}_{it-1} + \varphi_8 \ln(\text{INVMARKET})_{jt-1} + \varphi_9 \ln(\text{POPLN})_{it-1} + \varphi_{10} \text{GOVTCN}_{it-1} + \varepsilon_{ijt}$$

Hypothesis C is then run under alternative models substituting HRDIFF with PIDIFF, EMPDIFF, WOMENDIFF, and POLITYDIFF.

**Results and Discussion**

**Table 2: Impact of the Host Country’s Human Rights on the Total FDI in-flows into the Host Country**

	Model 1	Model 2	Model 3	Model 4	Model 5
Variables	Human Rights	Physical Integrity Rights	Empowerment Rights	Women’s Rights	Polity Score
Empowerment Rights	-	-	-0.726* (02.41)	-	-
Women’s Rights	-	-	-	4.43*** (5.45)	-
Polity	-	-	-	-	-0.758*** (-3.72)
Market Size	-11.0*** (-7.25)	-10.9*** (-8.33)	-10.2*** (-6.16)	-14.2*** (-11.1)	-9.16*** (-5.91)
Economic Growth	6.71*** (10.6)	6.66*** (10.5)	6.52*** (10.7)	6.79*** (11.6)	6.32*** (10.3)
Trade Openness	20.5*** (11.0)	20.9*** (11.0)	20.2*** (11.0)	20.8*** (11.4)	20.8*** (11.2)
Population	10.3*** (6.01)	10.2*** (7.92)	9.09*** (4.78)	14.1*** (11.9)	7.81*** (4.47)
Government Consumption	1.44E-10*** (65.7)	1.44E-10*** (57.9)	1.45E-10*** (56.6)	1.44E-10*** (56.3)	1.44e-10*** (56.7)

Education	.282*** (7.54)	.290*** (7.63)	.274*** (7.03)	.250*** (6.37)	.250*** (6.14)
Internal Conflict	-.447 (-1.10)	-.144 (-.400)	-.793 (-1.63)	-3.83 (-1.02)	1.25* (-2.58)
External Conflict	-1.48 (-1.94)	-1.48* (-2.03)	-1.39 (-1.84)	-2.18** (-3.01)	-1.50* (-2.08)
Observations	2,098	2,098	2,098	2,098	2,098
R2	.81	.81	.81	.81	.81

Note: Table shows OLS regression of the total FDI inflows for the 60 largest economies in the world from 1990 to 2009 with robust standard errors. Cells contain coefficients with t statistics in parenthesis. \* indicates significance where  $p < 0.1$ , \*\* is  $p < 0.05$  and \*\*\* is  $p < 0.01$ .

The results for Hypothesis A as shown in Table 2 reveal that human rights are not a significant determinant of total FDI flows into a country when the source of the FDI is not taken into consideration. The null hypothesis is not rejected. This is perhaps due to the cancellation of the component categories of human rights. Physical integrity rights and empowerment rights are both negative determinants of total FDI inflow, meaning that FDI is attracted to host countries with poor rankings on both of these indexes. This supports the theory that there is a race to the bottom in both of these categories of rights, since MNEs benefit from being able to exploit labor. By contrast, women's rights are strongly and positively correlated to higher levels of total FDI inflow. The CIRI index for Women's Social Rights measures the following rights:

- The right to equal inheritance
- The right to enter into marriage on a basis of equality with men
- The right to travel abroad
- The right to obtain a passport
- The right to confer citizenship to children or a husband
- The right to initiate a divorce
- The right to own, acquire, manage, and retain property brought into marriage
- The right to participate in social, cultural, and community activities
- The right to an education
- The freedom to choose a residence/domicile
- Freedom from female genital mutilation of children and of adults without their consent
- Freedom from forced sterilization

Given these components, MNEs may value women's rights because they directly affect women's level of economic participation through their ability to receive an education and their freedom of movement which has implications for the human capital available. A country with stronger women's rights is expected to have a healthier, more mobile, and more educated workforce, which is much more attractive to MNEs. Furthermore, a larger and more mobile pool of workers is more stable and leads to lower labor costs.

