Exploring the Relationship between Human Rights and Foreign Direct Investment:

A Multi-Level Analysis on the role of the Institutional Quality of Home countries

IMP Master Thesis

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Abstract

Foreign Direct Investment (FDI) is an essential indicator of a country's development, for which its determinants are an increasingly relevant point of research. Most of these studies focus on the macro-economic determinants as these are considered most important in attracting FDI. However, with the public and private sector increasing their attention to social issues (such as working conditions, fair wage, and the prevention of exploitation) research on social-political factors is on the rise.

Following this trend, human rights conditions of a host country are considered an important influence on FDI. Accordingly, this study examines the relationship between human rights conditions and FDI inflow. Specifically, it analyses the influence of the institutional quality of home countries since it is suggested that this has a moderation effect on the relationship of interest. A multi-level regression analysis is conducted thereby analysing 36 host-home country pairs in the year 2018. Human rights conditions are measured by considering physical integrity rights and social and economic rights. Additionally, several control variables are included, based on the already existing FDI determinants in literature.

Firstly, the results suggest a negative relationship between FDI and human rights conditions when these are measured as physical integrity rights. Moreover, a negative moderation effect was found for the institutional quality of a home country on this relationship. This indicates that the amount of FDI sent by home countries with a better institutional quality is influenced less by the human rights conditions of a home country compared to home countries with a lower institutional quality.

Second, when human rights conditions were measured as social and economic rights a positive relationship was found. However, here no significant effect of the institutional quality of a home country was observed which means that this factor has no noticeable influence on the relationship of interest.

Acknowledgement

I would say that this year was not easy, especially in the beginning and maybe I also underestimated it a bit. However, in the end, it has been a very interesting year where I learned a lot of new things and got to know a lot of new interesting people. I am grateful for the IMP professors putting in a lot of effort to make the years as normal as possible despite the continuing COVID restrictions and sometime difficulties. Even though our Geneva trip had to take place virtually, I am very grateful that it has allowed me to speak to many interesting people and has broadened my view of what the possibilities of IMP are. I would also like to highlight my most memorable event of the year, which was the trip to Brussels, where all the speakers, even during the outbreak of war, made time to share their work with us.

During the year, the course International Organisations and Development sparked my interest and I want to thank Professor Dijkstra and Pofessor Tuytens therefore for the interesting lectures. After finishing an internship at the Fund against Child Labour I was convinced that I would like to work for the development of countries. However, during the course I learned how much influence financial institutions and foreign investment have on development. Since this interested me significantly, I wanted to delve deeper into this issue in the form of my master's thesis. During the thesis process I learned a lot and I want to thank my supervisor Mister Tuytens for being always dedicated to my thesis process, for always thinking along with me and for providing me critical but useful feedback. Additionally, I want to thank Professor Jennifer Holland for making time to help me with the difficult regression analysis and the confidence in me to perform it properly in the end. I would also like to thank my parents and my boyfriend for always supporting me and trying to remind me that not every essay, presentation or thesis has to be perfect. Finally, I would like to thank my IMP friends and my friends from Leiden and Delft. Studying hours together but also with drinking coffee, having good conversations and going out for dinners, has made writing my thesis a lot easier

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1. Introduction

Over recent decades, Foreign Direct Investment (FDI) has become one of the most important tools within the global economy. Since 2000, FDI flows almost doubled from around $656 billion to $1.166 trillion in 2019. Moreover, FDI even surpassed development assistance as source of capital in the developing world (The World Bank Group, 2019). For developing countries, FDI is attractive as it can contribute to capital formation and access to the international market. Furthermore, it brings technology and human capital and could create a competitive business environment which contributes to long term economic growth (Lewczuk, 2019). However, FDI surpluses remain unequally distributed among regions (See Figure 1). While Asia received around $300 billion in FDI inflows in 2020, the figure was only $30.15 billion in Sub-Saharan Africa. Given the importance of FDI, a great number of scholars have investigated its determinants. Whereas the macro-economic determinants of FDI are extensively researched, the role of socio-political factors is new in the field. However, these factors are gaining more attention as research suggests that they are of great influence in attracting FDI flows.

In this respect, the human rights conditions of a *host country* (the country receiving FDI) play an increasingly important role in shaping FDI dynamics (Lewczuk, 2019; Rao-Nicholson & Svystunova, 2020). According to research, respecting human rights is essential to achieve economic and social development (Sen, 2001; Bevan, Estrin, & Meyer, 2004). Therefore, with the effort of social movements and global initiatives, such as the UN global Compact, human rights have attained a prominent position on a global scale (Rao-Nicholson & Svystunova, 2020). As a result, there are rising concerns about operating in countries with poor human rights conditions. One of the most recently debated issues concerning human rights abuse is the Qatar World Cup of 2022 where activists discovered thousands of migrant workers building the new Khalifa stadium being systematically abused (Amnesty International, 2019). Accordingly, governments, companies, and people reacted with disgust. Consumers and civil society actors are therefore increasingly pushing for better human rights conditions around the world and trying to discourage companies from investing in violating countries (Rao-Nicholson & Svystunova, 2020).

Figure 1.

Total FDI inflow divided by regions in 2020
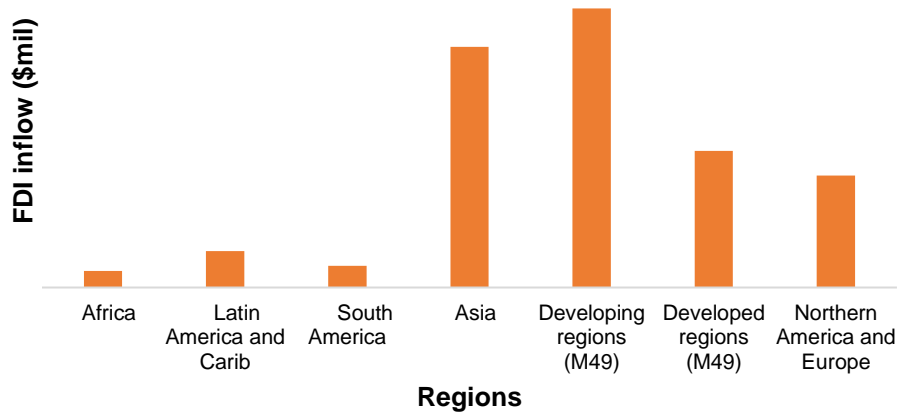
Note. Adapted from: *Foreign Direct Investment: Inward and outward flows and stock, annual*. By UNCTAD, 2019a, (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740).

Due to the rising concerns about human rights abuses, most scholars suggest a positive relationship between human rights conditions and FDI. They argue that respecting human rights attracts FDI by creating political and institutional stability. Moreover, respecting labour rights increases human capital which currently seems important to foreign investors whereas violating human rights could create reputational damage (Blanton & Blanton, 2007). These studies are contrary to profit maximization theories suggesting that human rights violations attract FDI by creating favourable conditions in terms of low labour costs and a privileged position for the foreign investor (Spar, 1999). However, empirical evidence shows that the discouraging effect of the lack of respect for human rights in host countries does not hold for all cases; investors from certain home countries are attracted by poor human rights conditions and tend to send these host countries more FDI. Accordingly, scholars suggest that the relationship between FDI and human rights conditions is complex.

To clarify this complex relationship this thesis focuses on the potentially moderating role of the institutional quality of *home countries* (the country from which the FDI originates) on the relationship between human rights conditions and FDI inflow. This builds on earlier research that highlights that there is a significant difference between home countries with

strong institutional quality and those with poorly functioning institutions (Cuervo-Cazurra et al., 2018; Li et al., 2018; Rao-Nicholson & Svystunova, 2020). Specifically, home countries prefer to invest in host countries that have similar conditions. In addition, home countries with a better institutional quality are often more concerned about the reputational costs of investing in host countries with poor human rights conditions since people are more allowed to express their opinions. However, the effect of a home country's institutional quality on the relationship between FDI and human rights conditions has not yet been studied as most studies focussed on political stability and corruption (Cuervo-Cazurra et al., 2018). Therefore, this study also contributes to the limited literature on the influence of home countries in this context.

The study seeks to answer the following research question:

How does the institutional quality of a home country affect the relationship between human rights conditions and FDI inflows to the host country?

To perform the research, a quantitative approach with a cross-sectional Large-N design was used. Moreover, a multi-level linear regression analysis was conducted, as the dependent variable is hierarchical in nature. Finally, the sample included all countries on which data was available to ensure that the findings are robust and relevant.

1.1 Academic relevance

This research complements the literature on human rights and FDI in different ways. First, by exploring the role of human rights conditions, this study contributes to the literature on the socio-political determinants of FDI that are omitted by different researchers who only focussed on macro-economic factors. Therefore, results could be incomplete, which increases the need for further investigation. Accordingly, scholars refer to a clear gap in the literature which this study seeks to fill (Adhikary, 2017; Dimitrova, Trogmans en Tiki, 2019).

Second, the study attempts to clarify the mixed results regarding, and provide a deeper assessment of the relationship between FDI and human rights conditions. While most scholars found a positive relationship between human rights and FDI, empirical evidence shows the opposite in some cases. Therefore, further research is needed to refine the theoretical linkage and better understand the relationship (Barry et al., 2012; Li et al., 2018).

Moreover, this study contributes to an improvement of the research design when examining the relationship of interest. Studies tend to use a narrow conceptualization and measurement of human rights, as scholars do not want any overlap with other variables. In addition, the data generally used to measure human rights conditions is outdated and therefore no longer provides a realistic representation of current conditions. By testing human rights in a broader sense and thereby consulting recent data, this study hopes to yield a more accurate analysis. Furthermore, the few studies that considered the home country as an effective factor mainly analysed specific regions. This study attempts to enlarge the sample of countries beyond that of regions and (non) governmental organizations by including as many countries as possible (Ferreira et al., 2016).

Finally, scholars emphasize the importance of controlling for moderating factors on the effect of human rights conditions and FDI, thereby confirming its complexity (Acquah & Ibrahim, 2019). Particularly, Kriebitz & Ammah (2020) suggest the importance of examining the influence of Western home countries in contrast to home countries that are considered emerging markets and Ferreira et al. (2016) argue that it could be interesting to control for the governance level of home countries within these studies.

1.2 Practical relevance

In addition to the academic contributions of this research, the study also has social relevance. First, due to long-term financial and technological spill overs associated with investments, attracting FDI seems crucial for the development of many developing countries. To compete for foreign investments, many countries take action to influence the choices of foreign direct investors by providing attractive locational conditions. One such condition could be the human rights conditions. This study adds to these insights. The outcomes of the research could provide information for developing countries about how to attract foreign investors and on the distinction between different home countries. When a country seeks to attract investment from more institutionally developed home countries it is crucial to know what determines whether these home countries send FDI. If human rights conditions seem determining, a host country's position against human rights could be changed (Rao-Nicholson & Svystunova, 2020).

In addition, the results could contribute to the discussion about responsible business including respect for human rights. Countries, such as China, do not have well-developed human rights regimes and are often involved in human rights violations (Human Rights Watch, 2019). In previous decades, actors from different sides demanded that investors take

this into consideration when investing abroad and thus contribute to improving the situation. Therefore, it is important to know if and which home countries influence the relationship. When certain countries do but others do not, it might be that host countries that commit human rights violations do not feel any pressure to change this situation. This creates incentives to search for other solutions.

Additionally, as previously discussed, there are growing concerns among policy makers and companies about recognizing the increasing importance of human rights and FDI in the global economy. Many companies have included human rights protection policies, and some have even entered a code of conduct regarding human rights. However, the knowledge about the actual impact of human rights conditions on international economic activities and the influence of other relevant factors is underdeveloped. Accordingly, expanding this research would help businesses in their human rights protection policies (Blanton and Blanton, 2006).

1.3 Structure

This thesis is structured as follows: Chapters 2 and 3 discuss the literature and theories on FDI, the market and non-market determinants of FDI, the role of human rights conditions as an FDI determinant, and the possible moderating effect of home countries' institutional quality on this relationship. Chapter 4 outlines the research design and specifies the empirical models, the operationalization of variables, and the reliability and validity of the research. Chapter 5 presents the results of the multi-level analysis which are (theoretically) reflected on in the Discussion in Chapter 6. Finally, the summary, recommendations, and limitations of the study are discussed in the Conclusion.

2. Literature review

This section introduces the concept of FDI and its impact on the economic development of countries. Thereafter it discusses the literature on several relevant FDI determinants divided into market and non-market factors.

2.1 Foreign Direct Investment

Due to the broad conceptual understanding of FDI, it is crucial to first make clear how this study considers the term. This research adopts the definition of FDI widely used by international institutions. They state that FDI is 'a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy' (OECD, 2019). This implies that foreign investors have a certain degree of influence in the management of the enterprise where they invest. Moreover, the motivations for FDI basically have two sides. First, investors desire to create, defend, or expand the market share in a host country where the investment is made. Second, with FDI, investors want to develop supply sources, such as raw materials, or primary commodities, to produce goods.

2.2 Impact of FDI on Economic Development

Since the beginning of the 1990s, FDI has become the leading source of foreign capital for upcoming market economies. Some researchers even recommend that developing countries rely primarily on this type of investment as source of capital (Lau & Rahman, 2018). Arefin, Roy, and Mallik (2021) argue that attracting international investors should be top priority for developing countries to maintain economic development. The logic behind this idea is that FDI is less volatile than other investment methods and offers access to modern technology. In developing economics, FDI can create employment, enhance skills of local labourers, and help domestic economies to integrate in the global system (Lau & Rahman, 2018). Likewise, Bende-Nabende and Ford (1998) argue that the wide externalities of FDI, such as technological transfers, and the opening-up of the economy to the international sphere, could create long-term economic growth. In addition, FDI could encourage international trade by providing access to markets, which stimulates the economy (Arefin, Roy & Mallik, 2021).

While there is a fair degree of consensus that FDI stimulates economic growth, several scholars present a more nuanced argument. Specifically, Blomstrom et al. (1994) argue that FDI has a positive effect on economic growth but that below a certain income level,

the effect becomes negative. This is explained by the fact that only countries who have reached a certain income level have the capacity to absorb new technologies and benefit from FDI. Additionally, this effect seems stronger in developing countries than in developed countries, which are already at their maximum concerning the spill over of new technologies (Johnson, 2006). Moreover, N et al. (1996) found that the positive spillovers of FDI are limited to countries that adopt export promoting policies. In addition, Borenszstein et al. (1998) showed similar results but argued that the magnitude of the effect depends on the quality of human capital. If workers are more qualified, they are better able to deal with new technologies which makes them more efficient.

2.3 FDI Determinants

According to Dunning (1993), investors chose where to invest with FDI based on three factors which are described in the Ownership, Location, and Internalization (OLI) paradigm, allows the multinational to compete in the foreign market despite transaction costs (Blanton & Blanton, 2006). In addition, the company must want to internalize this advantage in various markets. Finally, the locational advantages refer to the advantages a company has from operating in a particular area. Even within the OLI framework, there are various drivers and determinants of FDI. Accordingly, the following section discuss these variables, divided in market and non-market determinants of FDI.

2.3.1 *Market factors*

Since FDI is a critical component for economic growth it is not surprising that there is extensive literature on the determinants of FDI inflows. However, most research studied only market factors. As non-market factors are the focus of this study, market FDI determinants are discussed only briefly.

It is generally argued that trade openness and the market size of a country have a positive effect on FDI while the effect of inflation provides mixed results. Trade openness through access to economies of scale and larger markets attracts FDI (Sabir and Khan, 2018; Sabir et al., 2019). Likewise, Ho and Rahsid (2011) found that the degree of openness is a key determinant when attracting FDI. Inflation, in contrast, has been found to negatively correlate with FDI as it could provide extra costs for foreign investors. However, Arefin, Roy, and Mallik (2021) argue that the inflation rate is positively related to FDI whereas Adhikary (2017) and Saini and Singhania (2018) found no effect at all. In addition, the effect of economic growth also provides mixed results. Economic growth represents larger consumer

demand and purchasing power, which is attractive to foreign investors (Blanton and Blanton, 2006). However, Ho and Rashid (2011) found economic growth to be negatively related to FDI inflows. Additionally, Erdal and Tartoglu (2002) suggested that the size of the domestic market is positively related to FDI since this means a larger sales market.

