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Money with a Mean Streak? Foreign Economic Penetration and Government Respect for Human Rights in Developing Countries

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This study examines the relationship between foreign economic capital and the level of government respect for two types of human rights in developing countries. Two opposing schools of thought offer explanations as to what this relationship might be like. According to the liberal neoclassical school, the acceptance of liberal economic doctrine will provide positive political benefits to developing countries. The "dependency" school, on the other hand, argues that because ties between core and periphery elites give governments in developing nations an incentive to repress, human rights conditions will worsen as foreign economic penetration increases. The results of previous empirical queries into this matter have been mixed. In contrast to most studies, we focus on a broader measure of foreign economic capital, including foreign direct investment, portfolio investment, debt, and official development assistance. Using ordered logit analysis on a cross-national sample of forty-three developing countries from 1981 to 1995, we discover systematic evidence of an association between foreign economic penetration and government respect for two types of human rights, physical integrity rights and political rights and civil liberties. Of particular interest is the finding that both foreign direct investment and portfolio investment are reliably associated with increased government respect for human rights.

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This paper addresses the question, "How does foreign capital affect (if at all) government respect for human rights in developing countries?" This question fits neatly into the current research program investigating the consequences and determinants of globalization. One problem with the term "globalization" is its abstractness. It is one of what McCormick and Mitchell (1997) call "umbrella concepts." Thus, globalization is a term that must be defined in every context, or it really has little operational meaning or significance. We define globalization as the international diffusion of commodities. In this manuscript, we are concerned with the diffusion of capital from developed nations toward developing nations. Two well-established schools of thought offer competing hypotheses relating to the expected political and economic consequences of this diffusion. We refer to these schools as the "liberal neoclassical" and "dependency" schools. These two competing hypotheses form a long-standing scholarly debate.

This debate over the consequences of foreign capital on government respect for human rights in developing countries has been a contentious one, and even though a new wave of studies has sought to address this question, the results of empirical studies have remained mixed (Henderson, 1996; Meyer, 1996, 1998; Davenport and Barbieri, 1997; Burkhart, 1998; Harrelson-Stephens and Callaway, 1998; McLaren, 1998). In this study we build upon this literature and add distinct findings to an important debate that, so far, has been characterized by a lack of empirical clarity.

We advance this empirical literature in three ways. The first has to do with the way the diffusion of foreign capital is operationalized. In contrast to other studies, we focus on what we call *foreign economic penetration* (FEP), rather than a single item such as foreign direct investment. Specifically, foreign economic penetration is a term we use to describe the broader array of ways in which foreign capital can penetrate the economy of a developing nation. Because local economies meet the world market on several fronts, our broader approach goes beyond studies that examine single indicators. Our measure includes foreign direct investment, portfolio investment, foreign aid, and long-term debt. Second, we assess the impact of FEP on two different categories of human rights—physical integrity rights, and political rights and civil liberties. Physical integrity rights include the rights to freedom from extrajudicial killing, torture, political imprisonment, or disappearance, whereas political and civil liberties include the rights to travel, join unions, participate in the political system, and undertake religious practices. By examining two categories of government respect for human rights, we identify a larger picture of how foreign economic penetration affects the quality of life of citizens in developing countries. Third, we use maximum likelihood estimation (MLE) techniques to test our empirical models. It is common practice in the empirical human rights literature to employ ordinary least squares (OLS) regression in the presence of ordinal dependent human rights variables. Because of the problems that may be associated with this approach and because MLE provides us with more information about our models, the use of more appropriate estimation techniques is a necessary step forward.

The central idea behind the relationship between government respect for human rights and foreign investment in developing countries is straightforward. Political elites in developing countries have to make economic and political policy choices. Human rights conditions—the ability of citizens to enjoy human dignity—are due more to human rights policies—that is, decisions made by government leaders that affect human rights conditions—than to anything else. There are two schools of thought regarding this relationship. One is the neoliberal school of economics, which posits that foreign investment has a positive effect on the domestic economies of developing countries and that resulting economic growth widens the policy options of domestic elites. This results in a trickle-down effect wherein socioeconomic benefits accrue from an expanding economy. The counterargument, rooted in dependency theory, contends that policy choices made by elites in developing countries are constrained or guided by their economic connections to the developed world, particularly to multinational corporations (MNCs). As a result, decisions are often made to the benefit of the MNC and the domestic elite, but to the overall detriment of the citizens and the domestic economy.

We perform our analysis with the help of a cross-sectional time-series data set comprising forty-three developing nations for the years 1981–1995. In contrast to previous research, we discover systematic evidence of an association between foreign economic penetration and government respect for both physical integrity rights and political rights and civil liberties. Of particular interest is the finding that both foreign direct investment and portfolio investment are reliably associated with increased government respect for human rights.

Reviewing the Literature: Two Schools of Thought

Financial Liberalization and the Road to Development

Since Aristotle, political analysts have stressed the importance of the middle class to the functioning of a stable democracy (Lipset, 1959). As a middle class grows and modernizes, citizens participate more in the political system and are more willing to challenge the status quo enforced by political elites (Lerner, 1958; Nelson, 1987). Thus, the middle class generally represents a segment of society that is increasingly tolerant and educated. As they become financially secure and educated, citizens demand a greater voice in the political process, demanding increased popular participation and discouraging political violence and repression (Lipset, 1959; Clark and Clark, 1993). Therefore, the middle class is likely to demand greater economic and social reforms that take into account the concerns not only of their own class, but also of those who are less fortunate. As a result of this process, demand for government respect for political and human rights continues to grow and strengthen as long as the middle class continues to flourish.

According to the liberal neoclassical approach, the acceptance of liberal economic doctrine provides positive economic and political benefits to developing countries by helping to form a middle class. Opening borders to financial investment will stimulate economic growth and be accompanied by an increasingly stable political environment that is respectful of human rights. Certainly, since the mid-1980s, the virtue of free markets has been embraced by governments in developing countries from Indonesia to Brazil.

Neoclassical economists increasingly view economic development within the context of financial and investment globalization. According to this perspective, developing countries that make use of the opportunities provided by foreign investment will quickly raise their economic standing, while countries that fail to join the movement will find themselves relegated to languish in underdevelopment. For developing countries to prosper fully from the opportunities provided by globalization, avenues such as foreign direct investment (FDI) and portfolio investments must be utilized. Studies have shown a strong correlation between economic growth and large investment flows in developing countries (Eichengreen, 1997; IMF, 1997; World Bank, 1997b).