As expected, the controls for economic growth and trade openness are both highly positively significant. MNEs invest in booming markets that are open to trade because of the potential market of consumers in the region. Higher levels of education also attract FDI because of the role of education in improving human capital. Though healthy markets are particularly attractive to MNEs, FDI also flows into countries with smaller market sizes or lower GDPs. MNEs are likely to invest in poor countries, possibly due to corresponding lower unit labor costs. It may also reflect a preference for investment into poorer countries with growth potential over investment in established markets that may be much larger but are already saturated with local firms.

Government consumption is highly and positively correlated with FDI inflows, contrary to expectations that it would crowd out FDI. One reason for this may be that government consumption is sometimes concentrated on infrastructure development. Infrastructure increases the efficiency of operations and increases the profit margin, which attracts FDI. Perhaps most surprising is the finding that both internal conflict and external conflict are often found not to be significant; where they are significant, they are negatively correlated. This means that a lower conflict score, indicating higher risk, leads to higher levels of FDI. This might be due to the fact that FDI tends to flow into emerging and developing markets, which can be unstable and have a higher risk of political conflict. In this case, economic returns outweigh the political risks of investment. External conflict is also significant within more models than internal conflict. This may indicate that external pressures are considered less of a threat to investments than internal conflict, which could directly and immediately lead to damage of property and destabilization of investments in the nation.

**Table 3: Impact of Sum of Human Rights of Host and Investor Country on the Bilateral FDI flows from the Investor Country to the Host Country**

	Model 1	Model 2	Model 3	Model 4	Model 5
Variables	Human Rights	Physical Integrity Rights	Empowerment Rights	Women's Rights	Polity Score
Human Rights Sum (Squared)	.004*** (7.06)	-	-	-	-
Human Rights Sum	-.126** (-3.18)	-	-	-	-
Physical Integrity Rights Sum (Squared)	-	.020*** (4.21)	-	-	-
Physical Integrity Rights Sum	-	.007 (.06)	-	-	-
Empowerment Rights Sum (Squared)	-	-	.011*** (6.14)	-	-
Empowerment Rights Sum	-	-	-.225** (-3.32)	-	-
Women's Rights Sum (Squared)	-	-	-	.046 (1.65)	-
Women's Rights Sum	-	-	-	.372 (1.62)	-
Polity Score Sum (Squared)	-	-	-	-	.005** (3.31)
Polity Score Sum	-	-	-	-	-.203* (-2.25)

Investor Market Size	.660*** (14.4)	.757*** (16.6)	.584*** (12.3)	.623*** (13.3)	.571*** (11.8)
Host Market Size	-.117 (-.73)	.061 (.39)	.061 (.36)	.305 (1.94)	.287 (1.64)
Host Economic Growth	.378*** (5.43)	.426*** (5.93)	.352*** (4.77)	.306*** (4.23)	.363*** (4.72)
Host Trade Openness	.287 (1.78)	.032 (.20)	.320 (1.92)	.181 (1.09)	.056 (.33)
Host Population	.713*** (4.90)	.474** (3.37)	.479** (3.11)	.133 (0.97)	.181 (1.12)
Host Government Consumption	5.64E-13** (2.59)	7.08E-13** (3.43)	4.30E-13 (1.88)	5.34E-13* (2.43)	3.51E-13 (1.46)
Host Education	.017*** (5.17)	.013*** (3.84)	.020*** (5.96)	.014*** (4.25)	.021*** (6.05)
Host Internal Conflict	.097* (2.32)	-.021 (-.49)	.183*** (4.21)	.093* (2.19)	.214*** (3.11)
Host External Conflict	-.083 (-1.71)	-.024 (-0.49)	-.051 (-1.01)	-.006 (-.11)	.028 (.53)
Observations	1,669	1,669	1,669	1,669	1,669
R2	.33	.32	.27	.28	.21

Note: Table shows OLS regression of the total FDI inflows for the 60 largest economies in the world from 1990 to 2009 with robust standard errors. Cells contain coefficients with t statistics in parenthesis. \* indicates significance where  $p < 0.1$ , \*\* is  $p < 0.05$  and \*\*\* is  $p < 0.01$ .