Furthermore, Saini and Singhania (2018) state that there is a difference between developed and developing host countries' determinants of FDI. Efficiency rates seem a key determinant of FDI in both developed and developing countries. Additionally, GDP growth is positively related to FDI only in developed countries while trade openness and FDI are positively related only in developing countries. The latter was also confirmed by Das (2020), who argues that the openness factor is stronger for developing markets than in emerging markets as this is one of the only attractive factors in these countries.

2.3.2 *Non-market factors*
Since globalization has boosted the markets of transitioning countries such as China, Vietnam, India, and South-Korea, there is increased attention to the non-market side of FDI determinants. Given that these emerging markets have been subject to significant institutional transitions in parallel with the increased FDI received, both formal and informal institutions are crucial elements in explaining FDI patterns (Dimitrova et al., 2019). However, while the macro-economic determinants of FDI are extensively researched, few scholars have studied FDI determinants in the non-market environment. Most of these limited insights originate from research on political stability and corruption. Due to the lack of studies, results are still inconsistent and therefore need further investigation.

This section discusses the theory about host countries' institutional quality, political stability, corruption level, democratic governance, and human rights. Although political stability and the level of corruption are often considered as institutional factors, scholars name them as separate FDI determinants that are discussed on their own. As a result, this study adopts the same approach and considers political stability and corruption separately.

2.3.2.1 **Institutional quality**
Within the determinants debate, most scholars suggest that the quality of government matters in the amount of FDI received and particularly good governance attracts investors (Demirbag et al. 2007; Bartels, Napolitano, & Tissi, 2014). Good governance induces the

improvement of institutions and simultaneously an investment climate which attracts FDI (Das, 2020). Moreover, it is argued that investing in a host country that has a responsible and well-functioning government improves the reputation of investors (Fazio & Talamo, 2008). Likewise, Dellis et al. (2017) argue that host countries with strong institutions and a well-developed rule of law attract more FDI since this context provides more certainty to investors. In addition, several scholars (Shah & Afridi, 2015; Younsi & Bechtini, 2019) highlight the strong effect of the regulatory quality of a host country on FDI, i.e., the stronger the regulatory policies and rules in a country concerning the market facilitation of foreign investors, the more investors are encouraged to undertake long-term investments.

2.3.2.2   Political stability

Most studies examining the effect of political stability on FDI suggest a positive relationship. Political stability is generally referred to when a country is led by one actor for a long term without any major political upheaval (Samimi et al., 2011). Political instability and frequent crises increase uncertainty and have a negative influence on the investment climate, thereby deterring FDI inflows (Schneider and Frey, 1985). Specifically, it could create more frequent policy changes, which disturbs FDI plans and economic growth (Samimi et al., 2011). Asiedu (2005) refers to political stability as the absence of coups, random assassinations, and revolutions, which reduces the risk that there will be sudden changes in the leadership of the host country. Whether such changes occur they can significantly impact the locational decision to invest for multinationals and the effect of FDI. In contrast, Cieślik & Gurshev (2020) discuss how cheap labour is often the primary reason for inward FDI, and the political context in a host country is of less importance.

2.3.2.3   Corruption

The literature on the effect of corruption on FDI is less clear. One side of the theoretical spectrum argues that this effect is negative, referring to the 'sand and wheels' approach. They argue that corruption affects investments' quality, increases production costs, decreases transparency, and thereby has a negative effect on profits (Habib & Zurawicki 2002; Lambsdorff, 2003). It may also be that corruption could increase the uncertainty and risk for investors and lead to a misallocation of resources. This argument is defended by empirical research as several studies show a negative correlation between levels of corruption and FDI inflows (Cuervo-Cazurra, 2006; Mudambi et al., 2012; Hakimi & Hamdi, 2017). Additionally, Hakimi and Hamdi (2017) found that in the Middle East region, corruption negatively affects

FDI and thereby also reduces economic growth. On the contrary, scholars argue that corruption could increase FDI since it can serve as catalyst for slow and inefficient procedures in poorly governed host countries (Méon and Sekkat, 2008). This 'grease and wheels' approach suggest that corruption itself does not attract investors, but offsets already existing distortions induced by poorly functioning governments. Accordingly, foreign investors could benefit from the possibilities to easy certain processes around the investment by being involved in corruption practices in the host country (Bellos & Subasat 2011). In addition, Li (2005) argues that corruption itself could attract investors because it can serve as rent. When governments are 'relation-based' instead of 'rule based', they tend to provide investors opportunities for rent seeking.

2.3.2.4 Democracy

Democratic institutions that provide civil liberties and political freedom tend to attract FDI. These institutions offer a more stable and credible environment for multinationals, which reduces risks and encourages FDI (Harms and Ursprung, 2002, Jensen, 2003). Jensen (2003) argues that credibility is increased in democratic systems by (1) the number of veto-players and (2) the strong significance of audience costs in these systems. Due to the high number of veto-players in democracies, the host country government cannot simply make influential changes, such as raising taxes. Moreover, in democracies, governments are held accountable for their actions. When these governments misbehave against foreign investors this could work against them. Similarly, Yimer (2017) discusses how foreign investors are more attracted to African countries that are democratic since many consider this system as more stable and secure.

However, the debate around FDI and democracy has not yet been concluded since some studies claim that the relationship is more complex. Przeworski & Limongi (1993) argue that multinationals prefer to invest in autocratic regimes. It is argued that authoritarian leaders can provide investors better deals due to the lack of pressure from people and labour unions. In addition, authoritarian regimes often offer lower labour costs, which makes investing more attractive (Rodrik, 1999). Moreover, Asiedu and Lien (2011) found that the effect of democracy on FDI depends on the extent to which host countries own natural resources as this could make the political situation of less importance.

2.3.2.5   Human rights

A missing strand within the non-market side of FDI determinants concerns the relationship between human rights conditions and FDI (Dimitrova et al., 2019; Colovic et al., 2019). While traditional studies suggest a negative relationship between these variables, recent research counters this idea and claims that the relationship between human rights and FDI is more complex. Studies that suggest a negative relationship between human rights argue that companies always try to maximize profits and therefore will invest in countries with poor human rights conditions where it is easier to exploit the population (Cardoso and Faletto, 1969; Spar, 1999; Falk, 2002; Adegoke & Adeleke, 2014). Conversely, most scholars in this field claim that poor human rights conditions deter FDI inflows. This can be explained by (1) the reduced risks investors experience when human rights are protected, (2) the improved quality of human capital, and (3) the fact that human rights violations may create reputational costs for investors (Faber, 2002; Blanton & Blanton, 2007; Barry et al., 2012; Garriga, 2013; Vadlamannati et al., 2018; Lewczuk, 2019).

As non-market determinants of FDI are becoming more important, the relationship between human rights conditions and FDI inflows needs more attention. Not only activists but also governments and companies have recently become concerned about human rights issues. Together with global initiatives, beliefs are spreading among possible investors that they should only invest in countries where civilians' rights are respected. Hence, reputational costs become increasingly significant. This study proposes addressing the gap and expanding the theory on human rights conditions as a determinant of FDI. Accordingly, the following chapter examines both sides of the theoretical spectrum on FDI and human rights and introduces the influence of home countries' institutional quality as a moderating factor on this relationship.

3. Theoretical Framework

This section is dedicated to explaining the theories and literature on the relationship between human rights conditions and FDI inflows and the influence of a home country's institutional quality as a moderating factor. Based on the theories within this section, hypotheses are developed, and a conceptual framework is established.

3.1 Human Rights and FDI

Following the official definition of the United Nations, human rights are the 'rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more' (United Nations, 2020). These rights are all covered by the United Nations' Universal Declaration of Human Rights, adopted as a result of World War II. Together with the International Covenant on Economic, Social, and Cultural Rights and the International Covenant on Civil and Political Rights, these form the International Bill of Human Rights, otherwise known as the human right's legal framework (United Nations, 2020). Human rights are often measured by researchers as physical integrity rights (e.g., freedom from political torture, imprisonment, and abuse), civil and political liberties (e.g., freedom of speech or freedom to practice your own religion), or socio-economic rights (e.g., the right to housing, work, and food). Often the implementation and enforcement of human rights create challenges in host countries as host countries' governments might not be willing or able to enforce these principles or even refuse to ratify human right treaties (Rao-Nicholson & Svystunova, 2020).

Since the 1990s, human rights have become increasingly important globally for both costumers and investors. First, with concepts as 'corporate social responsibility' and 'sustainable development', beliefs are spread among investors that they should respect civilians' and human rights in countries where they invest and should not invest in countries with human rights violations (Rao-Nicholson & Svystunova, 2020). At the same time, various international initiatives highlight the importance of companies behaving responsibly and respecting human rights. In particular, the UN Global Compact supports companies in carrying out responsible businesses according to the UN 10 principles on human rights,

labour, environment, and anti-corruption and the OECD established their Due Diligence Guidance that provides support for foreign investors operating abroad (Noti, 2020).

Despite the changing attitude, many countries still suffer from weak human rights conditions. According to profit-maximization theories, this provides beneficial investment circumstances for foreign companies. In contrast, following the risk mitigating model, foreign investors tend to consider poor human rights conditions as a risk for their investment and are therefore less attracted to these countries. The following section elaborates on these theories.

3.1.1 Negative relationship – profit maximization model

Some scholars defend the argument that widespread human rights violations in a country can attract foreign investors. This argument is built upon dependency theories that discuss how companies from the developed world strive to maximize profits and maintain growth and therefore target countries where local populations can be exploited. In this way, the developed world creates financial domination and keeps the poorest populations under control (Blanton & Blanton, 2007). Globalization has perpetuated this structure of core-periphery dependency whereby the resources and labour of the peripheral world are exploited by capitalist countries (Cardoso, 1982). In other words, globalization has increased FDI flows from the developed to the developing world. According to dependency theorists, in the long run, FDI reduces economic growth in these countries since an economy built upon foreigners creates exploitation of people and resources. Due to the continued underdeveloped status of these countries, they remain dependent on the developed world (Adegoke & Adeleke, 2014).

To prevent people from protesting against the inequality of the capitalist system, companies rely on the repressive mechanisms of host countries. As a result, host countries that want to attract foreign investments often violate human rights (Spar, 1999). Additionally, because of repression by the host country's government, investors could exploit the labour force without any resistance (Garriga, 2013). It is argued that human rights repression can create favourable treatment for foreign investors and decrease labour costs below the market equilibrium (Blanton & Blanton, 2007). Similarly, Falk & Koebel (2002) discusses how human rights violations allow a potential host country to receive more FDI by repressing economic disputes and providing lower wages levels. Some studies call this the 'race to the bottom' effect, where the desire to attract FDI creates an incentive structure that encourages

the host country to limit certain regulations on economic and civil rights and construct a suitable business environment for foreign investors (Blanton & Blanton, 2007).

Beyond the economic argument, some scholars build their theories on a different logic: the relationship between multinationals and host countries can be cooperative. Specifically, human rights abuses can reduce uncertainties for the foreign investor by creating a controlled labour force and repressing possible opposition parties (Roderik, 1996). Investors from authoritarian countries can, by investing in similar countries, support repressive governments capable of maintaining order (Garriga, 2013). Overall, the theory that human rights repressions are used to maintain low labour costs and political stability supports the argument that a poor human rights context attracts foreign direct investors.

3.1.2 Positive relationship – risk mitigating model

Most scholars in this field find a positive correlation between better human rights conditions and FDI inflows. Countries that abuse human rights tend to receive less FDI than countries that respect human rights. First, it has been argued that FDI is vulnerable to uncertainties, including poor government efficiencies and human rights violations. Abuses of human rights contribute to operation risks and uncertainties for investors, which can undermine economic prospects, thereby making investing in a country less attractive (Lewzuck, 2019). Conversely, having a well-established human rights regime could reduce risks for foreign investors by strengthening stability and predictability (Blanton & Blanton, 2007). Similarly, Farber (2002) discusses that the protection of human rights indicates that the host country prefers long-term growth, which signals investors that this government is less likely to be involved in unexpected opportunistic activities. Blanton and Blanton (2006) support this with the finding that the institutional quality of a state is positively related to FDI inflows. Respecting human rights complements political institutions and increases the level of FDI.

Furthermore, respecting human rights could create an environment that encourages the development of human capital and a more well-trained efficient society. This attracts FDI since foreign investors are interested in countries where they can draw upon a high-skilled labour force (Blanton & Blanton, 2007). Blanton and Blanton (2006) argue that a skilled labour pool has become increasingly important since FDI is expanding to all different kinds of industries. Additionally, labour rights violations may particularly deter foreign investors who have business models based on 'conflict free operations and the supply of high skilled

workers' (Egan, 2012). In the same way, Filippaios et al., (2017) found that there is a positive relationship between civil liberties and FDI, and this relationship is strengthened when human capital increases.

Moreover, any consideration of the direct effect of human rights on FDI must include the reputation or public image of foreign investors. When investing in countries that are known for their human rights abuses, foreign investors could damage the reputation of their companies or brands, called the 'spotlight phenomenon'. Additionally, when investors operate in such countries, people tend to think that investors are also engaged in human rights abuses (Spar, 1999 and Lewczuk, 2019). The global marketplace functions as an 'audience' where states are rewarded or punished for their policy choices. Respecting human rights can decrease the 'vulnerability of investors to the "audience costs" posed by public sensitivity to human rights abuse' (Blanton and Blanton, 2007, 144). As globalization increases the exposure to this marketplace, the relevance that this 'audience' imposes the human rights abuses, increase as well.

Furthermore, Vadlamannati et al. (2018) examined the effect on FDI inflows of countries that were being shamed by the UNHRCC for violating human rights. The authors found that foreign investors tend to avoid such countries. The UNHRCC has a unique and powerful position, and their resolutions might have a strong influence on investors as they punish countries that are repressing human rights. Similarly, Barry et al. (2012) showed that shaming by IGOs for human rights abuses generally proved to be negatively related to inflows of FDI and that this effect in the strongest for developing states given that those countries often have more to gain from FDI (Barry et al., 2012).

3.1.3 Hypotheses

As described in the literature section, there are two main theories on the relationship between human rights conditions and FDI inflows. First, there is the 'profit maximization theory', which suggests a negative relationship between human rights conditions and FDI inflows since the abuse of human rights reduces costs for investors and constrains the society. As the attitude among the international community and foreign investors is changing, scholars have increasingly found a positive relationship between human rights conditions and FDI inflows. Following the risk-mitigating theory, this relationship is built upon the risks considered by foreign investors on (1) their business operation abroad since a poor human rights context is often aligned with high (political) instability and uncertainties and (2) their reputational risk.

Moreover, the quality and skills of labour become more important compared to production by the cheapest possible labour costs.

Based on the most current academic evidence and international debate, this study considers the risk-mitigating theory to develop the first hypotheses:

H1: *There is a positive relationship between human rights conditions within a host country and the FDI inflows into this country.*

So, the better the human rights conditions in a host country, the higher their FDI inflows.

3.2 Home country's influence

Over the last decade, there has been a rapid increase in trade and investments facilitated by governments, multinationals, trade agreements, and financial institutions (Amnesty International, n.d.). While the previously discussed theory suggests that countries with higher human rights violations will receive less FDI, this does not hold for all cases. Among the top 20 host countries with the highest FDI inflows, there are several with poor human rights records, such as China, Brazil, and India (UNCTAD, 2019a). Additionally, Africa, the continent with the poorest human rights records, has experienced growth in FDI. While Africa's share of FDI inflows is still small compared to the global total; its share increased from 1.9% during the 2000s to 2.5% in 2017 (IDEUE, n.d.)

This study tries to explain this complexity by suggesting that the difference in institutional conditions between home countries causes a moderating effect on the relationship between human rights conditions and FDI inflows. In particular, the effect of human rights conditions on FDI is different for home countries with a low institutional quality compared to home countries with higher institutional quality. This argument is supported by empirical and theoretical findings.

Accordingly, the BRICS countries (Brazil, Russia, India, China and South-Africa) represented in 2017 around 10 % of the total FDI outflow in the world (Santiago, 2020). During the globalization wave in the 2000s, these countries introduced policies that stimulated their industrialization process and economic growth. Part of their success is owed to their outward FDI. Although these countries score high on indicators measuring economic performance, the BRICS' institutional conditions lag behind. Considering their scores for institutional quality on the World Bank Governance Indicators, they are ranked around 50 on almost all indicators (where 0 corresponds to the lowest rank and 100 to the highest) except

for Political Stability, on which almost all countries score far below average. Additionally, Russia scores below average on almost all indicators, and China scores especially low on voice and accountability (The World Bank, 2020).