Proponents of the liberalization of financial investment argue that the productive allocation of capital encourages economic growth and efficiency. FDI, which consists of building plants or acquiring a controlling interest (more than 10 percent of outstanding stock) in an overseas company (Kenen, 1994; Walther, 1997), provides developing countries with access to advanced technology and management and marketing skills, and creates desperately needed jobs (IMF, 1997; Spar, 1998).

MNCs can also be seen as agents of change, destroying the control of local monopolies, as well as altering traditional value systems and social attitudes in developing countries (Diebold, 1974; Biersteker, 1978). MNC investment may encourage governments to reshape traditional policies that were designed to benefit local interest groups at the expense of other, less affluent groups. That is, in order to attract and maintain direct investment, governments must meet certain fundamental requirements; these include setting up a rule of law, establishing a nondiscriminatory policy environment, protecting the vulnerable, and investing in social services and infrastructure (Chhibber, 1997). Therefore, MNCs can be seen as breaking down insular interests and stabilizing internal relations within developing countries.

In addition to FDI, portfolio investment (the purchase of stocks and bonds of less than 10 percent of the outstanding stock in foreign firms; Kenen, 1994, Walther, 1997) plays an important role in developing countries. The liberalization of portfolio investment allows surplus capital (beyond the home market) to be funneled to cash-strapped borrowers in developing countries. Consequently, developing countries are able to tap international sources to fund state ventures, such as public enterprises and infrastructure projects. Moreover, the use of equity capital rather than debt financing allows native firms to avoid fixed loan payments, thus enabling them to take advantage of long-term opportunities. Indeed, more firms in developing countries are turning to external and equity financing (Corbo and Hernandez, 1996; Singh and Weisse, 1998).

Economic reforms initiated by financial liberalization help modernize and stabilize the political and social environment of developing countries. Given the advantages offered by financial liberalization, governments have become aware of the importance of implementing sound and sustainable macroeconomic policies that limit the danger of capital flight due to sudden changes in market opinion (Andrews, 1994; Helleiner, 1994; Garrett, 1995; World Bank, 1997b). Foreign aid and official development assistance further the promotion of market efficiency in developing countries. Conditionality for aid requires the opening of markets, promoting greater economic efficiency, and can help eliminate the monopoly power of privileged groups in developing countries. Therefore, liberalization encourages further economic growth in developing countries by breaking down past discriminatory and inefficient economic policies in favor of free-market principles. Investment creates jobs, expands consumer choice, and helps initiate programs to improve health, housing, and education for employees and local communities (Rothgeb, 1989; Spero and Hart, 1997). Moreover, foreign investment breaks down the power of local monopolies and encourages the strengthening of the middle class in developing countries through increased entrepreneurial activity and modernization.

Thailand is often cited as an example of the positive influence of foreign capital penetration. During the 1980s Thailand began a process of economic and structural reform designed to increase the internationalization of its economy (Dixon, 1999). The ensuing years saw Thailand become an attractive host for capital investment. The result was expansion in many segments of the economy, benefiting both urban and rural regions. Moreover, economic growth fueled citizens' demands for democratization and increased government respect for human rights (Girling, 1996). Although pro-democracy demonstrations in May 1992 ended in violence, the monarch, King Bhumibol Adulyadej Rama IX, soon consented to elections. In September 1992 a civilian government was formed. The following years saw the expansion and stabilization of democratic institutions and increased respect for civil and physical integrity rights. Even the financial crisis of 1997 failed to end Thailand's move toward democracy and respect for human rights. Mass demonstrations and other forms of protests were tolerated by government officials who continued to respect human rights. Consequently, Amnesty International (1999) reported that Thailand continues to make substantial headway in this field. Additionally, the Thai government responded to the economic crisis by maintaining liberal economic policies and open markets to foreign investors.

Financial Liberalization and the "Race to the Bottom"

Adherents of dependency theory view global financial integration as a threat to the economic and social well-being of developing countries. These criticisms directed toward foreign capital investment are not new (de Soysa and Oneal, 1998; Schulze and Ursprung, 1999; *The Economist,* 1/29/00). The dependency school provides a theoretical structure with which to explain the sluggish or stagnant development (political and economic) of developing countries. Dependency theory is a critique of neoclassical development policy (Becker, 1995). Although many variations of the dependency argument exist, all share the related assumptions that international capitalism is organized around the exploitation of the less industrialized by the highly industrialized and that this dynamic is necessary for the maintenance of the global capitalist system.

The dependency perspective posits that one way economically developed countries secure dominance over developing countries is through economic penetration. This relationship is based fundamentally on unequal exchange. Foreign capital enters a vulnerable economy, co-opts political elites, extracts local resources, and leaves the local economy in a disadvantaged situation (Prebisch, 1963; Furtado, 1964; Frank, 1979). The importance of MNCs can be studied through the laws of increasing firm size and uneven development (Hymer, 1979). The former is the tendency for firms to increase slowly in size in an unbounded fashion. That is, firms will grow to maximize their profit margin without weighing the social implications of their actions. The law of uneven development states that the production of poverty is a consequence of the uneven production of wealth. Multinational corporations foster an environment that perpetuates uneven development and conflicting dual economies. MNCs tend to extract more money from developing countries than they invest, displace local capital, and contribute to unemployment by promoting capital-intensive production (Gilpin, 1987; Spero and Hart, 1997). Additionally, MNCs often receive substantial tax breaks, which erode the tax base of developing countries, and hinder the redistribution of social benefits.

In an era of increasing globalization, many continue to believe that the liberalization of international markets hinders the economic and social growth of developing countries. Although substantial international investment is not novel, the breadth and mobility of FDI and portfolio investment is certainly unrivaled in history. Because foreign and direct investors are increasingly able to use the threat to exit as a method to leverage beneficial tax and labor policies, policy independence is held hostage to market forces if governments wish to maintain high levels of investment (Haggard and Maxfield, 1996). This competitive environment encourages a "race to the bottom" regarding tax, labor safety and wage standards, and social welfare programs (Eichengreen, 1997; Crotty, Epstein, and Kelly, 1998; Rodrik, 1998; Garrett, 1998). The ensuing result is repression and disarray. Regardless of the era, the policy choices presented to developing countries continue to be constrained by the dominance of international capital.