**Table 4: Impact of the Difference between Human Rights of the Investor and the Host Country on the Bilateral FDI flows from the Investor to the Host Country**

	Model 1	Model 2	Model 3	Model 4	Model 5
Variables	Human Rights	Physical Integrity Rights	Empowerment Rights	Women's Rights	Polity Score

Human Rights Difference	-.126*** (-10.8)	-	-	-	-
Physical Integrity Rights Difference	-	-.257*** (-7.60)	-	-	-
Empowerment Rights Difference	-	-	-.174*** (-9.41)	-	-
Women's Rights Difference	-	-	-	-.340*** (-4.77)	-
Polity Score Difference	-	-	-	-	-.078*** (-5.81)
Investor Market Size	.610*** (12.8)	.608*** (12.4)	.597*** (12.4)	.584*** (11.7)	.585*** (12.0)
Host Market Size	.387* (2.33)	.486** (2.93)	.396* (2.35)	.666*** (4.05)	.420* (2.41)
Host Economic Growth	.325*** (4.33)	.302*** (3.93)	.339*** (4.45)	.306*** (3.83)	.342*** (4.36)
Host Trade Openness	-.017 (-.10)	-.054 (-.32)	-.001 (-.01)	-.029 (-.17)	.017 (.10)
Host Population	.102 (.67)	-.096 (-.65)	.074 (.48)	-.357* (-2.53)	-.007 (-.04)
Host Government Consumption	2.38E-13 (1.03)	3.26E-13 (1.29)	3.08E-13 (1.31)	3.82E-13 (1.52)	3.85E-13 (1.56)
Host Education	.020*** (5.73)	.017*** (4.98)	.020*** (5.86)	.016*** (4.71)	.021*** (5.81)
Host Internal Conflict	.187*** (4.19)	.102* (2.24)	.217*** (4.79)	.134** (2.97)	.205*** (4.36)
Host External Conflict	.029 (.57)	.057 (1.12)	.023 (.45)	.052 (0.99)	.047 (.89)
Observations	1,669	1,669	1,669	1,669	1,669
R2	.23	.20	.22	.19	.19

Note: Table shows OLS regression of the total FDI inflows for the 60 largest economies in the world from 1990 to 2009 with robust standard errors. Cells contain coefficients with t statistics in parenthesis. \* indicates significance where  $p < 0.1$ , \*\* is  $p < 0.05$  and \*\*\* is  $p < 0.01$ .



Hypotheses B and C both look at FDI flows between dyads and therefore consider the interaction between the human rights records of the investor and the host countries. The former looks at the sum of countries' human rights scores (Table 3) whereas the latter uses the difference between the respective human rights scores in its empirical specification (Table 4). For both hypotheses, the null hypothesis—that the interaction between human rights of both countries within a dyad has no impact on dyadic FDI flows—is rejected. While the human rights of the host country alone were not significant when looking at total FDI inflows in Hypothesis A (Table 2), the interaction of human rights between both countries is highly significant in determining the FDI flow between the dyad, whether measured as a sum or by calculating the difference. This supports the argument that in order to accurately identify the impact of human rights on FDI flows, it is necessary to consider the interaction of the investor and the host country, rather than the human rights record of the host country alone.

Examining Hypothesis B, we see that as the sum of both countries' human rights ratings increases, the FDI flows from the investor to the host country decreases, suggesting a race to the bottom. However, the square of the sum of the human rights ratings is highly and positively significant at the 1 percent level (as opposed to the sum rating, which is significant at the 5 percent level) in correlation to dyadic FDI flows. This finding indicates that FDI flows decrease then increase in a U-shaped curve as the sum human rights rating increases. This result supports the theory that similar countries have higher FDI flows between them as compared to dissimilar countries, regardless of whether the similar countries both have high or low levels of human rights. Country pairs wherein each country has a low rating would have the lowest sum ratings of all the pairs. These country pairs are followed by mixed pairs, where one country has a high rating while the other has a low rating, giving the pair an average sum score. The pairs with the highest ratings would each have high individual ratings. A U-shaped curve would indicate that countries with high or low sum ratings (like pairs) have higher levels of FDI compared to those with average sum ratings (mixed pairs).