Furthermore, China has by far the largest share in total BRICS FDI outflow. While increasing their FDI outflow over the past decade, China has concurrently acquired a poor reputation by investing heavily in countries with poor human rights conditions. Moreover, as part of the Belt and Road Initiative, China has invested heavily in the African continent where the majority of countries are lacking in respect for human rights (Roser & Herre, 2019). From 2013 to 2017, China's FDI stock in Africa increased by more than 50% (IDEUE, n.d.). Furthermore, in other countries with poor human rights records, such as Myanmar, South-Sudan, and Yemen, China is also the largest investor (UNCTAD, 2019b).

In contrast, with increased pressure from the international community and western countries specifically, FDI from the developed world to countries with poor human rights records is declining (IDEUE, n.d.). For example, while the US the UK, and France were always the largest investors in Africa, their shares declined heavily over the last four years. Additionally, while Europe had been the largest FDI contributor to Brazil for years, China is now the largest investor with $67 million as compared to $6 million from the Netherlands (UNCTAD, 2019b).

The following section will introduce the concept of institutional quality and presents the theory behind the reasoning above.

3.3 Institutional quality

It is important to first define the concept of institutions since it is quite ambiguous. Generally, institutions are described as the 'humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)' (North, 1991, 97). Institutional quality is generally measured by performance on indicators such as control of corruption, rule of law, and governance effectiveness. Countries with strong institutions generally score high on these indicators. Moreover, they have a well-developed rule of law and often a transparent government with an active civil society. In contrast, countries with poorer institutional conditions generally score lower. Often these countries are more autocratic and less transparent.

3.3.1 Distance

First, scholars argue that home countries prefer to invest in host countries with similar institutional conditions. Generally, this is explained as countries, when trading with or investing in another country, wish to minimise the physical or non-physical distance. This theory was established by studies on cultural distance. Cultural distance refers to the differences in how people from different countries view certain behaviour, which influences the extent to which practices and methods can be transferred to another country (Hofstede, 1980). Some found that cultural distance has a strong negative effect on FDI inflows since a larger cultural distance increases information and management costs (Grosse & Trevino, 1996). Others only noticed this effect in the case of companies from developed markets (Flores & Aguilera, 2007). This theory is expanded to the introduction of 'institutional distance'.

Scholars argue that investors are influenced by the institutional distance between their home countries and the host country to which they may be sending FDI. Investors originating from strong institutional countries seem more cautious about investing in countries with a weaker institutional environment, thus a larger institutional distance. As these home countries are used to more stable and high-quality institutions, they seek countries that share these characteristics. Additionally, these investors tend to struggle with less predictable political environments or non-market hazards, such as corruption, since they are not used to these circumstances (Aleksynska & Havrylchyk, 2013; Rao-Nicholson & Svystunova, 2020).

Conversely, investors from home countries with weak institutions are often used to political instability, corrupt practices, and low governance effectiveness and can therefore manage the institutional difficulties better (Malhotra et al., 2016). Cuervo-Cazurra (2006) confirmed this effect by demonstrating that the negative effects of corruption can be mitigated when the home country has high levels of corruption itself. This could be because these home countries have developed specific ways to deal with corruption and know how to operate effectively in corrupt (foreign) environments. Likewise, Li et al., (2018) discuss how political risks in host countries do not deter companies. In addition, characteristics of institutions in more developed host countries, such as strong labour rights and respecting human rights, can even challenge them (Marano et al. 2017). They lack experience engaging with high quality institutional practices and are therefore less attracted to countries where the institutional environment is strong (Fiaschi et al., 2017). Anwar & Iwasaki (2021) support this theory with

empirical findings by showing how the effect of the institutional quality of a host country on FDI inflows is lower for investments coming from home countries such as China and India that have poor institutional conditions themselves. Finally, in the specific case of human rights, Lewczuk (2019) found that when considering all categories of human rights, a greater human rights distance between countries decreases FDI inflows from home to host country.

In contrast, Gaffney et al. (2016) argue that these emerging market players need to compete with their more developed counterparts and therefore invest more in countries that are considered developed. This provides them with easier access to local competencies and knowledge. Moreover, poor governance in the origin country pushes companies to invest in countries with better institutional environments since they know how poor institutional conditions could be of hinder (Heavilin & Songur, 2020).

3.3.2 Reputation

The risk-mitigating model argued that investors consider the risk of reputational damage when they chose where to invest. However, the risk of this reputational damage differs between home countries. Home countries with strong institutions have a more professional and vocal civil society that raises certain expectations for companies. Often, investing in countries where human rights abuses take place is not accepted, and doing so could create reputational damage. In addition, since these countries' reputations are already high, there is more at stake compared to home countries with weaker institutions who do not need to uphold their reputation (Cuervo-Cazurra and Genc, 2011). Additionally, investing in countries with poor labour standards could create reputational damage to institutionally strong home countries since their labour unions have a strong position (Rao-Nicholson & Svystunova, 2020). Moreover, democracies, where institutional conditions are high, tend to care more about these reputational costs as they are highly committed to the rule of law. Particularly, these regimes have an active civil society, NGOs, a free press, and an independent judiciary, which increase the risk of reputational damage. Moreover, following the logic of appropriateness, human rights protection and protecting the rights of innocent and vulnerable people are considered the norm in such countries. Therefore, investors in these home countries would be more hesitant to invest in countries where human rights conditions are poor (Lewczuk, 2019).

3.3.3 Hypotheses

Overall, scholars suggest that the relationship between human rights conditions and FDI inflows is moderated by the institutional quality of a home country. Accordingly, there is a crucial difference between home countries with better institutional quality and those with poorer functioning institutions (Cuervo-Cazurra et al., 2018; Li et al., 2018; Rao-Nicholson & Svystunova, 2020). Investing in countries with poor human rights records often means investing in places with weak institutional environments and high uncertainty levels. As investors from home countries with strong institutions are not used to these conditions, they are less likely to invest in these countries. Moreover, these investors are more concerned about the reputational costs due to their more vocal civil society and transparency (Cuervo-Cazurra and Genc, 2011). Conversely, investors from countries with a low institutional quality are less concerned by poor human rights conditions in a host country since they are used to the uncertainties and are therefore able to manage these conditions better (Malhotra et al., 2016; Li et al., 2018). Additionally, audience costs are of minor relevance for these investors as the institutions in their country do not allow citizens to raise their voice.

Based on the above theory, the following hypothesis is created:

H2: *The positive relationship between human rights conditions in the host country and FDI inflows is strengthened for home countries with high institutional quality*

So, when a home country has higher institutional quality, there is a strong positive correlation between human rights conditions and FDI. Conversely, when the home country's institutional quality reduces, the relationship between human rights conditions and FDI is weakened.

3.4 Conceptual model

The conceptual model depicted in Figure 2 shows the hypothesized relationship between Human Rights Violations (X) and FDI Inflows (Y), suggesting the home country's institutional quality (M1) as moderating factor.

Figure 2.

The Conceptual Model
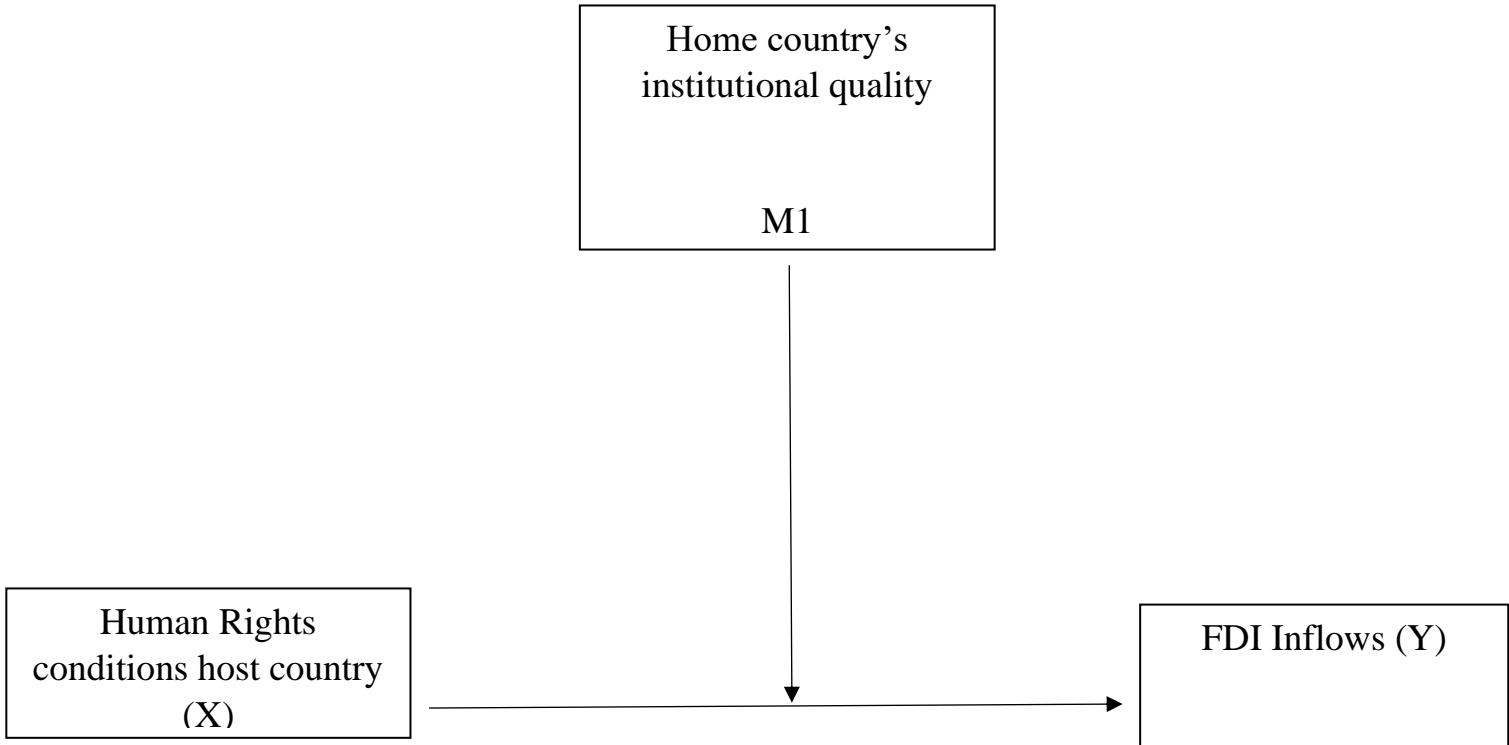
4. Research design

To test the hypotheses of this study, it is crucial to develop a convincing research design which describes how data will be collected and analysed. In addition, the research design should help answer the research question as conclusively as possible (Kellstedt and Whitten, 2018). This section starts by explaining the empirical model used in this research and discussing the multi-level regression model and moderation effect. Next, the operationalisation of the variables is addressed. This is followed by a presentation of the data and sample and a discussion of the compliance to the five assumptions of linear regression. Finally, the section discusses the validity and reliability of the research.

4.1 Empirical model

Since this study tries to answer the question '*How does the home country affect the relationship between human rights conditions and FDI inflows into the host country*?' which is explanatory in nature, it needs a design that enables the study to determine whether the explanatory variables induce an effect on the outcome variable and to rule out any other feasible explanations (Halperin & Heath, 2017). Accordingly, this study uses a quantitative research design. While qualitative research can be described as a process of research that tries to build a complex and holistic picture of a phenomenon, thereby developing or deepening a theory, quantitative studies try to examine aspects of phenomena which are based on testing a theory or establishing causal relationships. Additionally, quantitative research is concerned with the generalization of the research outcomes (Political Science Research, n.d.).

4.2 Multi-level linear regression

This research adopts a cross-sectional large-N design. This design refers to studies that collect and analyse data at one time period only. Moreover, this type of design contrasts with longitudinal studies, in which the aim is to collect data at different points of time to explore trends over time (Halperin & Heath, 2017). Since this study is not able to manipulate variables themselves, an experimental design is not suitable. A cross-sectional study is the best option here as this design allows for the analysis of multiple cases at one point in time. Additionally, this design makes it possible to test causal effects, and compared to experiments and longitudinal designs, cross-sectional studies are cheaper and easier to conduct (Shanahan, 2010). Moreover, this research builds upon existing studies on the effect of human rights protection on FDI inflows, which were discussed in Chapters 2 and 3. Many of these studies (Blanton & Blanton, 2007; Barry et al., 2012) used a cross-sectional approach to test the

hypotheses. However, in this type of design it is hard to say what happens before and after the data was collected (Shanahan, 2010).

To conduct the analysis, this study used a linear regression model since it can test whether there is a causal relationship. This model also allows the researcher to control for cofounding variables that can influence the tested causal relationship (Halperin & Heath, 2017). These factors were included in the analysis as *control variables.* The simple regression model is the following:

$Y_i = b_0 + b_1 X_i + e_i$,

Here, *b* represents the regression coefficient. Without considering the influence of a home country's institutional quality, X would represent human rights conditions within the home country, and Y would represent the FDI inflows. However, to conduct a simple regression analysis, observations within variables should be independent from each other. When this condition does not hold, a multi-level regression analysis is more suitable (Field, 2013). In this study, the FDI inflows to a host country (Y) depend on the human rights conditions of the host country but also on from which home country the FDI originates. Host countries that receive FDI from the same home country have something in common and are therefore not independent from one another. In Figure 3, home country A sends FDI to host country B, C, and D. These countries all share that they receive FDI from home country A, which indicates that the observations are not independent from one another. Therefore, a normal linear regression model is not suitable for this study. As a result, a multi-level regression model was adopted, which is an extension of the standard linear regression model.

To introduce variation among contexts (in this case home countries), random intercepts (or constants) are added to the linear regression model. This variability in intercepts is written as: u_{0j} where *j* reflects levels of the variable over which the intercept varies (home countries) (Field, 2013). As a result, the formula changes to:

$Y_{ij} = b_{0j} + b_1 X_{ij} + e_{ij}$,

$b_{0j} = b_0 + u_{0j}$

Now the model resembles an ordinary regression equation except the intercept has changed from fixed (b_0) to random (b_{0j}).

The next step is to add random slopes to the model. The model changes to the following:

$\text{Y}ij = b0j+b1j\text{X}ij+eij,$

$b0j = b0+u0j$

$b1j = b1+u1j$

Finally, this study attempts to measure a moderation effect which will be discussed more in detail in the following section.

Figure 3.

Multi-level Regression model
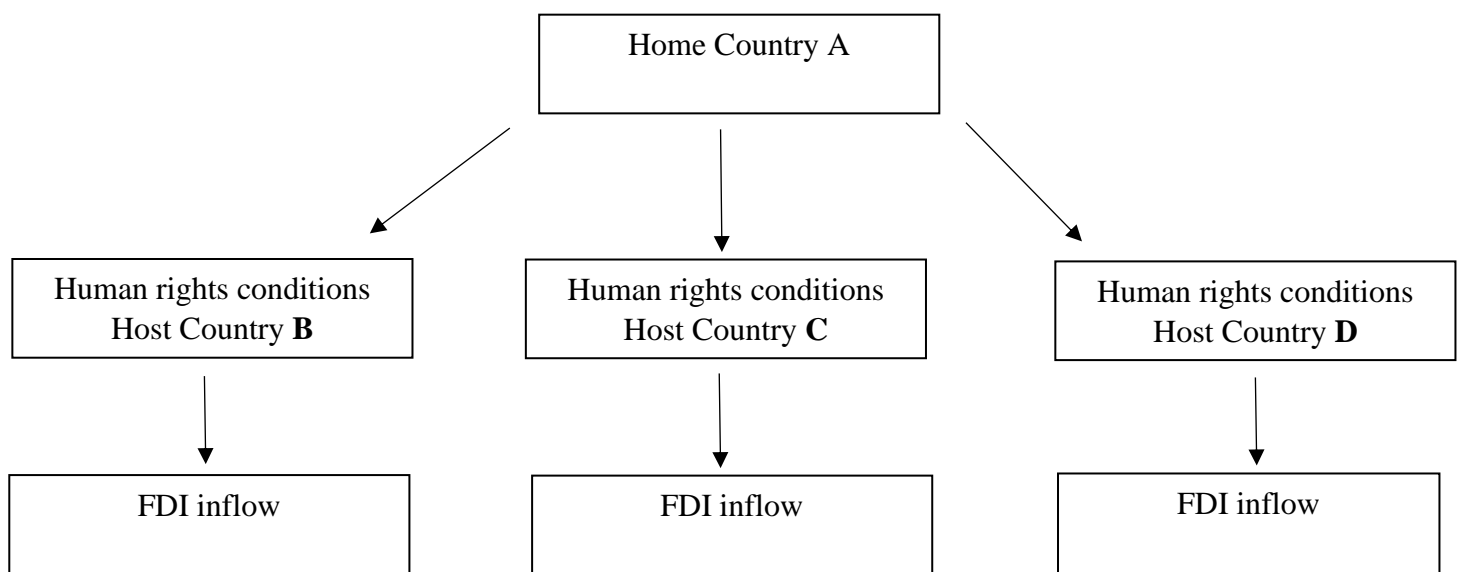
Table 1.