Foreign aid and official development assistance have been cited as reinforcing this uneven relationship between developed and developing countries. Dependency theorists often point out that foreign aid is attached to free-market initiatives, thus strengthening the chains that suppress the developing countries and encourage their underdevelopment. Moreover, any developing country seeking International Monetary Fund (IMF) and/or World Bank loans are routinely required to accept structural economic adjustment policies as loan requirements (Meyer, 1996). The general result of these austerity programs was the slashing of government spending, including a decrease in welfare programs. Again, the chief opponents to austerity programs tend to be political rivals of host governments and labor unions. Therefore, the implementation of these initiatives often requires the subjugation of political opponents. Franklin (1997) and McLaren (1998) find some empirical evidence that IMF austerity programs may actually worsen human rights conditions in developing countries.

The co-opting (or buying-off) of domestic elites in developing countries by first-world interests is the key reason for the perpetuation of this unequal relationship. Since domestic elites in developing countries personally benefit from unequal development, they may be willing to do whatever is required of them by external actors to provide and maintain the kind of stable political climate necessary to keep and attract foreign investment (Bhattacharya, Montiel, and Sharma, 1997; Maxfield, 1998). Developing countries are especially vulnerable to internal shocks that can cause a massive outflow of capital as investors lose confidence in a country (Heredia, 1997; Ortiz, 1997). These shocks are susceptible to both economic and political events (Felix, 1994). Thus, governments are willing to suppress any threats to the stability of the political and economic environment. In order to attract and keep essential financial investment, governments will enact policies that callously dismantle social welfare programs and entail the forceful curtailing of union activities (Pion-Berlin, 1983; Eichengreen, 1997). Clashes between South Korean unions and authorities, for instance, have centered on such issues (Rodrik, 1997).

Meyer (1996:379) points out that if such scenarios create the need to control the masses, instruments of control will include "repression and curtailment or denials of civil and political rights for the populations of developing countries." By repression Meyer means strategies such as political murders, torture, political imprisonment, and disappearance. Frundt (1987) describes how a Texas-based Coca-Cola franchisee used the Guatemalan government to violate the physical integrity rights of Guatemalan bottling company employees in response to their initiative to unionize. In 1994, Venezuela suspended constitutional rights in order to deal with an internal banking crisis that threatened the internal economic stability of the country. President Fujimori of Peru even justified the closure of Congress to reassure international investors during times of economic turbulence (Maxfield, 1998).

Mexico provides a good example of the adverse effects of liberating financial capital flows. Until the 1994 financial crisis, Mexico was considered a model of free-market enterprise. In the 1980s Mexican authorities decided to pursue liberal trade and financial policies. As a result, a flood of foreign capital investment entered the Mexican market. Yet, Mexico's current account deficit continued to increase in the early 1990s, sustained by a significant inflow of financial investment. A large proportion of this capital consisted of portfolio investment (Eichengreen, 1997; Walther, 1997; Felix, 1998). The remedy for the pronounced current account deficit was the devaluation of the peso. As soon as it became evident that devaluation was inevitable, capital flowed out of Mexico. The ensuing crisis created economic and social instability in the country. The crisis created a backlash from large segments of the Mexican society that failed to benefit from economic liberalization. Furthermore, although the roots of unrest in the Chiapas region are complex, they are not isolated from the distributional changes instigated by the liberalization policies of the 1980s (Katzenberger, 1995; Pieper and Taylor, 1998).

Hypotheses

The two schools of thought described leave us with two different, testable hypotheses about the relationship between foreign economic penetration and government respect for human rights. The neoliberal argument posits that increased levels of foreign capital in developing countries will result ultimately in *increased* levels of government respect for human rights. The dependency argument posits that increased levels of foreign capital in developing countries will result ultimately in *decreased* levels of government respect for human rights.

Research Design

Data and Models

This study uses a pooled cross-sectional time-series data set containing information about forty-three developing countries for the years 1981, 1984, 1987, 1990, 1993, and 1995.[1] Owing to the richness of the way we conceptualize FEP, our optimum N of 258 country-years is somewhat reduced by missing data. That is, the economic data required for our conceptualization of FEP (particularly portfolio investment) are not continuously recorded across time and space for many developing countries. However, the loss of some cases for analysis is worth the sacrifice in favor of our broad conceptualization of FEP.

We use two models to test the relationship between FEP and government respect for two types of human rights. Table 1 illustrates these models.[2] All signs for control variables are as previous research would lead us to expect. Our political rights and civil liberties model excludes an indicator of a country's level of democracy because of conceptual overlap. In Table 1, a (+) indicates that we expect a variable to *increase* government respect for human rights. A (−) indicates that we expect a variable to *decrease* government respect for human rights. Our FEP variables, however, have been assigned a (+/−) as we have framed two schools of thought that would expect different results, and our purpose here is to see what actually happens. Because our dependent variables are ordinal, we employ the maximum likelihood technique of ordered logit to estimate our models.

Government Respect for Human Rights

Quality of life is important. In looking for an appropriate yardstick to measure the performance of political systems, we should look toward the effect of governments on their citizens' quality of life. Existing studies investigating the domestic societal effects of foreign capital have focused primarily on basic needs and economic development. These are important indicators of quality of life. In this study, we add to those studies by focusing on government respect for two different categories of internationally recognized human rights: physical integrity rights, and political rights and civil liberties. Physical integrity rights include protection from torture, disappearance, extrajudicial killing, and political imprisonment.

[1] While economic data are available on an annual basis, we use these six time points because they are the years for which our dependent variables are available. Because of major source bias in human rights reports, information about government respect for human rights is unreliable before 1981, thus providing us with our lower temporal boundary. Our developing countries were selected from a list of developing countries published by the World Bank (1997a). Our human rights database is a true random sample of 79 countries. In this analysis, we included those countries on the World Bank's developing country list that were also part of the randomly chosen sample of countries constituting our human rights database. There were 43 countries that overlapped these two sets: Algeria, Argentina, Benin, Bolivia, Brazil, Burkina Faso, Burma, Burundi, Cameroon, Chad, Chile, Colombia, Costa Rica, Egypt, El Salvador, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Iran, Jordan, Laos, Malawi, Malaysia, Mali, Mauritania, Mexico, Morocco, Niger, Nigeria, Pakistan, Paraguay, Peru, Philippines, Syria, Tanzania, Thailand, Tunisia, Turkey, Uganda, Uruguay.

[2] We also tested other various additive permutations of models incorporating our FEP indicators, but the substantive results of our study were unaffected. Consequently, we chose to present our analyses in this simple two-model format.