Breaking Hypothesis B down into its component parts, physical integrity rights and women's rights are not linearly related to FDI flows. Empowerment rights are negatively and significantly related to dyadic FDI flows, indicating that MNEs are especially attracted to host countries with lower empowerment rights. In countries with lower empowerment rights, workers' movements and other political movements that would disrupt investments are less likely to occur. However, both physical integrity rights and empowerment rights are strongly significant when the sum rights ratings are squared to form a quadratic function. Polity scores similarly have a significant quadratic relationship with dyadic FDI flows. These results point once again to a U-shaped quadratic curve as combined scores increase. Women's rights are not significant determinants of dyadic FDI flows. Ultimately, the results for Hypothesis B suggest that like pairs are more likely to have higher levels of FDI than unlike pairs, as suggested by the theory of MNE preferences and sanctions. However, there is a weakness in the empirical specification, as it is unclear whether the dyads are truly mixed pairs or are simply composed of two countries, each with a moderate respect for human rights.

Hypothesis C specifically deals with the level of difference between the human rights levels in each country. It tests whether FDI level genuinely depends on country pairs' similarity, regardless of strength of the investor country's human rights rating. The difference in human rights records is significant at the one percent level, showing that as the difference increases, the level of dyadic FDI flows into the host country decreases. The more alike countries are in terms of their human rights records, the higher the level of FDI flows. This finding is consistent across all five models, including the components of the overall human rights index (empowerment rights, physical integrity rights and women's rights) and the difference between the polity scores of the dyads. The common finding across models for Hypothesis C suggests that the results are very robust. MNEs prefer to invest in countries with human rights records similar to their own. The human rights records in these host countries best match the normative human rights preferences of investors and shareholders of MNEs, which are derived from the norms of the investor country. These stakeholders are more willing to invest and operate in a country with standards that are similar to those in their home country. In addition, sanctions are triggered by and based on the deviation of the level of human rights in the host country from the level of human rights protected within the investor country. Consumers are outraged and would boycott MNEs if their norms (the norms of the investor country) were not upheld abroad.

Ultimately, Hypothesis C suggests that rather than searching for countries with the absolute worst human rights records in order to exploit labor and resources there, countries with poor human rights records direct their FDI to countries with human rights records comparable to their own. There is no race to the bottom, but neither is there a race to the top. Instead, countries prefer to directly invest in hosts that are similar to them. This preference suggests that even MNEs from countries with poor human rights records would face sanctions if they were perceived as facilitating human rights abuses in countries with far worse records than their own. Additionally, MNEs from countries with strong human rights records may not be spurred to invest in countries with the best human rights records, but are willing to invest in countries whose norms are comparable to their own, so as to maximize their ability to extract profits from the country without incurring sanctions.

For Hypothesis C, the size of the host country's market is positively and significantly related to levels of dyadic FDI flows. This is opposite of the negative coefficient for the same control for total FDI flows into a host nation (Table 3). Dyadic FDI is attracted to larger markets with higher GDPs, validating the theory that MNEs prefer countries that have larger markets and hence more consumers. In addition, these countries tend to be more developed and have infrastructure already in place. Investor market size is also positively related to dyadic FDI flow; the larger the country, the more likely there are sufficiently large MNEs within it that would want to expand production abroad. Consistent with the results from Hypothesis A, economic growth is highly positively related to FDI flows, as is education. Based on the analysis of dyadic FDI flows in Hypothesis C, government consumption, trade openness, population, and external conflicts are not significant factors. However, internal conflict is now positively related

to dyadic FDI flows across all models, contradicting negative relationship observed in Hypothesis A. This fits the intuitive theory that lower risk of internal conflict translates into higher levels of dyadic FDI flows, as internal stability leads to better long-term investment returns.