Variable levels

Level	Variable name
Level 1	Human rights conditions host country (PTS and HRMI)
	FDI inflow per home country (log)
	Control variables
Level 2	Home Country
	Home country's institutional quality

4.3 Moderation

This study conducted a moderation analysis. This analysis is useful when one desires to know whether a certain variable influences or is related to the size of one variable's effect on another (Hayes, 2018, p. 219). In other words, the effect of a certain variable X on Y is moderated by the moderating variable (M) when the size, strength, or sign of the effect is dependent or can be predicted by the moderation variable (Hayes, 2018). In statistical terms, moderation is where a relationship between a dependent and independent variable changes according to the value of the moderator (Memon et al., 2019). In most cases, these moderating factors are either based on the results of past studies or on theories (Memon et al., 2019). An exemplar of the moderation analysis is shown in Figure 4, including a dependent variable (Y), an independent variable (X), and a moderator (M). The arrow refers to the relationship between X and Y. Additionally, Figure 5 presents the statistical model of the moderation. What is different here is the inclusion of the interaction term X*M (Z). When testing moderation statistically, including an interaction term is crucial. This term represents the effect of the two variables (X and M) together. The model that tests for moderation is:

$Y_i = (b_0 + b_1 X_i + b_2 M_i + b_3 X M_i) + e_i$ (Field, 2013, 398).

Here, when X increases by one unit, the conditional effect of M on Y changes by b_3 units. Moreover, b_1 represents the association between X and Y when M, so the moderating variable is 0. Additionally, b_2 refers to the conditional effect, or simply the relationship between Y and M when X is 0 (Hayes, 2018).

This study includes the moderating variable: *institutional quality of the home country.* It is expected that, depending on the type of home country, the positive effect between human rights conditions and FDI inflows is strengthened or weakened. These hypotheses are based on relevant theories suggesting that the differences between home countries might affect the relationship between human rights and FDI inflows (Cuervo-Cazurra and Genc, 2011; Lewczuk, 2019; Rao-Nicholson & Svystunova, 2020). This is important because moderation research must be based on theory (Memon et al., 2019). Finally, the multi-level model allows for testing the moderation effect by adding an interaction term to the model. The overall model becomes:

$$FDI_{inflow} = b_{0j} + HRconditions_{ij} + Controlvariables_{ij} + IQhomecountry_{ij}$$
$$+ (HRconditions * IQhomecountry)_{ij} + e_{ij}$$

Figure 4.

Conceptual framework moderation

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                    ┌─────────────────┐
                    │    Moderator    │
                    │    Variable     │
                    │      (M)        │
                    └────────┬────────┘
                             │
                             ▼
┌─────────────────┐   ┌─────────────────┐
│    Dependent    │   │   Independent   │
│    Variable     │──▶│    Variable     │
│      (X)        │   │      (Y)        │
└─────────────────┘   └─────────────────┘
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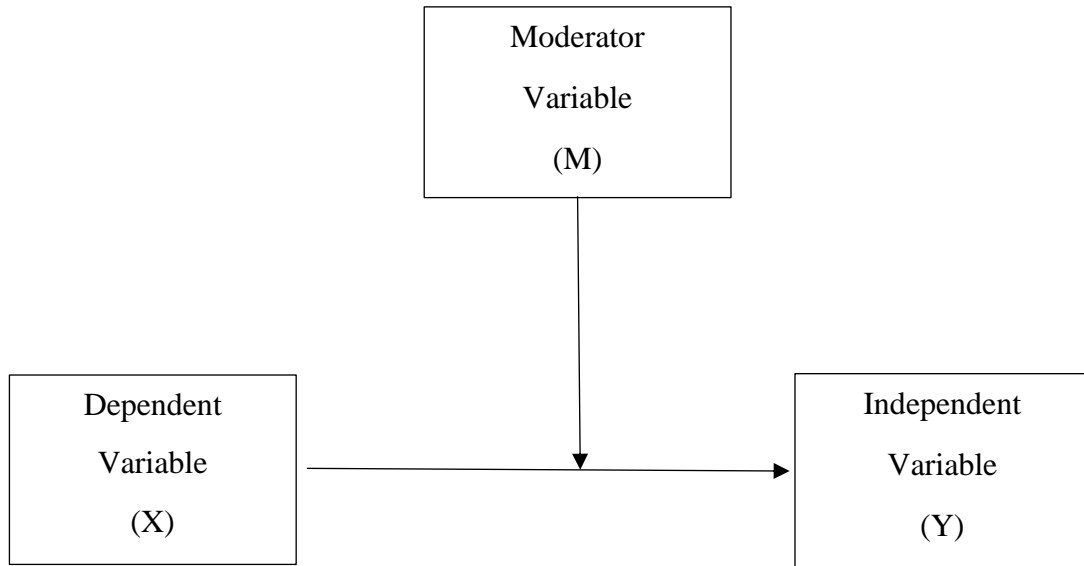
Figure 5.

