World Development 104 (2018) 222–237

Contents lists available at ScienceDirect

World Development

journal homepage: www.elsevier.com/locate/worlddev

Human Rights Shaming and FDI: Effects of the UN Human Rights Commission and Council

Krishna Chaitanya Vadlamannati [a,*], Nicole Janz [b], Øyvind Isachsen Berntsen [c]

[a] G306, School of Politics & International Relations (SPIRe), University College Dublin (UCD), Belfield, Newman Building, Dublin 4, Ireland
[b] School of Politics and International Relations, University of Nottingham, United Kingdom
[c] Norwegian University of Science and Technology (NTNU), Norway

ARTICLE INFO

Article history:
Accepted 13 November 2017

Keywords:
FDI
Human rights
Naming and shaming
Spotlight effect
UN Human Rights Commission and Council

ABSTRACT

Do public condemnations by the United Nations human rights bodies lead to foreign direct investment (FDI) loss for abusive regimes? The Human Rights Commission and later Council (UNHRCC) are internationally legitimized tools where member states shame repressive regimes for human rights violations in public resolutions. We argue that these resolutions can influence foreign investors in two main ways: (1) They signal that a state is an outcast, unable to secure alliances within the UN human rights bodies that protect it from being publicly shamed, with negative consequences for investment attractiveness ('outcast' effect). (2) They signal that a state is one of the most rogue, severe human rights violators because voting members of the UNHRCC may be aware of many human rights violations, but they pass resolutions only in the harshest cases ('bottleneck' effect). Any MNC associated with such a country risks severe reputational damage. Results from a panel data analysis of 165 countries (1977–2013) confirm that UNHRCC condemnations deter FDI. This effect is amplified by media reporting of human rights abuse, and stronger and more robust than a bad human rights record of a state itself. NGO shaming and milder UNHRCC sanctions (which do not reach resolution stage) have less strong effects, although the result on NGO shaming is to be seen with caution due to a reduced sample size.

1. Introduction

It is widely argued that a country's ability to attract foreign direct investment (FDI) depends not only on economic factors, but also on the political environment (Schneider & Bruno, 1985, Globerman & Shapiro, 2002).[1] Within the political sphere, the role of human rights protection has received great attention in the fields of International Relations and Development. The conventional wisdom used to be that foreign investors are drawn to repressive host countries which offer cheap labor and lax regulation of businesses (Hymer, 1979; Smith, Bolyard, & Ippolito, 1999). However, more recent empirical work has provided evidence that better human rights protection is connected to higher FDI inflows, indicating that firms seek political stability (Schneider & Bruno, 1985) and improved human capital (Noorbakhsh, Paloni, & Youssef, 2001), which are connected to better human rights protection (Blanton & Blanton, 2006, 2007b).

An emerging key factor in explaining the link between human rights and FDI is shaming activities by state and non-state actors. The growing literature on general shaming effects has tended to focus on non-governmental organizations (NGOs), which publicize human rights abuses to force repressive regimes to comply with international human rights norms (Risse, Ropp, & Sikkink, 1999). One way to exert pressure on these states is through economic costs. For example, Barry, Chad and Flynn (2013) show that naming and shaming by human rights NGOs reduces FDI in developing nations because it creates reputational costs for foreign investors. Peterson, Murdie, and Asal (2016) find that after NGO shaming, citizens may engage in boycotts or lobby their governments to reconsider trade agreements with abusive states. The result is a loss in exports for repressive regimes.

We know much less about the role of intergovernmental organizations (IGOs) and their shaming activities. We do know that IGO shaming tends to reduce political repression (DeMeritt, 2012; Franklin, 2008; Krain, 2012), but it is not clear if this link works via successful norm diffusion among states, or via economic pressures such as FDI loss. This study therefore examines the United Nations

* Corresponding author.
E-mail addresses: krishna.vadlamannati@ucd.ie (K.C. Vadlamannati), nicole.janz@nottingham.ac.uk (N. Janz), oyvibern@stud.ntnu.no (Ø.I Berntsen).

[1] Replication materials for this article can be found at http://dataverse.harvard.edu/dataverse/NicoleJanz.

https://doi.org/10.1016/j.worlddev.2017.11.014
0305-750X/

Commission on Human Rights, later replaced by the UN Human Rights Council (hereafter UNHRCC collectively) as a key player that can negatively influence economic outcomes for repressive regimes. Being lobbied and informed by activists, the UNHRCC can provide the potentially most damaging form of public condemnation. It is the primary forum in which governments publicly shame other nations for human rights abuse (Lebovic & Erik, 2006). When the UNHRCC adopts a resolution against a repressive regime, it provides a member-state-authorized, legitimate and internationally highly visible type of shaming. International institutions such as the UNHRCC are "the primary vehicles for stating community norms and for collective legitimation". Unlike shaming by NGOs, a majority vote by member governments has to be reached before a public condemnation is issued. Fearing the consequences, target countries go to great lengths to avoid being publicly criticized in this way and appear to see such resolutions "as the most weighty penalty" and a "severe sanction" (Lebovic & Erik, 2006, 865). Indeed, shaming by the United Nations human rights bodies has been shown to cause loss of foreign and multilateral aid (Lebovic & Erik, 2009, Esarey & DeMeritt, 2016), but we do not know how effective such shaming is in deterring foreign investors. We ask: Do public condemnations by the UNHRCC lead to FDI loss for shamed governments?