## Conclusion

The results of this study suggest two possible explanations regarding the relationship between human rights records and FDI flow. First, there is the possibility that human rights records as a whole are not a significant determinant of total FDI inflows because sub-categories of human rights have opposing effects that cancel each other out when measured together in a single indicator. By dividing rights into physical integrity rights, empowerment rights, and women's rights, we see that both opposing theories in the existing literature are supported depending on which category is examined. There is a race to the bottom for physical integrity rights and empowerment rights as well as lack of democracy in a host country. However, MNEs are attracted to invest more in host countries where there is greater respect for rights that directly affect human capital, such as women's rights and access to education. These findings imply that there is little hope that countries would have an incentive to improve physical integrity rights or empowerment rights, or democratize in order to attract FDI, and that there is reason to be concerned about embedded incentives that encourage a race to the bottom for these rights.

The second explanation lies in the human rights record of the investor country that must be interacted with the human rights record of the host country. The findings consistently show that countries are likely to invest in other countries that have human rights standards similar to their own, rather than to look for host countries with either the strongest or weakest human rights records. The preferences of MNE shareholders and investors are based on acceptable human rights level norms, heavily influenced by the level of human rights in the investor country. These MNEs would prefer to invest in countries that meet, or are close to meeting, the standards to which they are accustomed, while being low enough in human rights protection not to impose additional costs to the investment. Similarly, institutions in the investor country are designed to protect domestic human rights standards, whether at home or abroad. Consumers are likely to react when the standards of human rights upheld in the investor country are infringed upon abroad. MNEs select host countries with similar levels of human rights and thereby avoid sanctions by consumers, which are facilitated by these institutions, on the basis of double standards or exploitation according to the standards of the investor country. These findings lend support to both existing theories in the literature.

The selection effect has significant implications for international efforts to improve human rights standards. On the one hand, the selection effect cautions against the effectiveness of transnational acculturation strategies, since there can be no transmission of norms from MNEs from investor countries with good human rights to host countries with poor human rights via FDI if there is no real gradient between the

investor and host in the first place. Furthermore, if the minimum acceptable level of human rights is based on the existing level of rights in the investor country, then human rights levels in the host country must be significantly worse than in the investor country in order to spark criticism and outrage, leading to reputation sanctions. Host countries can strive to attract FDI from MNEs that come from countries with similarly poor human rights. This selection effect will only become more apparent as increased FDI flows from the BRIC nations, since countries with poor human rights can simply strive to appeal to similar investor countries rather than improving the state of human rights in order to court countries such as the U.S. or the U.K.

The negative ramifications of the findings are significant. The implication is that countries where human rights abuses occur are not sanctioned, since they attract FDI from countries with similarly poor human rights policies. These MNEs choose to invest precisely because of the host country's poor human rights record. In fact, improvements in human rights might actually cause a decrease in FDI, as they lead MNEs to prefer other host nations that are more similar to the investor nation. Furthermore, these findings imply that institutional efforts in investor countries with strong human rights records to constrain their MNEs' overseas behavior, and thereby sanction host countries with poor human rights records and demand improvements, is of limited effectiveness since FDI in host countries where abuses take place actually comes predominantly from countries with similarly poor human rights records.

On a more optimistic note, this research does not support the race to the bottom theory. Since countries prefer to invest in countries similar to themselves in terms of human rights records, countries with average human rights ratings are unlikely to invest in countries with the worst records where they might be most able to exploit human and natural resources, due to the threat of sanctions from consumers who are accustomed to the investor nation's level of protection for human rights, and do not condone the promotion of human rights abuse abroad. The selection effect contributes to a status quo bias that, while making it hard to incentivize improvements in human rights, does not cause host countries to remove rights in order to attract FDI from investor countries with low levels of human rights.