Statistical model moderation

```
┌─────────────────┐
│    Moderator    │
│    Variable     │──────────┐
│      (M)        │          │
└─────────────────┘          ▼
┌─────────────────┐   ┌─────────────────┐
│   Independent   │   │    Dependent    │
│    Variable     │──▶│    Variable     │
│      (X)        │   │      (Y)        │
└─────────────────┘   └─────────────────┘
┌─────────────────┐          ▲
│   Interaction   │          │
│    Variable     │──────────┘
│    X*M (Z)      │
└─────────────────┘
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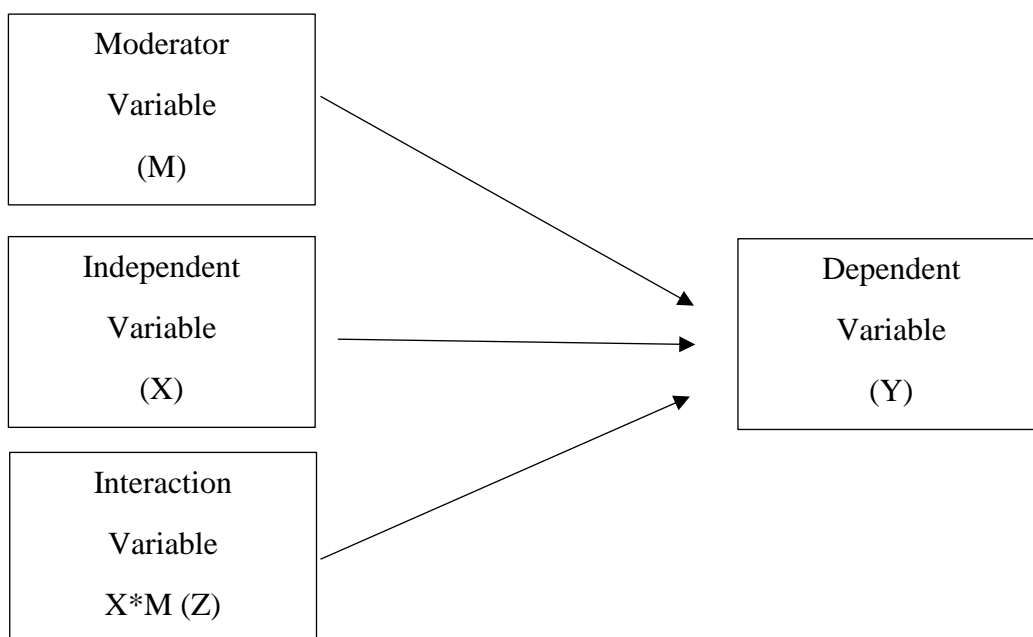
4.4 Operationalisation

To conduct the analysis in this study, it is important to turn the abstract concepts into specific operational definitions or measurable observations. Since concepts can be measured in several ways, this study elaborates on which operational definition is used and why this factor is included. Accordingly, the following section addresses the operationalisation of the dependent variable, the main independent variables, the moderation variables, and the control variables. All variables in this study are continuous.

4.4.1 Dependent variable: FDI Inflows

This research considers two variables to measure FDI inflows: *FDI inflows (total)* and *FDI inflow per home country*. As discussed earlier in this thesis, FDI is a category of cross-border investment where the investor has a certain degree of influence in the enterprise where it invests (OECD, 2019). *FDI inflow (total)* is measured as the total bilateral FDI stock received by a host country as reported in millions of US dollars (OECD, 2019). As the data on the origin of FDI for a certain host country, or in other words, the amount of FDI between a home and a host country, was not readily available, it needs to be derived from other data. The variable *FDI (outflow) per home country* was created by combining data from the variable *FDI inflow (total)* and data on the share (in %) of this total FDI inflow (to a host country) originating from a particular home country. By calculating the share from the total amount of FDI, it can be known how much of the total received FDI of a host country originates from a particular home country. At the same time this provides data on how much FDI and where this FDI, from a particular home country, is going to. Within the analyses, the variable: *FDI (outflow) per home country* is included as the dependent variable. This variable measures the amount of FDI (bilateral stock as reported in millions of US dollars) sent by a particular home country to a particular host country. In other words, this represents a host-home country pair. Finally, *FDI inflow total* is not included in the regression analysis.

Data on FDI inflows came from the United Nations Conference on Trade and Development (UNCTAD) database (UNCTAD, 2019a). This data corresponds to the statistical annexes of the World Investment reports created each year by UNCTAD (2020a). Data on the home country's share in FDI is also derived from these annexes[1]. In addition, the choice of measurement is based on previous comparable research, such as that of Garriga

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[1] This data is replaced every year when a new Investment report comes out. Since a new report was published during the writing of this thesis, the data may no longer be available.

(2013) and Barry et al. (2012). Moreover, this study consulted stock data as compared to flow data since this was the only available sort of data on the origin of FDI per home country. Stock here refers to 'the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises. It is approximated by the accumulated value of past FDI flows' (UNCTAD, 2019b). Furthermore, this study used aggregate data since there is no comprehensive data for all countries per industry and this data is of no relevance for the aim of this research.

4.4.2 Independent variable: Human rights conditions

As previously discussed, human rights are generally measured as physical integrity rights, economic and social rights, and civil and political rights. To measure human rights as comprehensive as possible, thereby adding on the content validity of this research, this study desires to use a variable that covers all three dimensions of the concept. Unfortunately, there is only limited data that includes a complete measurement of human rights conditions. Previous studies have used the CIRI human rights dataset, which is a comprehensive and reliable source. This dataset contains data on governments' respect for 15 internationally recognized human rights for 202 countries (Cingranelli et al., 2014). However, it only covers data up to 2010. To improve the relevance of this study, more recent data was used, including data from the Political Terror Scale (PTS), which measures the violation of physical integrity rights, and the Human Rights Measurement Index, which includes the measurement of five socio-economic rights (The Political Terror Scale, 2021; Human Rights Measurement Initiative, n.d.). Although this is more recent data, it is not a perfect measure of human rights conditions.

The Political Terror Scale (PTS) was developed by researchers from the University of North Carolina to measure political terror. The dataset contains data from 200 countries or territories from 1976 to 2020. Political terror is defined as 'violations of basic human rights to the physical integrity of the person by agents of the state within the territorial boundaries of the state in question' (The Political Terror Scale, 2021). In other words, the scale measures the violations of physical integrity rights, such as rape and sexual violence, torture, beating, and forced disappearance. Political terror is scaled from level 1 to level 5, with level 1 indicating low abuse and 5 indicating high abuse (see the PTS codebook for an extensive

description of what constitutes physical integrity rights and the coding scheme[2]). Furthermore, *political terror* in the PTS dataset is measured by three different indicators which are based on different sources. These sources include annual human rights reports published by (1) Amnesty International, (2) Human Rights Watch, and (3) the US Department of State (The Political Terror Scale, 2021). To make the analysis as complete and valid as possible, this research follows comparable studies (Blanton and Blanton, 2007) and takes the average scores of the three indicators to measure the human rights conditions per country[3].

The Human Rights Measurement Index (HRMI)
measures the fulfilment of five economic and social rights: the rights to education, food, health, housing, and work (Human Rights Measurement Initiative, n.d.). The data originates from objective sources, such as statistics on school enrolment or infant mortality. Moreover, the data shows how each country is performing on each right relative to what is feasible for this country based on its level of economic resources. Scores run from 0-100, indicating how much of a country's income is used to ensure the rights are fulfilled: 100 indicating 100% of the income and 0 meaning 0% percent of the income (Human Rights Measurement Initiative, n.d.). To conduct the analysis, the five different indexes were averaged and computed into one variable. The study acknowledges that the measurement of human rights conditions with the HRMI is quite new, and therefore the reliability of this source might be questioned.

This study chose to include two indicators (PTS and HRMI) to measure human rights to increase the content validity of the research. Especially with a broad concept such as human rights, it is important that the measurement of variables covers the full range of the concept. If both indicators measure the concept of human rights conditions, it is expected that they will be correlated. However, it is still interesting to see if there might be any difference between the two variables. Therefore, they are included in the analysis individually. Finally, the study chose to not include political and civil rights as indicators of human rights measurement to minimize the theoretical and empirical overlap with other control variable in the analysis. For example, the Freedom House civil liberty index could properly measure human rights conditions, but this variable overlaps with indicators that measure institutional

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[2] Gibney, M., Cornett, L. Wood, R., Haschke, P. Arnon, D., Pisanò, A., Barrett, A., & Park, B. (2021). *The Political Terror Scale 1976-2020.* The Political Terror Scale. Retrieved from: http://www.politicalterrorscale.org/.
[3] For observations where data was missing on one of the sources, only the average was obtained for those sources where data was available

quality and the level of democratic governance, which serve as control variables in this research.

4.4.3 Moderation variables

Home Country's Institutional Quality. As explained previously, this study explores the moderating effect of the institutional quality of different home countries on the relationship between human rights conditions and FDI. Theory suggests that home countries with strong institutions tend to be deterred by host countries with poor human rights conditions as they are not used to these environments and care about their reputational costs. In contrast, countries with weaker institutional conditions are less concerned by poor human rights conditions since they are better able to manage the disadvantages. Generally, institutional quality is measured by six indicators known as the World Bank's Governance indicators: control of corruption, political stability, rule of law, regulatory quality, voice and accountability, and government effectiveness. The World Bank defines governance as 'the process by which governments are selected, monitored, and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them' (The World Bank, 2015). Each indicator is based on individual indicators derived from 30 sources including citizens', experts', and enterprises' surveys. A full description of each of the indicators is provided in Table A.2. This study combines all six variables, thereby creating a new variable which includes the mean of all six indicators for each separate country. This averaged aggregate of the governance indicators ranges from -2.5 to 2.5 with a higher score indicating a better assessment based on the six indicators (The World Bank, 2015.). While most studies consider the World Bank Governance indicators the best proxy to measure institutional quality, it is also important to be aware of the critiques. Specifically, some argue that these indicators lack conceptual clarity and that the use of averages makes this problem even more significant (Thomas, 2009). However, since there is still no consensus on the concept of institutional quality, this issue is of less concern.

4.4.4 Control variables: market based

The theoretical part of this section suggests that several factors could be considered as FDI determinants, thereby influencing the amount of FDI inflows received by a host country. Since these variables provide an alternate explanation for FDI inflows, they need to be added as control variables within the analysis (Halperin & Heath, 2017). In this way, all determinants apart from human rights conditions can be excluded from the tested effect on

FDI inflows. Scholars in this field have identified a wide range of control variables which are extensively explained in the theoretical section. The selection of these variables within this study is based on previous research and on the availability of data.

Market size. As discussed earlier, scholars found that the market size of a country generally has a positive effect on FDI inflows. Countries with a large market tend to attract more FDI since it allows for economies of scale and a larger sales market. Comparable studies such as Garriga (2013) and Barry et al. (2012) have used the total population size to measure this variable. This data originates from the World Bank (World Bank, 2020).

Economic growth. While the results for the effect of economic growth are more mixed, most studies suggest a positive relationship between economic growth and FDI inflow. Economic growth represents greater consumer demand and purchasing power, which is attractive to foreign investors (Blanton and Blanton, 2006). This study adopts the general measurement method of economic growth, which is the annual GDP growth (%). Here GDP is defined as 'the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products' (The World Bank, 2021). Data originates from the World Bank (2021).

4.4.5   Control variables: non-market based
The non-market control variables are more ambiguous for studies, and therefore their validity is often more questioned. It is therefore crucial to consult measurement methods that are widely used by other scholars or that originate from reliable, unbiased institutions.

Institutional quality and political stability. As discussed earlier, most scholars suggest that the institutional quality matters in the amount of FDI received and good governance attracts investors Moreover, many scholars who examined the effect of political stability as an FDI determinant have found it to be an important positive factor for FDI inflows. To measure the effect of governance and political stability of host countries as control variables, this study consults the World Governance Indicators of the World Bank (2019). As previously described, these indicators measure the quality of governance or institutional quality of a single country. However, here each separate indicator (governance effectiveness, voice and accountability, rule of law, regulatory quality and political stability), is included in the analysis as a control factor, excluding 'control of corruption'. Since corruption is an important FDI determinant, it is crucial to control for this variable as much as possible, thereby

increasing the validity of the research. As a result, a different source is used to measure the level of corruption.

The Absence of Corruption. In the case of corruption, there are two contrasting theories. The 'sand and wheels approach' suggests a negative relationship between FDI and corruption. Conversely, the 'grease and wheels approach' argues that corruption has a positive effect on FDI. While corruption is also an ambiguous concept to measure, researchers have generally agreed about the most suitable measurement method. Accordingly, this study measures corruption using the Corruption Perceptions Index (CPI). This is an index which ranks countries 'by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys' (Transparency International, 2021). These surveys originate from reliable institutions such as the World Bank and Freedom House. The scale runs from 0 (highly corrupt) to 100 (very clean). Overall, the CPI is identified as a valid database since it strongly correlates with two other measurements of corruption: black market activity and overabundance of regulation. Due to the scale of the CPI this study uses the variable name: *The Absence of Corruption*

Democratic governance. The influence of regime type, and in particular democracy, is still debated. Scholars found a positive effect of democratic regime types on FDI inflows due to the generally certain investment climate in these regimes (Harms and Ursprung, 2002, Jensen, 2003). However, it can be argued that autocratic regimes tend to be more attractive as they provide a controlled opposition (Przeworski & Limongi, 1993). Based on other studies (Blanton & Blanton, 2006, Jensen. 2003) that tested the effect of regime type on FDI inflows, the measure of democracy is drawn from the Polity IV project database (Center for Systemic Peace, 2017). The Polity IV project collects data on authority characteristics for states, thereby examining qualities of democratic and autocratic authority in all institutions of government. The data captures this regime spectrum on a 21-point scale ranging from -10 (hereditary monarchy) to + 10 (consolidated democracy).

Table 2.

Operationalisation of the variables

Variable	Description	Source
Dependent Host Country's FDI) inflow per home country	The amount of FDI (bilateral stock as reported in millions of US dollars) sent by a particular home country to a host country	UNCTAD (2020)
Independent (Host country) Human Rights Conditions: Physical integrity rights	*Political Terror Scale* which measures the violation of physical integrity rights (0: low abuse – 5: high abuse).	The Political Terror Scale, (2021)
Human Rights Conditions: Socio-economic rights	*Human Rights Measurement Index* (HRMI) which measures the fulfilment of five economic and social rights. Scores from 0-100, indicating how well a country is using its income to ensure the rights are fulfilled.	Human Rights Measurement Initiative, (2020)
Moderation (Home country) Institutional quality	The averaged aggregate of the World Bank's six governance indicators ranges from -2.5 till 2.5, indicating the higher the score, the better the assessment it received from the six indicators.	The World Bank (2019)
Control (Host country)		
Market size	Total population of country	The World Bank (2022)
Economic growth	Annual GDP growth (%) compared to the previous year	The World Bank (2022)
Governance Effectiveness	See Table A.2.	
Rule of Law	See Table A.2.	
Voice and Accountability	See Table A.2.	
Regulatory Quality	See Table A.2.	
Democratic Governance	Examining qualities of democratic and autocratic authority in all institutions of the government. The scale runs from -10 (hereditary monarchy) to + 10 (consolidated democracy)	Center for Systemic Peace (2017)
Political stability	See Table A.2.	The World Bank (2022).
Absence of Corruption	*Corruption Perception Index:* rank of countries by their perceived levels of public sector corruption. The scale runs from 0 (highly corrupt) to 100 (very clean).	Transparency International, (2021)

4.5 Data and sample

This study is an observational study and therefore uses secondary data. The data was obtained from different open databases originating from several global institutions. For all data on FDI inflows, the UNCTAD databases were used. This organisation is a permanent body of the United Nations General Assembly and provides country analysis and technical assistance on issues within trade, investment, finance, and technology (UNCTAD, n.d.-a). Data on human rights conditions originated from the PTS project. Most control variables were measured using data from the World Bank, including the World Bank Development Indicators and Governance Indicators. Additionally, data from the Center for Systemic Peace (2017) and Transparency International (2020) were used.

The sample in this study included 92 host countries and 135 home countries. The sample of N = 3576 represents all included home-host country pairs. A list of all countries included can be found in the Appendix. The study could only include 92 host countries as the UNCTAD data on the origin of FDI only included data on a limited number of countries. Additionally, some home-host country pairs lacked data for at least one of the variables. To make the multi-level analysis less complex, this study included only the home-host country pairs which contained no missing values. This method is called case-wise or list-wise deletion. While this method is most suitable for the analyses in this study, it has some important weaknesses which need to be briefly mentioned here and are further explained in the limitations section (Field, 2013). First, the sample only includes countries that receive FDI. Countries that receive little or no FDI are not included even though they might be very valuable for the results. Additionally, countries with the poorest human rights conditions are often the ones for which data is lacking. This could create a bias within the sample. However, the sample still represents a set of various types of home countries and is therefore representative enough to be valid.

The time unit in this research is 2018. This period was chosen due to the availability of data on the most important variables. Additionally, data from 2018 pre-dates the COVID-19 pandemic. Collecting data from before the COVID-19 pandemic is desirable because it had a huge impact on international trade and investments (UNCTAD, 2020). Therefore, data from after the pandemic could have been influenced by this factor and could not be fully controlled for. However, the data on the home country's share in the total FDI inflow to a particular host country originates from 2020. Every year, the UNCTAD posts the World Investment report but updates the data from the previous report with recent numbers. Therefore, the data was

only available from 2020. Also, UNCTAD is the only source providing suitable data, so there was no alternative to using this data. It is assumed that the percentages from 2020 are comparable to those from 2018. Nevertheless, this assumption is a significant limitation of this study. Finally, the study only focusses on one year since the aim of the study is not to explore a pattern over time but rather to discover if a there is a moderating effect; therefore, it is not very meaningful to include several years within the analysis.