TABLE 1. Models Used for Empirical Analyses

To Test the Relationship Between FEP and Government Respect for Physical Integrity Rights:

Physical Integrity = + Past Level of Respect − Level of Domestic Conflict
− Presence of External Conflict + Level of Democracy
+ Level of Economic Development − Population Size
+/− Foreign Direct Investment +/− Long-term Debt
+/− Portfolio Investment +/− Official Development Assistance

To Test the Relationship Between FEP and Government Respect for Political Rights and Civil Liberties:

Political Rights & Civil Liberties = + Past Level of Respect − Level of Domestic Conflict
− Presence of External Conflict + Level of Economic Development
− Population Size +/− Foreign Direct Investment
+/− Long-term Debt +/− Portfolio Investment
+/− Official Development Assistance

To this point, almost all existing scientific studies of government respect for human rights have focused on physical integrity rights only. However, the range of the types of repression practiced by different governments over time is great, and repression need not be violent. History has shown that citizens can be quietly repressed by being prevented from exercising their political rights and civil liberties or by being denied the basic subsistence rights necessary for physical survival. The duty of governments to respect both physical integrity rights and political rights and civil liberties is laid out in the Universal Declaration of Human Rights (1948), The International Covenant on Civil and Political Liberties (1966), and many regional pacts.

We use Cingranelli and Richards' (1999a) measure of government respect for physical integrity rights as our measure of the same. While the Political Terror Scale (PTS) is the most widely used indicator of this phenomenon, Cingranelli and Richards show that the PTS suffers from an a priori asserted pattern of respect for rights that does not hold up to empirical testing, and also is constructed in such a way that human rights conditions cannot be differentiated from the human rights practices of governments. This latter problem is the more important of the two, because though nongovernmental actors can affect human rights conditions in a country, we are interested here only in the practices of governments.

Cingranelli and Richards' (1999a) indicator is a 9-point additive scale derived from a Mokken scale analysis of four ordinal indicators of government respect for physical integrity—protection from torture, extrajudicial killing, disappearance, and political imprisonment.[3] This index ranges from zero (no respect for any of the four physical integrity rights) to eight (full respect for all four physical integrity rights). These scores, indicating the level of government respect for physical integrity rights, are based on information about government respect for these rights found in both Amnesty International's *Annual Report* and the U.S. State Department's annual *Country Reports on Human Rights Practices.* Table 2 shows the coding format for these four variables.

Our measure of government respect for political rights and civil liberties is an 11-point additive scale constructed using probabilistic cumulative scale analysis.[4]

[3] Mokken scaling is a probabilistic version of Guttman's cumulative scaling technique. For an informative explanation of Mokken scaling, see Jacoby, 1994, 1995.

[4] Another alternative to our measure of government respect for civil rights and political liberties is that used annually by Freedom House. There is no significant substantive difference in our empirical findings when substituting the Freedom House measures for our measure.

TABLE 2. Coding Schemes for Variables Used to Construct Indicators of Government Respect for Physical Integrity Rights, and Political Rights and Civil Liberties

Physical Integrity	*Political Rights & Civil Liberties*
_____ *Political killing* is: (0) practiced frequently (1) practiced occasionally (2) has not occurred	_____ *Government censorship* and/or ownership of the media (including radio, TV, domestic news agencies) is: (0) complete (1) some (2) none
_____ *Disappearances*: (0) have occurred frequently (1) have occurred occasionally (2) have not occurred	_____ There *are restrictions on some religious practices* by the government of the country: (0) yes (2) no
_____ *Torture* is: (0) practiced frequently (1) practiced occasionally (2) not practiced	_____ Domestic and foreign *travel* is: (0) restricted (2) generally unrestricted
_____ Are there any *imprisoned* people because of their political, religious, or other beliefs? (0) yes and many (1) yes, but few (2) none	_____ *Political participation* is: (0) very limited (1) moderately free and open (2) very free and open
	_____ *Union activities* are: (0) severely restricted or controlled by the government (1) somewhat restricted (2) unrestricted

This measure is constructed from five indicators of government respect for political rights and civil liberties—openness and freedom of political participation, government control of media and freedom from censorship, freedom to unionize, freedom to travel internally and externally, and freedom of religion—and ranges from zero (no respect for any of these five rights) to ten (full respect for all of these five rights). Table 2 shows the coding format for these five variables. The source of information used for coding these five variables was the U.S. State Department's annual *Country Reports on Human Rights Practices.* The scale analysis of these data also demonstrated that our indicator of government respect for political rights and civil liberties is strongly unidimensional.

Measuring Foreign Economic Penetration (FEP)

Local economies meet the world on several fronts. The influence of a foreign economic actor is exerted on a developing economy in four important respects, and a rich measure of foreign economic penetration will capture variation in all four. First, foreign economic influence is exerted through the daily operations of private foreign firms within a developing country. This is classified as foreign direct investment. Second, foreign investors also penetrate developing economies by investing in a developing country's assets for dividend earnings rather than to exercise control over foreign firms. This is portfolio investment. Third, influence is exerted by the degree to which domestic firms are indebted to foreign sources. Finally, official development aid from external sources often enters developing countries with strings attached, therefore constraining domestic policy alternatives.

Previous studies on the penetration of domestic economies by foreign capital have utilized a unidimensional operationalization of this inherently multidimensional concept. Studies relating the effects of foreign investment on development typically utilize some variation of foreign direct investment (London and Williams, 1988; Rothgeb, 1990; Firebaugh, 1992; Boswell and Dixon, 1996; Henderson, 1996; Meyer, 1996; Kentor, 1998). Some measure dependency as the ratio of foreign direct investments to gross domestic product. Others use Bornschier and Chase-Dunn's (1985) operationalization, which is a function of the ratio of stock of capital controlled by foreign direct investment to total capital stock of that country and the ratio of the number of employees in foreign firms to the total workforce.

However, many studies that employ such ratio operationalizations ignore the methodological implications of using a ratio operationalization. Firebaugh (1996) has demonstrated that the effects of foreign economic penetration are consistently misinterpreted using ratio operationalizations. In such cases estimations describe only the relative effect of foreign and domestic capital. A positive coefficient merely implies that foreign capital has a greater effect than domestic capital; consequently, the absolute effects become obscured.