While the findings have been strong and consistent, there is a question of how externally valid the results are, since they are based on data from the 60 largest economies. Although the possibility exists that results will be different for smaller economies, this is unlikely, since FDI tends to flow from large economies to small economies and the investor countries are largely represented in the sample. In addition, developing economies and economies from each region are represented, and thus the results should be generalizable. An area for further research could be the determinants of FDI inflows to smaller economies, when these data become available. By considering the role of investor nations' human rights records, this research will hopefully highlight the influence of investor nations on MNEs and prompt further inquiry into the role played by investor nations on various aspects of FDI inflows. In particular, it would be interesting to study the impact of FDI on human rights as conditioned on the human rights of the investor nation. This would further contribute to the knowledge regarding the economic

incentives of human rights and the impact of the existing economic system on human rights, and would inform efforts to fulfill the moral duty to ensure that the economic system does not prompt abuse because of perverse economic incentives. The findings of this paper will contribute to policy discussions on how advocates can seek to improve human rights in nations by shedding light on the economic incentives that exist in the system to improve human rights, identifying the actors involved in the perpetuation of abuses, and understanding the limits and the potential of using FDI as a tool to halt abuses. The selection effect suggests that solutions to human rights abuse should target reform in rising powers such as the BRIC to ensure that they do not perpetuate the status quo of human rights abuses abroad through their FDI patronage.

Ultimately, this paper casts doubt on the proposed positive cycle by which FDI is attracted to host countries with good human rights, and then goes on to lead to further improvements in human rights protection via acculturation or sanctions. At the same time, it also argues against the race to the bottom. It suggests instead that there is a strong status quo bias, and little incentive for host countries to change, whether through constructive mechanisms or sanctions from investor countries. It reminds us that although MNEs are independent actors, they are influenced by their constituents, who are in turn influenced by domestic national norms. This level of interdependence highlights the role that states play in shaping MNE action, which could be key to developing new strategies to counter the status quo bias against human rights reform.

---

*Chere See graduated as CAS valedictorian from NYU in 2011 with a major in international relations. While at NYU, Chere received a Goldman-Sachs global leaders grant as well as a DURF research grant. She is currently a first year student at Harvard Law School.*

---

### **Acknowledgements**

I would like to thank my advisor, Professor Peter Rosendorff, and my teaching assistant KJ for their invaluable insight, advice, guidance and support throughout the duration of my project.

## Appendix

### Appendix I: 60 Largest Economies in the World (Country Code for Data Set)

Algeria (100)	Hong Kong (120)	Poland (140)
Argentina (101)	Hungary (121)	Portugal (141)
Australia (102)	India (122)	Romania (142)
Austria (103)	Indonesia (123)	Russian Federation (143)
Azerbaijan (104)	Iran (124)	Saudi Arabia (144)
Belgium (105)	Ireland (125)	Singapore (145)
Brazil (106)	Israel (126)	Slovakia (146)
Bulgaria (107)	Italy (127)	South Africa (147)
Canada (108)	Japan (128)	Spain (148)
Chile (109)	Kazakhstan (129)	Sri Lanka (149)
China (110)	Republic of Korea (130)	Sweden (150)
Colombia (111)	Malaysia (131)	Switzerland (151)
Czech Republic (112)	Mexico (132)	Taiwan (152)
Denmark (113)	Netherlands (133)	Thailand (153)
Ecuador (114)	New Zealand (134)	Turkey (154)
Egypt (115)	Nigeria (135)	Ukraine (155)
Finland (116)	Norway (136)	United Kingdom (156)
France (117)	Pakistan (137)	United States (157)
Germany (118)	Peru (138)	Venezuela (158)
Greece (119)	Philippines (139)	Vietnam (159)

### Appendix II: Sources of Variables

Variable	Source
Total FDI by Country	UNCTAD
Physical Integrity Rights Index, Empowerment Rights Index, Women's Social Rights Index	Cingranelli and Richards Human Rights Dataset
FDI by Country Pairs, GDP, GDP per Capita, Population, Real Government Consumption	Economist Intelligence Unit
Gross % of Secondary School Enrollment Percentage Change in GDP Trade Openness (Sum of Exports and Imports as a Proportion of GDP)	World Bank Database
Polity IV Score	Polity IV Database
Internal Conflict Score External Conflict Score Political Risk Score	The PRS Group via Economist Intelligence Unit