4.6 Assumptions

To conduct a proper regression analysis, it is crucial to test the five assumptions of linear regression: normality, linearity, multicollinearity, autocorrelation, and homoscedasticity. Normality indicates that the errors in estimation of Y are normally distributed. Non-normality can cause an incorrect rejection of a false null hypotheses, but in practice normality is often not met. Additionally, only heavy violations of the assumption may affect the validity of the results (Field, 2013; Hayes, 2018). Linearity assumes that the relationship between the dependent and independent variables is linear. Multicollinearity indicates that the independent variables within the analysis are not correlated. When two independent variables are correlated, there is no way to know which one of them causes a certain effect on the dependent variable. Autocorrelation refers to the relationship between residual errors. For a correct regression analysis, there should be no autocorrelation. Finally, homoscedasticity means that the variance of the error term is constant. When this does not hold, these situations are described as heteroscedastic. However, this is acceptable to a certain extent in the analysis (Hayes, 2018).

4.6.1 Normal distribution

To test whether the dependent variable is normally distributed, the Kolmogorov-Smirnov test and the Shapiro-Wilk test were performed. Here, a non-statistically significant result assumes a normally distributed variable. Since the p-value is < 0.001 for both tests, it cannot be assumed that the variable is normally distributed. Additionally, the skewness and kurtosis were checked. Both are greater than 1, which indicates a rightly skewed variable with leptokurtic values.

Figure 6.

Normality histogram FDI per Home Country
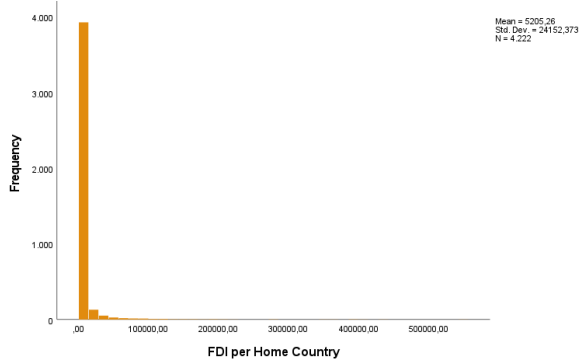
Table 3.

Variable distribution statistics

Variable	Kolmogorov-Smirnov	Shapiro-Wilk	Skewness	Excess Kurtosis
FDI (per home country)	0,415 p: 0,00	0,195 p: < 0,001	11,765	186,057

4.6.2 Linearity

This assumption was tested by the creation of scatterplots with the independent variables on the X axis and the dependent variable (FDI inflow) on the Y-axis. The scatterplots show that for most of the independent variables their relationship with the dependent variable (FDI inflow) is linear.

Figure 7.

Linearity Plots

A log transformation was performed to mitigate the violations of non-normal distribution of the dependent variable. This was done to gain relatively more valid results. A log transformation takes the logarithm of a set of numbers and squashes thereby the rights tail of the distribution. A log transformation is well-suited when a variable is positively skewed, has and has a positive kurtosis (Field, 2013). In this study, the dependent variable met all these criteria and was therefore logged. It is evident from Figure A.1. and A.2. that the transformed dependent variable was much more normally distributed as a result of the log transformation.

4.6.3 Outliers

The scatterplots show that there were outliers which distort the linear relationship. Specifically, some home-host country combinations had a very high level of FDI flow. By consulting the extreme values box (Table A.1.) the outliers within this model were identified. It was necessary to exclude these five outliers from the analysis to prevent any potential influence they may have had on the least square line, thereby creating an incorrect view of the relationship. Incorporating the outliers would require a more complex model structure but would in ultimately give a more realistic representation.

4.6.4 Autocorrelation

The easiest way to check the assumption of no autocorrelation is by conducting a Durbin Watson test. This can be done automatically in SPSS. All values between 1.5 and 2.5 are considered reasonable, assuming no autocorrelation. With a value of 1.764, this model did not violate the assumption of no autocorrelation.

Table 4.

Durbin-Watson Test

	Durbin-Watson
Model 1	1,764

4.6.5 Multicollinearity

To identify multicollinearity, the VIF and Tolerance scores of all variables should be determined. A VIF score higher than 10 and a Tolerance score smaller than 0.1 indicate multicollinearity. The variables government effectiveness and rule of law had VIF scores greater than 10. However, these variables were not the main explanatory variables. In

addition, the mean of the VIF scores was 6.04, thus still smaller than 10. Therefore, multicollinearity is no cause for concern.

Table 5.

Multicollinearity statistics

Independent variable	Variation Inflation Factor	Tolerance
PTS	3,47	0,288
HRMI	1,1	0,912
Market Size	1,12	0,897
Economic Growth	1,04	0,961
Government effectiveness	15,04	0,066
Regulatory Quality	6,52	0,153
Voice and Accountability	5,32	0,188
Rule of Law	20,84	0,048
Political Stability	3,12	0,321
Corruption Index	7,33	0,136
Democratic governance	1,57	0,635
IQ of home country	1,01	0,98

4.6.6 Homoscedasticity

It is important for the data to be homoscedastic. There are several ways to test this assumption. First, a scatterplot was made including the standardized residuals and standardized predicted value. Figure 8 shows that within this data, there is a form of heteroscedasticity since the points within the plot form a funnel shape by spreading increasingly out across the graph. Additionally, a Levene test on the main independent variables was conducted to check again for heteroscedasticity. The results of this test (Table 6) show that for the PTS variable, the significance value for the mean was less than 0.05, indicating a significant difference between the variances and no homoscedasticity ($F[14.3565] = 8,09, p < 0.001$). Additionally, for the HRMI variable, the significance value was higher than 0.05, which suggests roughly equal variances ($F[90.3489] = 0.83, p = 0.877$).

However, cross-sectional studies often have very large or very small values in the data and are therefore more likely to violate the assumption of homoscedasticity. For the current

study, the violation of this assumption is acknowledged and further elaborated upon in the analysis and limitations section.

Figure 8.

Standardized Residual plot of FDI per home country
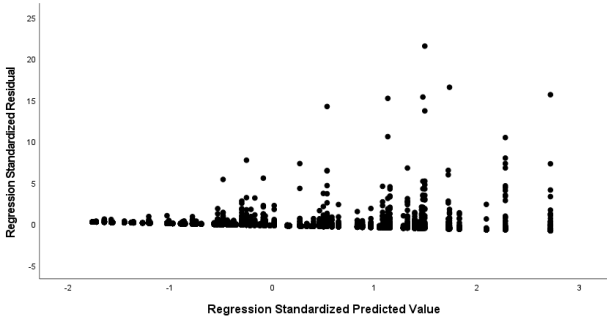
Table 6.

Testing for heteroscedasticity

FDI Log	Levene Statistic	
Based on Mean	8,09**	0,829
Based on Median	7,97**	0,627

Before moving on to the following sections, it is important to acknowledge that this study violates some of the assumptions. Accordingly, the study includes a robustness test at the end of the analysis to correct for the violations as much as possible.

4.7 Reliability and Validity

It is important that research is valid and reliable. If the data itself is not reliable or valid, it is likely to be misleading in a way. Reliability assesses whether measurements are stable over repeated measurements (Halperin & Heath, 2017). This study meets this requirement because the data for each variable is taken from official international sources, such as the UN, the World Bank, and several research projects. These institutions are considered experts in providing data and have been consulted by many prior researchers, which makes them reliable.

The issue of validity concerns defining concepts in a proper way and ensuring suitable indicators are used for the concepts so that the study measures what it was designed to measure. There are several types of validity. Face validity refers to 'whether there is a broad agreement that the indicator is directly relevant to the concept' (Halperin & Heath, 2017, 171). The indicators used in this research confirm face validity as they, to a certain extent, do not deviate from the concepts used in this research. For example, the concept democracy was measured by the level of democratic governance, and corruption was measured by the corruption perception index.

The measurements also need to comply with content validity, which indicates whether the measurement of the variables covers the full range of a concept (Halperin & Heath, 2017). This study attempted to comply with this requirement by carefully choosing indicators that measure concepts as broadly as possible. For example, for the broad concept of human rights conditions, two indicators (the PTS and HRMI) were used to cover the whole concept. While some variables, such as democracy, seem quite narrowly covered, this is done to prevent overlap with other concepts and variables.

It is also important to consider construct validity, which relates to the assessment of the suitability of the measurement source and tool to measure a particular variable (Halperin & Heath, 2017). To comply with this assumption, the study used data from a broad range of sources, such as expert, citizen, and enterprise surveys from think thanks and IOs. Variables were also measured using the most suitable measurement tools suggested by theory.

Finally, this research should comply with the assumption of criterion validity, which concerns to what extent the outcomes of the study are like other comparable research outcomes (Halperin & Heath, 2017). However, only a few other studies considered the influence of home countries on the relationship between human rights conditions and FDI. As a result, the outcomes of this study can be compared with those of other studies only to a limited extent.

Moreover, it is crucial to discuss the external and internal validity of the research. External validity concerns the extent to which the results can be generalized (Halperin & Heath, 2017). This study included all countries for which data was available to make the research as generalizable as possible. However, due to limited data access, only a limited number of countries were analysed in one particular year. Although this weakens the external validity, the sample still covers several types of countries, thereby eliminating sample bias as

much as possible. Internal validity addresses the issue of causality and questions whether the effect on the dependent variable was caused by the main independent variable and not by other factors. To increase the internal validity of this study, it included several control variables within the analysis. While it could not include all possible interrupting variables or fully exclude all confounding factors, it attempted to use the most relevant ones, based on theory.

5. Analysis

This chapter presents the results of the analysis. First, it provides an overview of the descriptive statistics for all variables. This is followed by a presentation of the results of the first regression model where the multi-level aspect is yet not included (Model 1). Thereafter, the multi-level regression analysis is discussed (Models 2 and 3). Model 4 tests the moderation effect of institutional quality of the home country on the relationship between a host country's human rights conditions and FDI inflows. The final part of the Analysis section presents a robustness check and a test without the BRICS countries included. All analyses were executed in SPSS.

5.1 Descriptive Statistics

Table 6 presents the descriptive statistics for each variable. Overall, the analysis included 135 home countries and 92 host countries in 2018. This resulted in 3576 pairs. It is clear from these numbers that the FDI variables had a wide range, even when the outliers were already taken out. Market size, which was measured by the population size, naturally had a wide range as well. Since FDI per home country was the dependent variable in this analysis, it was necessary to apply a log transformation. Accordingly, the FDI per home (log) variable had a much smaller range. All other indicators had ranges that were in line with the scores determined by the data sources, creating confidence that the data were entered correctly. However, the voice and accountability and political stability variables reached up only to 1.53 and 1.70, which indicates that the analysis did not include countries that score high on these variables (i.e., countries that are highly politically stable and have well-developed voice and accountability systems) or that the World Bank, which is the source of the data on these variables, scores countries relatively low compared to the other governance indicators. Similarly, the HRMI had a minimum of 48.83, meaning that this sample did not include countries that score very low on the Human Rights Measurement Index or that that when the data was collected, no country received a low score. This issue could potentially create a bias within the sample. However, from the original datasets where still all countries were included, it is evident that every country reives a relative low score from the World Bank on these indicators. Additionally, the HRMI original dataset shows that no country has received a low score (with a few exceptions). It can therefore be concluded that there is no bias within the study's sample. Finally, the correlation results in Table 6 show that the variables 'Political Terror Scale' and 'Human rights measurement index', are positively correlated. However, this

effect is not-statistically significant (P > 0,05), meaning that the indicators to measure human rights conditions measure different dimensions of the concept.

Table 7.

Descriptive statistics

Variable	Observations	Minimum	Maximum	Standard Deviation	Mean
FDI per home country	3576	0,09	280918,09	4573,73	17239,66
FDI_inflow (Total)	3576	0,00	7333453,00	253522,45	839630,6622
FDI per home (Log)	3576	-2,45	12,55	5,71	2,53
Average PTS	3576	1,00	5,00	2,39	1,1
HRMI	3576	48,83	99,33	82,34	12,99
Market size	3576	17911	1402760000	61025260,13	215626821,4
Economic growth	3576	-4,81	9,03	3,19	2,38
Government effectiveness	3576	-2,43	2,23	0,29	0,95
Regular Quality	3576	-1,23	2,13	0,24	0,86
Voice and Accounatability	3576	-1,70	1,70	0,24	0,86
Rule of Law	3576	-2,33	2,08	0,20	0,98
Political Stability	3576	-2,44	1,53	-0,03	0,91
Corruption	3576	20	88	49,44	18,86
Democratic governance	3576	-66	10	5,78	8,58
Institutional Quality home countries	3576	-1,91	1,77	0,66	0,82

Table 8.

Pearsons' R Correlation matrix with PTS and HRMI

Variable	PTS
HRMI	0,255

5.2 Linear regression analysis

5.2.1 Model 1

The analysis was executed by ignoring the hierarchical or multi-level structure of the data. Both main independent variables, PTS and HRMI, were tested in two separate analyses to determine the exact effect of each variable on the dependent variable without the influence of the other. As a result, the same analysis was conducted twice with a different variable to measure human rights conditions. The FDI determinants as discussed in the theory section are included as control variables in both analyses.

The results are presented in Table 9.A and Table 9.B under model 1A and 1B. All A tables and models represent measurement of human rights conditions using the PTS, and all B tables and models represent measurements from the HRMI. The output of Model 1.A. shows that the effect of PTS was positive and statistically significant ($b = 0.741$, $p < 0.001$). This indicates that the higher a country scored for political terror (poorer human rights conditions), the more FDI it received. The study assumed here that the effect is symmetrical so that countries scoring lower on the PTS (having better human rights conditions) received less FDI. Since the dependent variable is transformed with the log function, the coefficients cannot be directly interpreted. With the exponential function the log formula can be inversed so that the size of the effect can be determined. The transformed coefficients can be found in Table A.3 of the Appendix. These results show that the coefficient is 1,09 which indicates that for every one unit increase of PTS, the FDI inflow per home country increases with around 109 %. Although this seems an extraordinarily high number, it is a reasonable outcome if you consider that the PTS scale comprises only five possible values and therefore 1 point increase is relatively substantial. Furthermore, market size, government effectiveness, regulatory quality, and voice and accountability had a positive effect on FDI inflows. The effect of the former three variables is also relatively large. Interestingly, economic growth, rule of law, political stability, the absence of corruption and democratic governance all had a negative effect on FDI inflows. The effect of the latter three variables is small. All independent variables were strongly statistically significant ($p < 0.001$) except for the democratic governance, which had a weak but still significant effect ($p < 0.05$).

The results of Model 1.B in Table 9.B. show a positive and statistically significant effect of HRMI and FDI inflow ($p < 0.05$). All control variables had similar effects as in Table 9.A. Only voice and accountability had a negative and non-significant effect.

Table 9.A.

Regression Analysis with the PTS as main explanatory variable

	Model 1.A		Model 2.A		Model 3.A		Model 4.A	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	3,72**	1,36	3,23**	0,27	3,14**	0,27	2,87**	0,28
PTS	0,74**	0,06	0,73**	0,05	0,73**	0,05	0,84**	0,06
Market Size	1,01 **	0,00	1,0**	0,00	1,01**	0,00	1,01**	0,00
Econ Growth	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01	-0,06**	0,01
Government effectiveness	1,46**	0,15	1,4**	0,13	1,39**	0,13	1,37**	0,10
Regulatory Quality	1,67**	0,11	1,75**	0,09	1,73**	0,14	1,75**	0,14
Voice and Accounatability	0,46**	0,1	0,35**	0,08	0,35**	0,08	0,37**	0,08
Rule of Law	-0,84**	0,17	-0,9**	0,15	-0,9**	0,15	-0,88**	0,15
Political Stability	-0,41**	0,07	-0,39**	0,06	-0,39**	0,06	-0,38**	0,06
Corruption Index	-0,01**	0,01	-0,01**	0,00	-0,01**	0,00	-0,01**	0,00
Democratic Governance	-0,02**	0,01	-0,02*	0,00	-0,02*	0,00	-0,02*	0,00
Level 2: Home country level								
IQ of home countries					0,59**	0,1	1,00**	0,14
Random Cross-level interaction IQ*PTS							-0,15**	0,04
Model Fit Variance estimates Residual	4,6**		3,72**		3,54**		3,52**	
Intercept			0,86**		0,60**		0,6**	
Deviance (-2LL)	15662,55**		14942,53**		14913,70**		14898,76**	

Note: Model 1 represents a standard linear regression, Model 2 represents the multi-level analysis with only Level 1 variables, Model 3 includes Level 2 variables, and Model 4 represents the multi-level analysis with a moderation test.

** Correlation is significant at the 0,01 level (2-tailed).

* Correlation is significant at the 0,05 level (2-tailed).

Table 9.B.

Regression Analysis with the HRMI as main explanatory variable

	Model 1.B		Model 2.B		Model 3.B		Model 4.B	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	5,35**	1,40	4,91**	0,35	4,8**	0,30	5,29**	0,34
HRMI	0,01*	0,00	0,01*	0,00	0,01*	0,00	0,00	0,00
Market Size	1,35**	0,00	1,4**	0,00	1,4**	0,00	1,4**	0,00
Econ Growth	-0,06**	0,02	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01
Government effectiveness	1,54**	0,15	1,55**	0,13	1,59**	0,13	1,57**	0,13
Regulatory Quality	1,62**	0,11	1,71**	0,1	1,69**	0,1	1,71**	0,1
Voice and Accounatability	-0,08*	0,08	-0,15	0,07	-0,17	0,08	-0,17	0,08
Rule of Law	-0,83**	0,17	-0,9**	0,15	-0,89**	0,15	-0,89**	0,15
Political Stability	-0,76**	0,06	-0,73**	0,06	-0,73**	0,05	-0,72**	0,05
Corruption Index	-0,02**	0,01	-0,02**	0,00	-0,02**	0,00	-0,02**	0,00
Democratic Governance	-0,01**	0,00	-0,01*	0,00	-0,01*	0,00	-0,01*	0,00
Level 2: Home country level								
IQ of home countries					0,6**	0,1	0,202	0,26
Random *Cross-level interaction*								
IQ * HRMI							0,005	0,003
Model Fit *Variance estimates*								
Residual	4,79**		3,54**		3,72**		3,72**	
Intercept			0,84**		0,62**		0,18	
Deviance (-2LL)	15813,67 **		15126,59**		15098,66**		15125,07	

5.3 Multi-level analysis

This section explains the results of the multi-level analysis separated into different models. First, Model 2 tested whether the use of a multi-level model was appropriate. Model 3 accounts for the Level 2 predictor institutional quality of the home country. Finally, Model 4 represents the cross-level interaction model, which tests the moderation effect of institutional quality of the home country.

5.3.1 Model 2

Before introducing the multi-level aspect to the model, it is crucial to test if there is *clustering* in the data. This would indicate that a multi-level analysis must be conducted to test the desired effect. Models 2.A and 2.B reflect the results of the model in which the Level 1 predictor is fixed but there are randomly varying intercepts. In other words, the relationship between human rights conditions in the host country and FDI inflows is being modelled as constant across the home country. The appearance of clustering can be checked by the level of significance of the variance estimates. The results of Model 2.A and Model 2.B show that there is significant variation in the residuals of the Level 1 and 2 variables, and thus the data is clustered ($p < 0.001$). Therefore, it was desirable to use a multi-level regression model.

Finally, by allowing the intercepts to vary, the model created also new regression parameters. For the Political Terror Scale, this is 0,729 compared to 0,741 in the previous model. Additionally, the HRMI variable is 0,0054 within this new model. Both effects are statistically significant ($p < 0,001$). Also, all control variables have comparable coefficients and are also all statistically significant. The only exception is 'Voice and Accountability' which is still non-significant ($p > 0,05$). While the coefficients and p values in both models are comparable, still, ignoring the hierarchical structure of the data would end up in reaching somehow different results.