We use four measures of foreign economic penetration that are included additively in our models. This allows us to determine the absolute impact of each indicator and to avoid the ratio operationalization trap. Our four measures of foreign economic penetration represent the four ways described above in which foreign capital can affect the politics of a developing country.[5] All data for our four indicators of FEP are taken from the World Bank's *World Development Indicators on CD-ROM* (1997b). Our four indicators of foreign economic penetration are in logged 1987 U.S. dollars.[6]

Foreign direct investment (FDI) is the most commonly used proxy for dependency. According to the World Bank, FDI consists of any investment that accrues at least 10 percent of the voting stock of a foreign enterprise. Hence, FDI is meant to imply a long-term investment commitment in foreign companies. High levels of FDI imply a commitment by foreign firms to remain in developing countries. However, there are other elements of FEP that consistently have been ignored.

One area of foreign economic penetration that frequently is ignored is portfolio investment. Portfolio investment consists of the purchase of stocks and

[5] Below is a Pearson's correlation matrix of the FEP indicators, and our measure of economic development (GNP/CAP). It shows no multicollinearity problems.

	GNP/CAP	FDI	Portfolio	ODA	Debt
GNP/CAP	1.0000				
FDI	0.1204	1.0000			
Portfolio	0.2991	0.2669	1.0000		
ODA	−0.2365	0.0715	0.0629	1.0000	
Debt	0.4880	0.3643	0.4111	0.1891	1.0000

[6] The variables are logged to correct for skewed distributions. A logarithmic transformation "pulls the extreme values toward the middle of the scale and spreads the smaller values out in comparison to the original, unlogged values of the variable" (Tufte, 1974:109). In our sample some countries received substantial financial inflows, while others experienced very little inflows or actually experienced outflows. This resulted in very skewed distributions. We used a natural log to perform this logarithmic transformation. A constant was added to the original values to correct for cases where original values were either zero or negative (outflow).

bonds of less than 10 percent of the outstanding stock of foreign enterprises. The World Bank defines portfolio investment as including corporate securities, bonds, notes, money market instruments, and financial derivatives. All of these financial instruments tend to be very mobile and thus subject to capital flight. Hence, portfolio holdings tend to be equated with "hot" money in the sense that portfolio investments can be withdrawn from countries at the slightest sign of any profit risk. Therefore, changing economic and political circumstances raise the specter of capital flight which may have severe economic repercussions on developing countries that are bound to inflame domestic political opposition (Corbo and Hernandez, 1996).

In addition, both long-term debt and official development assistance are ways in which foreign capital penetrates developing countries. According to the World Bank, long-term debt has an original or extended maturity of more than one year and is owed to nonresidents. Local firms carry the lion's share of such debt. Here, long-term debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt.[7] Official development assistance (ODA) consists of net disbursements of loans, grants, technical cooperation and assistance from multilateral lending agencies such as the IMF and World Bank.[8] Official development assistance is often attached to free-market initiatives. Developing countries may be forced to reshape monetary and fiscal policies, increase trade openness, and even discourage the development of competing industries to qualify for this type of aid (Spero and Hart, 1997).

Control Variables

To control for the effects of factors other than FEP, we include several independent variables that have been shown by previous research to have an impact on government respect for human rights.[9] We include level of democracy (Henderson, 1991, 1993; Poe and Tate, 1994; Hofferbert and Cingranelli, 1996; Poe, Tate, and Camp-Keith, 1999; Cingranelli and Richards, 1999b); level of economic development (Mitchell and McCormick, 1988; Henderson, 1991; Poe and Tate, 1994; Poe et al., 1999; Richards, 1999); level of domestic conflict (Poe and Tate, 1994; Poe et al., 1999; Richards, 1999); level of interstate hostility (Poe and Tate, 1994; Poe et al., 1999; Richards, 1999); and population size (Henderson, 1993; Poe and Tate, 1994; Poe et al., 1999; Richards, 1999).

Drawing on previous research, we use Freedom House's political rights index as our indicator of level of democracy; logged GNP per capita in thousands of dollars as our indicator of level of economic development; and the log of total population to measure population size. Our measures of domestic and external conflict differ slightly from those typically used. Our indicator of domestic conflict used in this study measures the level of domestic conflict in a country in a given year. It is constructed using seven variables from Banks's Cross-Polity Time-

[7] "Public loans are external obligations of public debtors, including the national government, its agencies, and autonomous public bodies. Publicly guaranteed loans are external obligations of private debtors that are guaranteed for repayment by a public entity. Private nonguaranteed loans are external obligations of private debtors that are not guaranteed for repayment by a public entity" (World Bank, www.worldbank.org/html/iecdd/tech.htm, 11/10/98).

[8] While one component of our long-term debt measure is "use of IMF credit," there is no overlap between this indicator and our measure of official development assistance. The two indicators correlate at 0.19.

[9] We do not detail the theoretical justification for these control variables, as this has been done extensively in the articles cited as previous research employing these indicators. Our purpose here is not to build a general theory of government respect for human rights, but rather only to examine the relationship between foreign economic penetration and government respect for human rights controlling for those alternative explanations that have been shown by previous research to have an impact on government human rights practices.

Series Data (1971).[10] These seven variables—assassinations, general strikes, guerrilla warfare, major governmental crises, riots, revolutions, and anti-government demonstrations—are counted and then weighted following a weighting scheme suggested by Banks as follows: Assassinations (48); General Strikes (46); Guerrilla Warfare (148); Major Government Crises (102); Riots (43); Revolutions (200); Anti-Government Demonstrations (24). These weighted scores are then summed into an index indicating the level of domestic conflict.

Our indicator of external conflict is a dichotomous variable indicating whether or not a country is militarily involved in an external militarized action. Some examples of this include all-out war, sending peacekeeping troops into hostilities, or perhaps border skirmishes with a contiguous sovereign country. The variable is adapted from the "Hostility Level" variable contained in version 2.10 of the Militarized Interstate Dispute (MID) data collection compiled by the Correlates of War (COW) Project.[11]

Findings

Government Respect for Physical Integrity Rights

Table 3 shows the results obtained from using the ordered logit maximum likelihood estimation technique to test our models of the effect of FEP on government respect for both physical integrity rights and political rights and civil liberties.[12] We employ ordered logit maximum likelihood analysis to estimate our models because ordinary least squares (OLS) regression, the most widely used technique in scientific human rights research, requires data to be distributed with an error term of zero mean and constant variance. The variance of probability models, however, is heteroscedastic (bow-shaped), rendering the use of OLS on ordinal dependent variables a violation of the constant error variance assumption of OLS. Consequently, ordered logit is a more suitable estimation technique, as it takes into account the particular error distribution of ordered dependent variables. Our data are in pooled cross-section time-series form, which often produces diagnostic problems such as autocorrelation and heteroscedasticity (Stimson, 1985). To deal with these problems, we employed lagged dependent variables in conjunction with panel-corrected standard errors.