**References**

- Barrell, Ray and Nigel Pain, 1999. Domestic institutions, agglomerations and foreign direct investment in Europe. *European Economic Review*, 43, pp. 925-934.
- Biswas, Romita, 2002. Determinants of Foreign Direct Investment. *Review of Development Economics*, 6(3), pp. 492-504.
- Blanton, Shannon Lindsey and Robert G. Blanton, 2006. Human Rights and FDI: A Two-Stage Analysis. *Business and Society*, 45(4), pp. 233-44.
- Blanton, Shannon Lindsey and Robert G. Blanton, 2007. What Attracts Foreign Investors? An Examination of Human Rights and Foreign Direct Investment. *The Journal of Politics*, 69(1), pp. 143-155.
- Blanton, Shannon Lindsey and Robert G. Blanton, 2009. A Sectoral Analysis of Human Rights and FDI: Does Industry Type Matter? *International Studies Quarterly*, 53, pp. 469-493.
- Brainard, Lael S., 1997. An Empirical Assessment of the Proximity-Concentration Trade-off Between Multinational Sales and Trade. *The American Economic Review*, 87(4), pp. 520-544.
- Collingsworth, Terry, J. William Goold and Pharis J. Harvey, 1994. Time for a Global New Deal. *Foreign Affairs*, 73(1), pp. 8-12.
- Dunning, John, 1993. *Multinational Enterprises and the Global Economy*. New York: Addison Wesley.
- Dunning, John H., 2001. The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. *International Journal of the Economics of Business*, 8(2), pp. 173-190.
- Greider, William, 1998. *One World, Ready or Not: The Manic Logic of Global Capitalism*.
- Harms, Phillip and Heinrich W. Ursprung, 2002. Do Civil and Political Repression Really Boost Foreign Direct Investments? *Economic Inquiry*, 40(4), pp. 651-663.
- Hymer, Stephen, 1971. The Multinational Corporation and the Law of Uneven Development. In *Economics and Worlds Order*, ed. J.W. Bhagwati. New York:

Macmillan, pp. 113-140.

- Isham, Jonathan, Daniel Kaufmann, and Lant Pritchett, 1997. Civil Liberties, Democracy and the Performance of Government Projects. *The World Bank Economic Review*, 11(2), pp. 219-42.
- Jensen, Nathan M., 2003. Democratic Governance and Multinational Corporations. *International Organization*, 57(3), pp. 587-616.
- Kravis, Irving B. and Robert E. Lipsey, 1982. The Location of Overseas Production and Production for Export by U.S. Multinational Firms. *Journal of International Economics*, 12, pp. 201-223.
- Lee, Jeong-Yeon and Edwin Mansfield, 1996. Intellectual Property Protection and U.S. Foreign Direct Investment. *The Review of Economics and Statistics*, 78(2), pp. 181-186.
- Lenin, V.I. [1919] 1939. *Imperialism: The Highest Stage of Capitalism*. New York: International Publishers.
- Meyer, William H., 1996. Human Rights and MNCs: Theory Versus Quantitative Analysis. *Human Rights Quarterly*, 18(2), pp. 368-397.
- Richards, David, R. Gelleny and D. Sacko, 2001. Money with a Mean Streak? Foreign Economic Penetration and Government Respect for Human Rights in Developing Countries. *International Studies Quarterly*, 45(2), pp. 219-239.
- Root, Franklin R. and Ahmed A. Ahmed, 1979. Empirical Determinants of Manufacturing Direct Foreign Investment in Developing Countries. *Economic Development and Cultural Change*, 27(4), pp. 751-767.
- Spar, Debora, 1999. Foreign Investment and Human Rights. *Challenge*, 42(1), pp. 55-80.
- Wang, Zhen Quan and Nigel J. Swain, 1995. The Determinants of Foreign Direct Investment in Transforming Economies: Empirical Evidence from Hungary and China. *Weltwirtschaftliches Archiv*, 131, pp. 359-82.