5.3.2 Model 3

In the first models, it was assumed that there was no information about the characteristics of the home country variable. Next, the Level 2 predictor, institutional quality of the home country, was added as an extra fixed effect to the model. This institutional quality is the same for a particular home country but varies for different home countries. Table 6 shows that for both Model 3.A. and Model 3.B, the institutional quality added a significant contribution to the FDI inflows into the host country ($p < 0.01$). In addition, this contribution was positive, which indicates that the higher the institutional quality was in a particular home country, the more FDI a host country received.

5.4 Moderation

5.4.1 Model 4

The final model considers the interaction term, or the moderation effect of the institutional quality of a home country on the relationship between human rights conditions and FDI inflows into the host country. Recalling the statistical model this is the following:

$$FDI_{inflow} = b_{0j} + HRconditions_{ij} + Controlvariables_{ij} + IQhomecountry_{ij}$$
$$+ (HRconditions * IQhomecountry)_{ij} + e_{ij}$$

This model includes variation in the slopes for human rights conditions across home countries as a function of the home country type variable (institutional quality). In particular, the interaction effect tests to what extent the relationship between human rights conditions and FDI inflows varied based on the institutional quality of home countries.

Model 4.A shows that the PTS variable, the institutional quality of a home country, and the interaction term were all statistically significant ($p < 0.01$). The interaction term represents a negative effect. This indicates that the institutional quality of a home country weakened the positive effect between PTS and FDI inflows. Specifically, the positive relationship between PTS and FDI inflow (i.e., poorer human rights conditions increase FDI inflow) becomes weaker when the home country's institutional quality improves. This can also be observed in Figure 9. where the slope of the red line is less steep than the slope of the other lines the amount of FDI is fluctuating very slightly when the PTS score increases. The red line is also for every value of the PTS, above the other lines, meaning that home countries with a very high institutional quality also send the greatest amount of FDI. Moreover, the figure shows that in all the cases, PTS and FDI inflow have a positive relation which can be

noted by the fact that the slopes are all positive. Additionally, it is interesting to note that the higher the PTS, the less the IQ influences this relation. This can be seen as for a higher PTS, the lines are closer, meaning the FDI will be roughly the same, regardless of the PTS. Finally, the regression formula can be expressed for different values of the Institutional Quality. Based on the results of Model 4.A, thereby omitting the control variables, the formula is

$$FDI_{infow} = 2.87 + 0.84PTS + 1.0IQ - 0.15PTS * IQ$$

When the IQ is -2,5 the formula transforms to '0,37 + 1,215PTS' and when the IQ is at its highest, so 2,5, the formula is '5.37 + 0.465PTS'. This confirms that for all levels of Institutional Quality, the relationship between PTS and FDI inflow is positive.

Table 9.B shows a positive effect between the interaction term and FDI inflow. However, this effect was non-significant $(p > 0.05)$. Additionally, the effect between institutional quality and FDI was non-significant $(p > 0.05)$. This means that it cannot be assumed that there was an interaction effect; the institutional quality of a home country had no moderating effect on the positive relationship between human rights conditions (when measured as HRMI) and FDI inflow.

Considering the fit of the model, which can be observed by the Log-likelihood value (-2LL), the -2LL of Model 4.A was 14898.456 (df = 3). Compared with Model 3.A (-2LL = 14942.528), the change was 44.1. The X2 (3) = 44.1 was statistically significant. Therefore, this final model was an improvement compared to the previous model and thus best fits the data. This was also confirmed by the covariance parameters, which are statistically significant $(p < 0.01)$. Finally, the -2LL for Model 4.B was 15125.074 (df = 3), which was higher compared to the previous model (15098,66). To conclude, the final Model 4.B fits the data less well compared to Model 3.B.

5.4.2 John Neyman
Ideally this study would have conducted a John-Neyman test which was created to evaluate the group mean difference at each level of the variable of interest and to determine at which levels the group mean differences are (non) statistically significant. Within a moderation analysis the J-N interval provides the values of the moderation variable at which the slope of the explanatory variable goes from significant to non-significant (Hayes, 2018). This is interesting as it is then known at which value of the institutional quality of home countries, its moderating effect is not anymore significant. However, this test is generally applied in

PROCESS which is a tool in SPSS used for moderation analyses. Since this research used a multi-level model, it was not possible to use the PROCESS tool. Therefore, it is assumed that at every value of the institutional quality there is a moderating effect, and conclusions are drawn based on these findings. These conclusions might not be completely reliable as the J-N test is missing, which is considered a limitation of this research.

Figure 9.

The moderation effect of Institutional quality on the relation between Human Rights conditions and FDI inflow
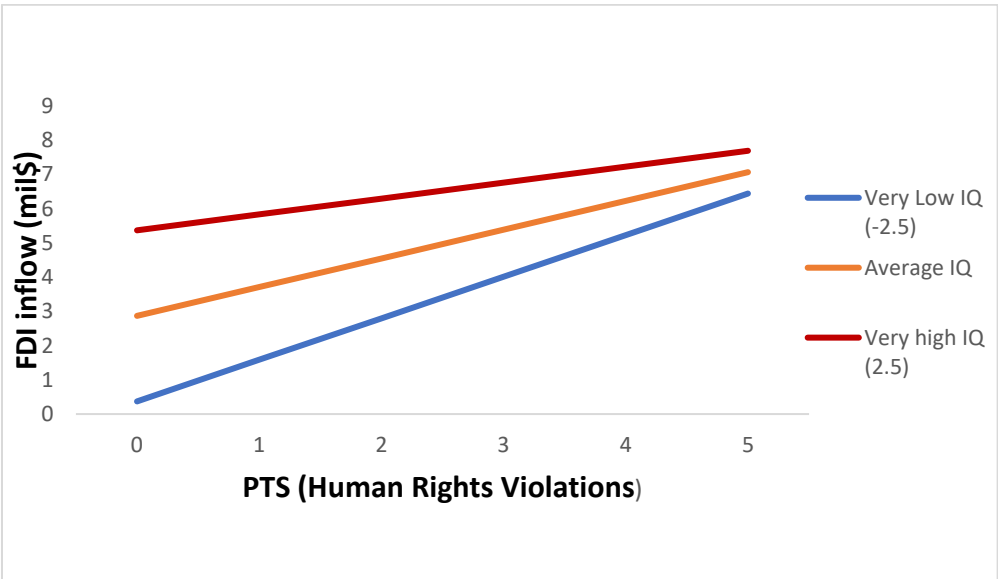
5.5 Robustness Check

The previous chapter discussed that this study violates some of the important assumptions of linear regression analysis. While the log function helped overcome the violations of normal distribution and linearity to a great extent, the issue of heteroscedasticity is still present. Consequently, this could create 'invalid significant tests, confidence intervals, and generalization of the model' (Field, 2013, 350). By using robust methods, these problems can largely be overcome. In this case, the bootstrapping method was used to generate confidence intervals and significance tests. Particularly, bootstrapping treats the sample data as population from which smaller samples are taken out and re-estimates the standard errors. This process is then repeated around 2,000 times. Because this method does not rely on the assumptions of normality and homoscedasticity, the results could be considered as good estimates for each predictor's value of *b*.

The results of the bootstrapping test for all models can be found in Table … These show that for Model 1.A and 1.B, all coefficients and p values were similar compared to the previous model, except for democratic governance which after bootstrapping was not statistically significant ($p > 0.05$). Also, for Models 2, 3 and 4 (A and B) results are comparable with the results before bootstrapping was applied.

5.5.1 Excluding the BRICS

As previously discussed in the theory section, BRICS countries are generally not deterred by poor institutional conditions in host countries when choosing where to invest. As a result, the presence of these countries within the analysis could create a bias. In particular, the sheer size of their FDI outflow could 'dominate' the results. Therefore, it is interesting to run the analysis and exclude the BRICS countries (as home countries) to see if this has any effect on the results. In other words, are the BRICS driving the results or do they behave similarly to the rest of the countries. Table A.7 and A.8 show that when excluding the BRICS as home countries from the analysis, the results for all models were like the previous models in which these countries were included. This indicates that the BRICS are not dominating the previous results.

6. Discussion

This thesis examines the effect of human rights conditions within a particular host country on the FDI inflow to this country. Additionally, it studies the moderation effect of the home country's institutional quality on this relationship. The following two hypotheses were tested:

H1: *There is a positive relationship between human rights conditions within a host country and the FDI inflows into this country.*

and

H2: *The positive relationship between human rights conditions in the host country and FDI inflows is strengthened for home countries with high institutional quality.*

This chapter discusses the results of the analysis through the perspective of previously examined literature. First, the chapter addresses the results of the first four models of the multi-level analysis divided into sections on each of the main independent variables. This is followed by an extensive discussion of the results of the moderation test. Finally, the chapter briefly addresses the analysis without the BRICS countries.

6.1 Linear regression analysis

6.1.1 Human rights conditions
To briefly turn back to the results of the first models, a positive statistically significant effect is observed between the PTS and FDI inflow, meaning that the poorer the human rights conditions, in the form of physical integrity rights, the more FDI inflow this country receives. In contrast, a small positive statistically significant relation was observed between the HRMI variable, human rights measured as socio-economic rights, and FDI inflow. This indicated that better human rights conditions within a host country increased the FDI inflow to this country. Both effects were confirmed after the robustness tests. These results suggest that the first hypotheses could only be partially confirmed.

The observed positive effect between the PTS and FDI inflow goes against the theoretical expectations of this study. Specifically, these results support the profit-maximization theory, which suggests that poor human rights conditions, in the form of political terror of the government and the violation of physical integrity rights could attract foreign investors. The violation of physical integrity rights often goes in line with the

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repression and exploitation of people which could provide a favourable context of low labour costs, and a controlled opposition to foreign investors (Roderik, 1996; Spar, 1999). This contrast earlier expectations that foreign investors prefer (political) stable regimes with a certain investment climate.

Conversely, the positive effect between socio-economic rights and human rights conditions is in line with the theoretical expectations, supported by the risk mitigating model. As discussed earlier, respecting human rights could create an environment that encourages the development of human capital and a well-trained labour force. Moreover, labour rights violations may deter foreign investors as companies with business models based on conflict free operations and high skilled workers, prefer proper working conditions (Garriga, 2013; Blanton & Blanton, 2006). Additionally, when housing, food, or healthcare are absent for employees, companies might need to provide these themselves when investing in such countries, which creates potential obstacles (Blanton & Blanton, 2006). The findings in this study comply to these ideas and confirm that home countries might benefit more from well-developed socio-economic rights in the host country.

Finally, considering the risk of reputational damage when investing in a host country with poor human rights conditions, the results of this study confirm that investors might be more concerned by the reputational damage when operating in countries that violate socio-economic rights. In contrast, companies tend to care less about the reputational costs that may arise from investing in countries where the population is repressed, and physical integrity rights are violated.

To summarize, the political dimension of human rights has a different effect on FDI inflows compared to the socio-economic dimension. When deciding to invest companies are not deterred by physical integrity violations and prefer the benefits of political terror in the form of a controlled opposition and low labour costs, above its disadvantages. In contrast, poor socio-economic rights conditions deter them as companies are more concerned by human capital, proper working conditions and the potential costs that can arise when these rights are underdeveloped.

6.1.2 Control variables

The effect of the FDI determinants, or control variables, are in both Models A and B similar. The only exception is 'voice and accountability' which has a significant positive effect when human rights are measured with the PTS and a non-significant negative effect

when the HRMI was used.

First, the positive and significant effect of the market size on FDI inflows aligns with the assumption that larger markets allow for economies of scale and greater sales markets, which attract more FDI. Likewise, voice and accountability (only with the PTS), government effectiveness, and regulatory quality were positively and significantly related to FDI inflows, thereby confirming the theoretical expectations that the institutional quality matters in the amount of FDI received (Demirbag et al. 2007; 2010; Bartels, Napolitano, & Tissi, 2014). Moreover, the latter two had a strong effect. The strong effect of regulatory quality is in line with previous findings. These state that a better regulatory quality means favourable policies and an attractive business climate for investors which increases FDI. Finally, the results on the effect of government effectiveness might not be reliable as there is multicollinearity in this variable.

Remarkably, rule of law and political stability had a negative effect on FDI inflows, meaning poorer rule of law and higher instability increased FDI inflows, which contrasts with previous theoretical findings. This unexpected result might imply that the scores for rule of law and political stability in the selected countries were relatively low. Considering the descriptive statistics of the former variable, the range seems normally divided, and the average is also normal. However, as previously mentioned, the political stability variable ranged only to 1.53, which might imply that the sample of this research only included countries that are politically unstable. In turn, this might account for the observed negative relationship. Additionally, the multicollinearity score of the rule of law variable suggested that there was a high correlation with one of the other variables. Consequently, the results for this variable might be unreliable.

Similarly, economic growth has a negative and statistically significant effect on FDI. While these results are surprising, they can be explained through a particular theoretical perspective. It has been argued that a positive correlation between economic growth and FDI can only be found in developed countries (Saini & Singhania, 2018). It may be that most of the countries included in this research are developing countries, and therefore a negative effect was observed. While it is beyond the scope of this research to examine this possibility, this could be a topic of interest for future studies. Furthermore, the absence of corruption has a negative effect, which is in line with theorists who follow the 'grease and wheels' approach suggesting that corruption attracts FDI. For investors, corruption could offset existing distortions in poor functioning regimes or provide them opportunities for rent seeking (Li,

2005). Finally, after the robustness test the variable democratic governance appeared to be non-significant. This implies that the regime type (democratic or autocratic) of a host country has no noticeable influence on the amount of FDI a country receives.

6.2 Multi-level Analyses

When adding the multi-level aspect to the regression model, interesting results appeared. The addition of the institutional quality of the home country resulted in a statistically significant positive effect in both models. This indicates that the higher the institutional quality in a particular home country, the more FDI a host country received, so home countries with stronger institutional quality seemed to send more FDI. Although not the main object of this study, this is an interesting finding and suggestion for further research. Empirically, these results confirm previous findings since the top 10 FDI-sending countries are all institutionally developed countries, except for China. Theoretically, these findings can be explained by the argument that institutionally developed countries are more capable of organizing investments (Rao-Nicholson & Svystunova, 2020). Additionally, these countries are richer and therefore have more to spend.

6.2.1 Moderation

To test the second hypothesis, a moderation analysis was conducted. This moderation analysis built upon the previously discussed multi-level regression models but added an interaction term to observe the possible moderation effect of the institutional quality of home countries. Interestingly, a significant negative moderation effect appeared for the PTS while there was no significant effect for HRMI. Specifically, the positive relationship between the violation of physical integrity rights and FDI inflow (i.e., better human rights conditions reduce FDI inflow) is weakened when the institutional quality of a home country improved. In other words, the amount of FDI sent by home countries with a better institutional quality is less influenced by the human rights conditions of a host country (physical integrity rights) compared to home countries with a lower institutional quality. Moreover, the results show for all home country cases a positive slope meaning that regardless of the institutional quality of a home country, the relation between PTS and FDI inflow is positive. These results are in contrast with earlier theoretical expectations. While they confirm that that the institutional quality of a home country has a moderating effect on the relation between human rights conditions and FDI inflow, the direction and strength of the effect is different. Particularly, these argued that investing in host countries with poor human rights conditions, means

investing in an unstable context. Companies from home countries with a higher institutional quality are not familiar with these conditions and are therefore deterred to invest in these countries. Additionally, they are concerned about the reputational damage as there is more at stake for these countries (Cuervo-Cazurra and Genc, 2011; Malhotra et al., 2016). As a result, following these theories, the relation between human rights conditions and FDI inflow should be positive for home countries with a high institutional quality.

In contrast, the strong negative effect between FDI and human rights conditions for home countries with a low institutional quality do confirm previous expectations. These home countries' companies are familiar with an unstable investment environment. As companies prefer conditions that are like their home country, they are attracted to invest in countries with poor human rights conditions. Moreover, the risk of reputational damage for these countries is less present (Lewczuk, 2019). Furthermore, the results show that countries with a higher institutional quality give overall more FDI, regardless of the human rights conditions in the host countries. The overall observed pattern can be explained as countries with a higher institutional quality have much FDI to spend, that human rights conditions are less of concern. The negative relation between FDI and physical integrity rights can also be caused by another factor as there are several FDI determinants which have not been controlled for in this analysis.

When human rights conditions were measured as socio-economic rights, the moderation effect of the institutional quality of home countries was positive but non-significant. It can therefore be concluded that the institutional quality of home countries had no effect on the positive relationship between human rights conditions (socio-economic rights) and FDI inflow. This indicates that although a home country may have weak institutional quality, they may still be deterred from investing in host countries with poor human rights conditions (in the form of socio-economic rights). Although contrasting with the hypothesis of this study, these results support studies that argue that home countries with poor institutional conditions are more likely to invest in countries with higher human rights standards since these host countries provide them easier access to local competencies. This is important as they need to compete in the investment game with their developed counterparts (Gaffney et al. 2016). Additionally, poor governance in home countries pushes these companies to countries with a better institutional environment (Heavilin & Songur, 2020).