Chi-squared ratio tests demonstrate that for both models, the log likelihood was significantly improved from that of the null model. A good question to ask here is, "How do these models perform in relation to what past research would lead us to expect?" We see in our physical integrity rights model that past level of repression, level of domestic conflict, level of democracy, and population size all behave as expected. That is, increased domestic conflict and population size decrease government respect for physical integrity rights, and greater democracy increases government respect. Deviating from past research, we see that external conflict is not a statistically significant predictor of government respect for physical integrity rights.

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[10] Our citation for the Cross-Polity data is 1971, as that is the latest edition of the authoritative data manifest for those data. The data themselves, however, were continuously updated by Arthur Banks through the year 1995, the final year in our analysis.

[11] This indicator was brought up to date by one of the authors, among others, using the same country files used to compile *The Political Handbook of the World.* We thank Tom Muller at the *Handbook* for access to those materials. Militarized Interstate Dispute data can be acquired via the Peace Science Society homepage at http://pss.la.psu.edu.

[12] Our models test the simultaneous effects of our indicators of FEP on government respect for human rights. It is reasonable, however, to assume that any effects, either beneficial or detrimental, of FEP may be lagged. We did indeed run alternative versions of both of our models, incorporating various lagged effects of our FEP components. The results did not vary from those reported here for the simultaneous-effect models, however.

TABLE 3. Ordered Logit Models Estimating the Effect of Foreign Economic Penetration on Government Respect for Human Rights

	Physical Integrity Rights	*Political Rights & Civil Liberties*
Past repression (Yt−1)	.590***	.462***
	(.085)	(.071)
Domestic conflict	−.002**	.001
	(.001)	(.001)
External conflict	−.378	−.719**
	(.281)	(.297)
Democracy	.308***	—
	(.093)	
Economic development	−.282*	.851***
	(.168)	(.241)
Population size	−.382**	.045
	(.195)	(.133)
Foreign direct investment (FDI)	−.020	.292***
	(.046)	(.051)
Debt	.035	−.337**
	(.175)	(.154)
Portfolio investment	1.34**	−.339
	(.641)	(1.03)
Development assistance (O[illegible])	.066	.207
	(.045)	(.150)
Log likelihood	−401	−368
Prob > χ^2	0.00	0.00
(N)	230	187

Note: Figures in parentheses [illegible]e heteroscedasticity-corrected robust standard errors; *p < .10; **p < .05; ***p < .001

Perhaps more surprising, the coefficient for level of economic development, while statistically significant, is negative, indicating that increased economic development decreases government respect for physical integrity rights. This is an interesting divergence from our expectations, as in a recent article Milner, Poe, and Leblang (1999:412) state that "no empirical research has yet been found that posits a negative relationship between economic development and personal integrity rights." However, almost all previous empirical research on the determinants of government respect for physical integrity rights has focused on global samples while we focus here only on developing countries. Milner, Poe, and Leblang speculate that increased economic inequality might create unrest and stimulate opposition to governments as those on the bottom of the economic ladder become increasingly aware of the gap between themselves and those at the top. Our negative coefficient may provide some evidence for their suggestion.

The next question we ask is, "What was found with regard to the variables of chief theoretical interest?" We see that the level of portfolio investment stands alone among our indicators of FEP as a statistically significant predictor of government respect for physical integrity rights. The positive coefficient indicates that increased portfolio investment is reliably associated with increased government respect for physical integrity rights.

We turn now to the findings from our model concerning the effect of FEP on government respect for political rights and civil liberties. While we know how the control variables we employ have behaved in models of physical integrity rights, and while we know that, theoretically, their logic as indicators of alternate explanations of government respect for human rights is applicable across many categories of human rights, their use in a model of political rights and civil liberties is uncharted water. As in our other model, the past level of respect for these rights is a statistically significant indicator of the present level of respect. The similarities between the physical integrity model and the political rights and civil liberties model end there, however. In this model, external conflict is a statistically significant predictor of government respect, while the level of domestic conflict is not. The external conflict coefficient is in the predicted direction, indicating that the presence of external conflict is associated with decreased government respect for political rights and civil liberties. Economic development is reliably associated with increased respect here, as opposed to its association with decreased respect in the physical integrity model. In addition, population size is not reliably associated with the level of government respect for political rights and civil liberties.

In the political rights and civil liberties model, we see that two of our FEP indicators are statistically significant predictors of government respect for these rights. They seem to pull government in two directions, however. Foreign direct investment, or FDI, is associated with increased respect for these rights, while debt levels are associated with decreased respect. Official development assistance was the only FEP indicator that was not a statistically significant indicator of government respect for either physical integrity rights or political rights and civil liberties.

Maximum likelihood analysis techniques such as ordered logit allow for a variety of options to maximize the amount and detail of information we can draw from our findings. One of these methods uses marginal effects. Marginal effects describe the impact that an independent variable has on some dichotomous or ordinal outcome variable. Marginal effects in relation to an ordinal dependent variable are slightly different from the more commonly found variety used in conjunction with a dichotomous dependent variable.[13] While marginal effects used with dichotomous variables describe the actual change in the probability of an event occurrence given a change in an independent variable, the ordinal variety notes the change in the odds of being in the highest category of an ordinal dependent variable given a change in an independent variable. Thus, while dichotomous marginal effects are constrained between zero and one, ordinal marginal effects are not. Ordinal marginal effects are lower-bounded at zero, but have no upper boundary.

Figure 1 illustrates the impact that each of the statistically significant variables from the physical integrity model has on the odds of full government respect for these rights. Across the X-axis are the statistically significant variables from the model, and the Y-axis shows the impact that each of these indicators has on the odds of full government respect for physical integrity rights. The number within each horizontal bar indicates the actual marginal effect of that indicator. The horizontal line at 1.0 on the Y-axis indicates no substantive effect on changing the odds of full government respect for physical integrity rights. Marginal effects are simply exponentiated ordered logit coefficients. For instance, an ordered logit coefficient of 0.00 implies that indicator has no impact on the dependent variable. Exponentiate (take the inverse logarithm of) 0.000, and you get a marginal effect of 1.00. So, change in a variable with an impact of 1.0 means that the odds remain the same. That is, at 1.0, the impact of a variable neither increases nor decreases the odds of full government respect for physical integrity rights. An increase in a variable with an impact below 1.0 *decreases* the odds of full

[13] Liao (1994) contains an excellent discussion of ordinal marginal effects.