Our study makes a theoretical and empirical contribution to the literature. Based on theories about political, social and economic risk, we propose two main causal pathways. First, voting patterns within the UNHRCC have been shown to be influenced by power and political alliances of the voting members (Lebovic & Erik, 2006). Before the reform of the human rights body in 2006, UN Secretary General Kofi Annan (2005) criticized a "politicization of its sessions". Lebovic and Erik (2006) have shown that through partisanship and strategic voting, states tended to protect their allies from UNHRCC shaming, especially before the end of the Cold War. How could this affect FDI? When a country is condemned by a UNHRCC resolution, this might be seen as a signal that the government is unable to call upon strong alliances and political favors among other voting members. This could reflect damaged bilateral relations with other states, including a lack of bilateral economic support for foreign investors and less favorable trade and investment agreements. The shamed country – an outcast in the international community – may even be subject to future material sanctions. This makes it a host country which is much less attractive for FDI than other states ('outcast' effect).

Second, Lebovic and Erik (2006) have emphasized that many target countries were also shamed based on their actual human rights record, with the main goal of shining a negative spotlight on such abuse (Spar, 1998). UNHRCC condemnations can create reputational damage to firms by pointing to the fact that they provide capital to repressive regimes, thereby extending the spotlight from shamed governments to foreign investors (Barry, Chad, & Flynn, 2013; Spar, 1998). Since firms have increasingly committed themselves to human rights norms (Mwangi, Lothar, & Hans, 2013), they have become more vulnerable to public criticism and boycotts when they finance repressive regimes or become complicit in rights violations. The UNHRCC can therefore create direct reputational risk to firms which invest in repressive regimes. Since the UNHRCC passes a resolution only in the harshest cases – unlike NGOs, which target a wider range of violations and states – it acts as a bottleneck, so that a UNHRCC resolution signals a risk of severe reputational damage for abusive states and their investors ('bottleneck' effect).

To provide further insights into shaming and FDI, we also integrate the media. It is usually through the megaphone of the media that information about human rights abuse reaches a wide audience of consumers, shareholders, employees, activists and firm decision makers (Pruce & Budabin, 2016). Some reports by NGOs may remain unnoticed to foreign audiences; UNHRCC resolutions may be too technical for a wide audience to make sense of. But the "communicative processes" and accessibility of the media, with human interest stories and local features, can be a crucial amplifier of shaming activities. In another context, the power of the media has been demonstrated by connecting it to loss of foreign aid and increased economic sanctions (Nielsen, 2013; Peksen, Peterson, & Drury, 2014).

In our empirical contribution, the results from our panel data analysis of 165 countries (1977–2013) provide strong support that UNHRCC shaming is connected to less FDI flows. Human rights abuse itself also has a negative effect on FDI, but to a substantially smaller degree, indicating that it is the act of UNHRCC shaming that 'counts'. NGO shaming or milder forms of UNHRCC sanctions which do not reach the resolution stage have less strong effects, although the result on NGO shaming is to be seen with caution due to a reduced sample size. We further find that UNHRCC shaming is conditional on media reporting about repressive regimes. Our results are stable across a range of robustness checks.

By focusing on the most powerful shaming body, the UNHRCC and by integrating the media amplifier, this study provides a comprehensive and novel approach to the human rights and FDI literature. Since FDI is one of the biggest drivers of economic development, and governments try to attract investment and prevent FDI loss,[2] human rights shaming by the UNHRCC can be an important tool to improve human rights protection worldwide.

The rest of this paper is structured as follows. We first discuss the relevance and nature of UNHRCC condemnations, and present the theoretical arguments and hypotheses. In the main part, the data and models are discussed, and we present the main results and robustness checks. The conclusion highlights policy implications and future research avenues.

2. Shaming by the UN Human Rights Bodies

The United Nations Commission on Human Rights was formed in 1946 and operated until 2006, when it was replaced by the Human Rights Council.[3] In the first 20 years of its existence, the Commission was primarily concerned with setting standards in the field of human rights, rather than dealing with human rights complaints. It developed the 1948 Universal Declaration of Human Rights, as well as the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, which were adopted by General Assembly of the United Nations in 1966. From then onwards, the Commission assumed a more interventionist role. Through Special Rapporteurs and working groups, it monitored human rights compliance by member states and performed fact-finding missions in order to investigate alleged human rights violations (OHCHR, 2016a). The main purpose of the 53-member Commission soon became to voice concerns about gross offender states. In other words, it provided a highly-visible international forum through which member states publicly condemned other governments for human rights violations.

The main and strongest mechanism of public condemnation was through resolutions, which openly criticized individual repressive regimes and their human rights record. Before reaching 'resolution stage', however, the UNHRCC sanction process followed several steps with rising intensity of shaming. First, the Commission could discuss an allegation against a state but not pursue it further. Second, the Commission could decide to continue deliberations in closed sessions, suggesting that the allegations behind the resolution may have some merit. The third option consisted of a

[2] For example, the withdrawal of FDI can lead to job loss and a decline in government tax revenues (Howard-Hassmann (2010).

[3] This study will treat them collectively as the United Nations Human Rights Commission & Council (UNHRCC) in the following sections.