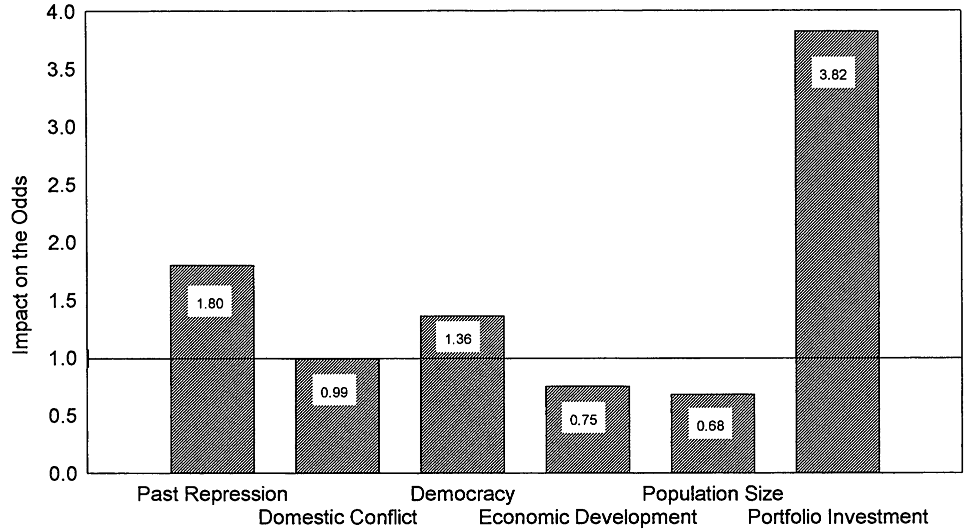

FIG. 1. Impact on the Odds of Full Government Respect for Physical Integrity Rights

government respect, and an increase in a variable with an impact above 1.0 *increases* the odds of full government respect.[14]

First, we see that the level of portfolio investment has the greatest impact on government respect for physical integrity rights. We see that with a one-unit change in the level of our portfolio investment indicator, the odds of full government respect for physical integrity rights are 3.82 times higher than without this change in the level of portfolio investment. Past level of repression has the next greatest impact on government respect, an impact increasing the odds of full government respect for physical integrity rights 1.8 times. Level of democracy shows the weakest positive effect, increasing the odds of full respect 1.36 times for every increase in the level of democracy. The level of domestic conflict, at .99, has virtually no effect on the odds of full respect for these rights. We see that population size has the greatest influence on reducing the odds of full government respect for physical integrity rights, followed by the level of economic development.

Figure 2 illustrates the impact that each of the statistically significant variables from the political rights and civil liberties model has on the odds of full government respect for these rights. Here the indicator with the largest impact on increasing the odds of full government respect for political rights and civil liberties is the level of economic development, which increases the odds of full respect for these rights 2.34 times. Next is past level of repression, followed by our foreign direct investment indicator, which shows that FDI increases the odds of full government respect for political rights and civil liberties 1.34 times for each one-unit increase in our FDI indicator. The presence of external conflict

[14] A marginal effect of zero does not mean that there is no change in the odds of ordinal Y falling into its highest category. A marginal effect of 0.0 indicates that, ceteris paribus, the odds of Y falling into the top category are 0.0 times that, were there no change in X. Or, it is 0.0 times as likely that Y will fall into the top category given a change in X. To achieve a 0.0 marginal effect, a logit coefficient would have to be roughly −3.00 or lower. In the context of this study, that would mean that a unit increase in the quantity of an indicator with a coefficient of approximately −3.00 or below would mean that the odds of *full* government respect for physical integrity would effectively be zero. Such a variable could be seen as almost *preventing* full respect. No such phenomena are present in the present analysis, however.

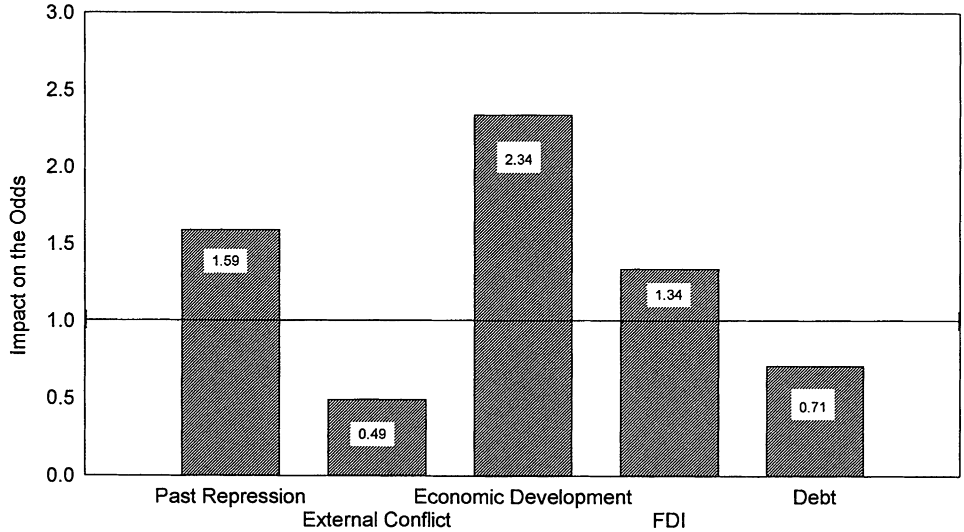

FIG. 2. Impact on the Odds of Full Government Respect for Political Rights and Civil Liberties

has the greatest impact on decreasing the odds of full respect for these rights, followed by our other significant FEP indicator from this model, level of debt.

Discussion and Conclusion

The results reported in this study have important implications for increasing our understanding of the relationship between foreign economic investment and government respect for human rights in developing nations. Using ordered logit analyses on a data set comprising forty-three developing nations for six time points across the years 1981–1995, we discovered systematic evidence of an association between foreign economic penetration and increased government respect for physical integrity rights and political rights and civil liberties. Our evidence strongly contradicts the dependency argument that FEP will make life worse for citizens of developing countries. Moreover, the analysis points to the need to consider foreign economic penetration and human rights on a broader scope than is usually done.

Of particular interest is the finding that *both* FDI and portfolio investment have a positive impact on government respect for human rights. This result confirms the need to consider foreign economic penetration not as a single component, but rather as a multifaceted concept. Additionally, and perhaps more importantly, we find strong empirical evidence that portfolio investment has a positive impact on government respect for physical integrity rights. Owing to the growing importance (and controversy) of portfolio investment throughout the global economy, this suggests that greater economic integration does not have the negative consequences as often claimed by the dependency school.

Furthermore, the results show that FDI and portfolio investment influence human rights in different ways. FDI has a positive influence on government respect for political rights and civil liberties, while portfolio investment is associated with greater government respect for physical integrity rights. Since FEP can influence human rights policies in several ways, our broad conceptualization of human rights permitted a more detailed study of the relationship between the FEP and human rights than realized by other studies. This finding raises the intriguing issue of why foreign economic penetration influences human rights in different ways.

FDI may influence political rights and civil liberties owing to the nature and structure of direct long-term involvement in foreign enterprises. Investors require incentives other than low labor costs and tax incentives to invest in developing countries. Foreign companies also require a stable macroeconomic and political environment. This includes the existence of a legal and regulatory framework to help ensure property rights and efficient functioning of a market economy (Holland and Owens, 1996; Levy, 1997; Havrylyshyn and Wolf, 1999). In order to create this environment, governments must implement the necessary and appropriate institutional foundations for a market economy (Chhibber, 1997; Mallampally and Sauvant, 1999). Among many factors, a market economy requires the rule of law, transparent market entry regulations, and the free mobility of production factors. All of this should bolster the political rights of citizens, including the right to travel and to join unions, as well as the exercise of other rights. Furthermore, FDI is attracted to countries that have efficient administrative abilities and less corruption, thus potentially encouraging the furthering of other political rights, such as political participation.

However, unlike FDI, portfolio investment tends to be very mobile and subject to capital flight, often displaying herdlike investment behavior. That is, investors often withdraw their investments at the slightest sign of risk, choosing to invest their money in countries that have stable political and economic environments. In particular, civil strife and internal warfare bring investment to a standstill (Bhattacharya, Montiel, and Sharma, 1997). In order to attract and maintain portfolio investment, governments must be willing to provide an environment that limits internal conflict. While physical repression is one policy option open to governments, investors are likely to be wary of any political climate that is subject to repercussions regarding the abuse of the physical integrity of its citizens. Instead, countries that are able to terminate political conflict and violence are much more likely to reap the rewards of increased portfolio investments.

Our findings, similar to other studies, provide mixed support for the notion that debt and official development assistance influence government human rights policy. Both models fail to provide evidence that official development assistance influences government support for human rights. The fact that we found aid to be consistently insignificant (over a longer time frame than most other studies) raises serious questions about the practicality of shaping human rights policies in developing countries through aid incentives. It is likely that the increasing importance of portfolio investment as an alternative source of finance has diminished the role of foreign aid as a factor influencing the human rights practices of governments in developing countries. It is also possible, however, that official development assistance reflects political motives that are unrelated to the issue considered in this paper. The issue of ODA is very complex and the political intentions of both parties may neutralize or constrain the advancement of government respect of human rights and liberties (Tisch and Wallace, 1994).

We did find evidence that the debt position of developing countries influenced government respect for political rights and civil liberties. Countries with large debt burdens limit the right of its citizens to participate in the political system, join unions, and enjoy other basic civil rights. Yet we find no indication that large debt troubles influenced government respect for physical integrity rights. Because creditors are concerned with repatriating their funds, political elites are encouraged to establish the necessary conditions to raise revenue. In general, this requires debt-burdened developing countries to increase their exports to the outside world. Unlike the influence of FDI, which encourages the formation of new institutions (such as a stable and reliable legal framework), debt burdens encourage government officials to ensure the growth of exports by supplying a sufficient low-wage labor force in export-oriented sectors. This might necessitate controlling union demands and limiting the ability of workers to travel. To achieve the necessary stable environment for greater export growth does not mean that governments must take a further step and abuse the physical integrity of its citizens. Indeed, our findings suggest otherwise.

Our results also add to the broad debate within the global human rights community regarding the sequence of economic development and government respect for human rights. One school of thought has stressed that rights such as physical integrity rights and political rights and civil liberties must precede economic development. Others argue that now-developed countries systematically violated many human rights on the road to their current level of economic development. Our findings re-invigorate the importance of the debate about the causal direction of the democratization–economic development relationship. While our purpose here was not to determine the causal direction of this larger dialogue, confirming that foreign capital infused into the economy of a developing country can improve government respect for these rights certainly does not hurt the argument of those who suggest that economic development must precede political liberalization.

Firm agreement on these and other issues awaits further study. Greater attention to institutional framework, direction of causality, and studies involving longer time periods are needed to establish concrete conclusions about some of the issues raised here. Our analyses of our sample of developing countries demonstrate that the standard set of control variables employed in most all empirical studies of government respect for human rights may not behave uniformly among different subsamples of countries or among different categories of human rights. Our findings certainly indicate the need for more studies to examine human rights other than physical integrity rights and for regional and other subsample country analyses.

In addition, our finding that FDI and portfolio investment increase government respect for human rights leads us to the issue of distribution of benefits. That is, if these FEP elements bring goods (respect for human rights) to societies, how are these goods distributed? As far as physical integrity rights are concerned, those who are most at risk of having these rights violated would be those most likely to benefit—otherwise, we would see no improvement. However, while this appears obvious, it points out an important flaw in the existing scientific human rights literature (this study not excepted). At least to this point, the scientific human rights literature has ignored the question of "Who is it in different societies that is most at risk of having their human rights violated?" If we are to grasp the roots of repression, it seems logical that we must be able to identify and understand those most at risk of being repressed. The picture becomes a bit more difficult in teasing out those most at risk of having their political rights and civil liberties violated, as groups, organizations, and corporations become involved, but the need for identification is the same in terms of aiding our understanding of repression.

Nonetheless, this study provides insight into the relationship between foreign economic investment and the level of government respect for human rights in developing countries by finding systematic evidence that FEP is associated with increased government respect for physical integrity and political rights and civil liberties; more specifically, that both FDI and portfolio investment are positively related to increased government respect for human rights. In addition, we add to the literature on the relationship between FEP and government respect for human rights through the incorporation of richer measures of FEP and human rights, allowing us to tease out relationships that would have been otherwise difficult or impossible to detect. And finally, we utilize maximum likelihood estimation techniques appropriate to the nature of our ordinal dependent variables to test our models.

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