Overall, the multi-level analysis provided interesting results. The negative relationship between physical integrity rights and FDI inflow was found to be negatively moderated by the

institutional quality of a home country, indicating that the relation is weakened when the institutional quality of a home country improves. Although, the observed negative effect was against earlier expectations, this finding confirms the second hypothesis. Furthermore, the institutional quality of a home country had no significant moderating effect on the positive effect between socio-economic rights and FDI inflow, contradicting the hypothesis.

6.3 Excluding the BRICS

Recalling the results when excluding the BRICS countries, the outcomes appeared similar with the results when the BRICS were included. This indicates that the observed positive relationship between physical integrity rights and FDI was not only induced by the BRICS countries. This also held true for the moderation effect, meaning that even when five countries with poor institutional conditions and a high FDI share were excluded, there was still a significant effect. Interestingly, a significant positive effect between economic and social rights appeared even when the BRICS countries were included. This contrasts with earlier empirical and theoretical findings which suggested that investors in BRICS countries are not constrained by poor human rights conditions.

7. Conclusion

The aim of this study was to test the effect of human rights conditions on FDI inflow, as well as the moderation effect of the institutional quality of home countries on this relationship. In total 3576 host-home countries were analysed in a multi-level regression model. This study measured human rights through physical integrity rights and socio-economic rights which are two uncorrelated dimensions of human rights conditions. Interestingly, this resulted in two contrasting effects of human rights conditions on FDI inflow. The results suggest a negative relationship between human rights conditions and FDI inflows when these are measured as physical integrity rights. When human rights conditions are measured as socio-economic rights, however, a positive relationship is observed. On the grounds of these findings, it is suggested that in future research, human rights conditions should be addressed by a variety of dimensions, to get a holistic understanding of the complex concept of human rights.

Furthermore, the market size of a home country, the effectiveness of its government and the regulatory quality appeared to be positively related to FDI inflows, thereby confirming their significance as FDI determinant. Additionally, the regulatory quality was found to have the strongest effect on FDI inflows. As the level of regulatory quality depends on government policies, policymakers can play an essential role here. Accordingly, policymakers could introduce policies that promote private sector development. Furthermore, the economic growth, rule of law, and political stability of a country seem to have a negative effect on FDI inflows which contrasts previous theoretical expectations.

By adding a moderation test within the multi-level analysis, this study desired to find an answer on the research question: '*How does the institutional quality of a home country affect the relationship between human rights conditions and FDI inflows to the host country?*' The results of this test reveal that the negative effect between human rights conditions, measured by physical integrity rights, and FDI inflows is weakened when the institutional quality of a home country improves. From the multi-level analysis, it appears that the effect remains negative even if the institutional quality of a home country is maximised. Additionally, for home countries with a low institutional quality, the effect is strong which confirms theories. Policymakers should be aware of the negative effect of political terror, rule of law and political stability, as it is very damaging for countries. However, western countries

should not fully discourage investing in countries where physical integrity rights are violated, since if they withdraw, other countries will step in. As a result, this would weaken their control in these countries and their geo-political position in the world, thereby making it even harder to continue with the promotion of human rights. Concretely, policymakers could further promote the introduction of responsible business initiatives and due diligence measures for companies. If companies become more aware of the adverse effects of investing in countries that treat their people badly, they are more likely to prevent that their companies contribute to these violations. Additionally, taking these measures is even more crucial for home countries with a lower institutional quality as they are more influenced by the human rights conditions in host countries. Policymakers from developed countries that have experience with responsible business and due diligence could advise countries that are lagging in this aspect. In turn, for host countries with poor human rights conditions, this creates incentives to improve their human rights conditions as they want to continue attracting FDI. Next to their economic activities, western countries could be engaged more in the promotion of human rights on the ground by creating social programs and support local initiatives.

Finally, an insignificant moderation effect was found on the effect of human rights measured as socio-economic rights on FDI inflows. This indicates that regardless of the institutional quality of a home country, better human rights conditions (socio-economic rights) lead to higher FDI inflow. Policymakers that want to attract FDI should aim to establish and promote these types of rights. This concerns providing proper access to housing, education and food. Although this could create high costs, this study suggests that on the long run it will return in the form of FDI.

Overall, the findings of this study suggests that the relationship between human rights conditions and FDI is not straight forward. First, by measuring human rights in different dimensions, this study showed the complexity of the concept itself thereby contributing to the elaboration of theories on human rights. Furthermore, the results of this study suggest that the socio-political determinants of FDI are as important as market determinants. Moreover, the observation that home countries, and in particular their institutional quality, influence the relationship between human rights and FDI, puts existing theories into perspective. To conclude, the results show that despite some theoretical linkages may seem strongly defined, the influence of arising relevant factors should not be neglected in policy making of complex social phenomena.

7.1 Limitations and suggestions for future research

This study has several limitations and suggestion for future studies. First, this study took the latest data available. For the shares of FDI per home country, a 2020 dataset was consulted. For the total FDI and all the other variables, the data originated from a 2018 dataset, however, causing a potential mismatch. This mismatch is expected to be of significance because of the COVID19 pandemic, so it is advised to rework this methodology once matching sets of data are released. Additionally, the data originates from one year only, which raises the question of to what extent the findings are representative on the long term. This is important as the effect can change rapidly. Therefore, future studies could use similar data but implement a time series design.

Second, due to missing data, this study only included a limited number of countries which weakens the external validity. Moreover, the study used the method of case-wise deletion which has some weaknesses. First, the host countries that receive no or little FDI are not included in the sample, while the reason why they do not receive any FDI could be of interest for this study. Are their human rights conditions, (either excellent or very poor), for instance, the reason why they do not receive FDI? Additionally, these countries are often the ones with the poorest human rights conditions which creates a possible bias in the sample. Future studies could include more countries and examine in addition whether host countries receive FDI at all as this is an interesting issue on its own.

Third, not all assumptions of the linear regression were met. The violations were to a large extend mitigated by applying a log-log transformation on the dependent variable and conducting a robustness test. However, the assumption of homoscedasticity is only valid to a certain extent. Moreover, as this research only included a limited number of FDI determinants as control variables, the internal validity is not optimal. It was beyond the scope of this research to include control variables at Level 2. As a result, it is suggested that future studies could control for many more FDI determinants, as well as include control variables on Level 2.

Fourth, the content validity of human rights conditions is limited as its measurement does not include civil and political rights and workers' rights. Furthermore, the use of the Human Rights Measurement index is relatively new and therefore it has not yet been assessed whether this is a reliable source. In order to measure human rights even more comprehensively, forthcoming research could consider more types of human rights. In terms of validity and reliability of the study it could be of interest to conduct a similar study but use

data from the CIRI dataset. If the results are the similar, this would verify the outcome of the HRMI dataset.

Finally, this study used a multi-level regression model. However, similar studies suggested the use of gravity models and a Tobbit Regression as these allow to measure the, in this case, institutional distance between a home and host country. While this was beyond the scope of this study, exploration of these models is encouraged.

Overall, it is interesting for future studies to expand on the findings that the effect is different for physical integrity rights in contrast to socio-economic rights. For instance, by examining the actual motivations of investors when deciding where to invest, in the form of surveys. In addition, new, undiscussed factors that could act as moderators or mediators on the relationship between human rights conditions and FDI inflow can be considered as well.

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APPENDIX

Table A.1.

Outliers within the analysis

FDI per home country: Extreme values	Case	Value
1.	US-UK	553543,34
2.	UK-Canada	430113,09
3.	US-Singapore	413706,12
4.	US-Netherlands	398958,97
5.	Confidential – Ireland	392723,72

Figure A.1

Normality Histogram of FDI per home country after the log transformation
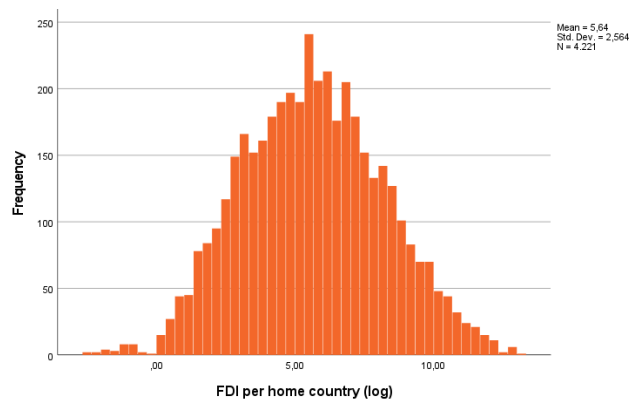
Table A.2

Description of the World Bank Governance Indicators

Variable	Description
Rule of Law	Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
Control of Corruption	Captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.
Governance Effectiveness	Captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies
Voice and Accountability	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media
Regulatory Quality	Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private-sector development.
Political Stability	Perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism

Note: Adapted from *the World Bank Governance Indicators*, by The World Bank, 2015.

Table A.3

Regression analysis with the PTS as explanatory variable (log reversed)

	Model 1.A		Model 2.A		Model 3.A		Model 4.A	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	3,72**	1,36	3,23**	0,27	3,14**	0,27	2,87**	0,28
PTS	1,09**	0,06	1,09**	0,005	1,09**	0,05	1,31**	0,06
Market Size	2,74**	0,00	2,74**	0,00	2,74**	0,00	$1{,}01e{-}9$**	0,00
Economic Growth	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01	-0,06**	0,01
Government effectiveness	5,4**	0,15	3,05**	0,13	3,05**	0,13	0,37**	0,13
Regulatory Quality	4,31**	0,11	4,75**	0,09	4,75**	0,09	1,75**	0,09
Voice and Accounatability	0,58**	0,1	3,97**	0,08	3,97**	0,08	1,37**	0,08
Rule of Law	-0,57**	0,17	-0,60**	0,15	-0,60**	0,15	-0,88**	0,15
Political Stability	-0,50**	0,07	-0,39**	0,06	-0,39**	0,06	-0,38**	0,06
Corruption Index	-0,01**	0,01	-0,01**	0,00	-0,01**	0,00	-0,01**	0,00
Democratic Governance	-0,02**	0,01	-0,02**	0,00	-0,02**	0,00	-0,02**	0,00
Level 2: Home country level								
Institutional Quality of home countries					0,80**	0,1	1,71**	0,14
Random								
Cross-level interaction								
Institutional Quality x PTS							-0,14**	0,04
Model Fit								
Variance estimates								
Residual	4,6**		3,72**		3,54**		3,52**	
Intercept			0,86**		0,60**		0,6**	
Deviance (-2LL)	15662,55**		14942,53**		14913,70**		14898,76 **	

Note. This table presents the same results as table 9.A in the paper, but here the log formula is reversed with the exponential function. As a result, the coefficients represent the real effect size.

** Correlation is significant at the 0,01 level (2-tailed).

* Correlation is significant at the 0,05 level (2-tailed).

Table A.4

Regression analysis with the HRMI as explanatory variable (log reversed)

	Model 1.B		Model 2.B		Model 3.B		Model 4.B	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	5,35**	1,40	4,91**	0,35	4,8**	0,30	5,29**	0,34
HRMI	0,006*	0,00	0,005*	0,00	0,005*	0,00	0,0005	0,00
Market Size	2,86**	0,00	2,86**	0,00	2,86**	0,00	2,86**	0,00
Economic Growth	-0,06**	0,02	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01
Government effectiveness	4,67**	0,15	4,01**	0,13	4,01**	0,13	4,01**	0,13
Regulatory Quality	4,01**	0,11	4,52**	0,1	4,52**	0,1	4,52**	0,1
Voice and Accounatability	-0,08*	0,08	-0,16	0,07	-0,17*	0,08	-0,17*	0,08
Rule of Law	-0,57**	0,17	-0,60**	0,15	-0,60**	0,15	-0,60**	0,15
Political Stability	-0,50**	0,06	-0,51**	0,06	-0,51**	0,05	-0,51**	0,05
Corruption Index	-0,02**	0,01	-0,02**	0,00	-0,02**	0,00	-0,02**	0,00
Democratic Governance	-0,01	0,00	-0,01	0,00	-0,01	0,00	-0,01	0,00
Level 2: Home country level								
Institutional Quality of home countries					0,8**	0,1	0,223	0,26
Random								
Cross-level interaction								
Institutional Quality x HRMI							0,005	0,003
Model Fit								
Variance estimates								
Residual	4,79**		3,54**		3,72**		3,72**	
Intercept			0,84**		0,62**		0,18	
Deviance (-2LL)	15813,67 **		15126,59**		15098,66**		15125,07	

Note. This table presents the same results as table 9.B in the paper, but here the log formula is reversed with the exponential function. As a result, the coefficients represent the real effect size.

Table A.5

Regression analysis with the main PTS as main independent variable after bootstrapping

	Model 1.A		Model 2.A		Model 3.A		Model 4.A	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	3,69**	1,36	3,21**	0,27	3,14**	0,27	2,84**	0,28
PTS	0,74**	0,06	0,73**	0,05	0,73**	0,05	0,85**	0,06
Market Size	1,01**	0,00	1,01**	0,00	1,01**	0,00	1,01**	0,00
Econ Growth	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01	-0,06**	0,01
Government effectiveness	1,42**	0,15	1,39**	0,13	1,39**	0,12	1,36**	0,13
Regulatory Quality	1,69**	0,11	1,75**	0,09	1,75**	0,14	1,76**	0,12
Voice and Accounatability	0,45**	0,1	0,35**	0,08	0,35**	0,08	0,37**	0,08
Rule of Law	-0,82**	0,17	-0,90**	0,15	-0,88**	0,15	-0,88**	0,15
Political Stability	-0,41**	0,07	-0,39**	0,06	-0,39**	0,06	-0,38**	0,06
Corruption Index	-0,01*	0,01	-0,01**	0,00	-0,01**	0,00	-0,01*	0,00
Democratic Governance	-0,02**	0,01	-0,02	0,00	-0,02	0,00	-0,02	0,00
Level 2: Home country level								
IQ of home countries					0,59**	0,01	1,00**	0,12
Random Cross-level interaction IQ*PTS							-0,15**	0,03

Note: Model 1 represents a standard linear regression, Model 2 represents the multi-level analysis with only Level 1 variables, Model 3 includes Level 2 variables, and Model 4 represents the multi-level analysis with a moderation test. This are the results after bootstrapping (95% confidence interval) was applied.

** Correlation is significant at the 0,01 level (2-tailed).

Table A.6

Regression analysis with HRMI as main independent variable after bootstrapping

	Model 1		Model 2		Model 3		Model 4	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	5,32**	0,35	4,91**	0,29	4,8**	0,30	5,29**	0,33
HRMI	0,01*	0,00	0,01*	0,00	0,01*	0,00	0,00	0,00
Market Size	1,35**	0,00	1,40**	0,00	1,40**	0,00	1,40**	0,00
Economic Growth	-0,06**	0,00	-0,06**	0,02	-0,06**	0,01	-0,05**	0,01
Government effectiveness	1,52**	0,16	1,61**	0,16	1,59**	0,16	1,57**	0,13
Regulatory Quality	1,64**	0,12	1,71**	0,12	1,69**	0,12	1,71**	0,1
Voice and Accounatability	-0,09	0,09	-0,15	0,07	-0,17*	0,09	-0,17*	0,08
Rule of Law	-0,81**	0,17	-0,9**	0,16	-0,89**	0,16	-0,88**	0,15
Political Stability	-0,76**	0,06	-0,73**	0,06	-0,73**	0,06	-0,72**	0,05
Corruption Index	-0,02**	0,01	-0,02**	0,01	-0,02**	0,01	-0,02**	0,00
Democratic Governance	-0,01*	0,00	-0,01	0,00	-0,01	0,00	-0,01	0,00
Level 2: Home country level								
Institutional Quality of home countries					0,6**	0,10	0,20	0,23
Random								
Cross-level interaction								
Institutional Quality x HRMI							0,01	0,00

Note: Model 1 represents a standard linear regression, Model 2 represents the multi-level analysis with only Level 1 variables, Model 3 includes Level 2 variables, and Model 4 represents the multi-level analysis with a moderation test. This are the results after bootstrapping (95% confidence interval) was applied.

** Correlation is significant at the 0,01 level (2-tailed).

* Correlation is significant at the 0,05 level (2-tailed).

Table A.7

Regression analysis with the PTS as explanatory variable (BRICS excluded as home countries)

	Model 1.A		Model 2.A		Model 3.A		Model 4.A	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	3,92**	0,29	3,21**	0,27	3,54**	0,27	2,84**	0,28
PTS	0,76**	0,06	0,73**	0,05	0,74**	0,05	0,88**	0,06
Market Size	1,01**	0,00	1,01**	0,00	1,01**	0,00	1,01**	0,00
Econ Growth	-0,06**	0,02	-0,06**	0,01	-0,08**	0,01	-0,06**	0,02
Government effectiveness	1,55**	0,15	1,51**	0,13	1,52**	0,15	1,50**	0,15
Regulatory Quality	1,75**	0,11	1,75**	0,09	1,75**	0,14	1,77**	0,12
Voice and Accounatability	0,50**	0,1	0,44**	0,08	0,43**	0,08	0,43**	0,08
Rule of Law	-0,82**	0,17	-0,83**	0,15	-0,86**	0,17	-0,86**	0,13
Political Stability	-0,33**	0,07	-0,39**	0,06	-0,39**	0,06	-0,38**	0,06
Corruption Index	-0,01*	0,01	-0,01**	0,00	-0,01**	0,00	-0,01*	0,00
Democratic Governance	-0,02**	0,01	-0,02*	0,00	-0,02	0,00	-0,02	0,00
Level 2: Home country level								
IQ of home countries					0,68**	0,01	1,00**	0,12
Random Cross-level interaction								
IQ*PTS							-0,15**	0,04

Note: Model 1 represents a standard linear regression, Model 2 represents the multi-level analysis with only Level 1 variables, Model 3 includes Level 2 variables, and Model 4 represents the multi-level analysis with a moderation test. These are the results after the BRICS were excluded as home countries.

** Correlation is significant at the 0,01 level (2-tailed).

* Correlation is significant at the 0,05 level (2-tailed).

Table A.8

Regression analysis with HRMI as explanatory variable (BRICS excluded)

	Model 1.B		Model 2.B		Model 3.B		Model 4.B	
	b	SE	*b*	SE	*b*	SE	*b*	SE
Fixed Effect								
Level 1 Variables								
Intercept	5,32**	0,32	4,91**	0,35	4,8**	0,30	5,89**	0,34
HRMI	0,01*	0,00	0,01*	0,00	0,01*	0,00	0,00	0,00
Market Size	1,35**	0,00	1,4**	0,00	1,4**	0,00	1,4**	0,00
Econ Growth	-0,05**	0,02	-0,06**	0,02	-0,06**	0,01	-0,06**	0,01
Government effectiveness	1,57**	0,15	1,61**	0,13	1,58**	0,15	1,67**	0,14
Regulatory Quality	1,67**	0,11	1,71**	0,1	1,66**	0,11	1,74**	0,10
Voice and Accounatability	-0,08*	0,08	-0,15	0,07	-0,11*	0,08	-0,17*	0,08
Rule of Law	-0,77**	0,17	-0,79**	0,15	-0,78**	0,15	-0,81**	0,16
Political Stability	-0,34**	0,06	-0,35**	0,06	-0,35**	0,06	-0,36**	0,05
Corruption Index	-0,02**	0,01	-0,02**	0,00	-0,02**	0,01	-0,02**	0,00
Democratic Governance	-0,01*	0,00	-0,01	0,00	-0,01	0,00	-0,01	0,00
Level 2: Home country level								
IQ of home countries					0,65**	0,1	0,24	0,26
Random								
Cross-level interaction								
IQ * HRMI							0,005	0,00
Model Fit								
Variance estimates								
Residual	4,79**		3,54**		3,72**		3,72**	
Intercept			0,84**		0,62**		0,18	
Deviance (-2LL)	15813,67 **		15126,59**		15098,66**		15125,07	

Note: Model 1 represents a standard linear regression, Model 2 represents the multi-level analysis with only Level 1 variables, Model 3 includes Level 2 variables, and Model 4 represents the multi-level analysis with a moderation test. These are the results after the BRICS were excluded as home countries.

** Correlation is significant at the 0,01 level (2-tailed).

* Correlation is significant at the 0,05 level (2-tailed).

Table A.9

List of host countries

Albania	Mali	Romania
Algeria	Mauritius	Russian Federation
Argentina	Mexico	Rwanda
Armenia	Moldova, Republic	Senegal
Australia	Mongolia	Serbia
Austria	Montenegro	Singapore
Azerbaijan	Mozambique	Slovakia
Bahrain	Myanmar	Slovenia
Bangladesh	Namibia	Solomon Isla
Belarus	Nepal	Sri Lanka
Belgium	Netherlands	Sweden
Benin	New Zealand	Switzerland
Bhutan	Niger	Tajikistan
Bolivia	Nigeria	Thailand
Bosnia and H	Norway	Turkey
Botswana	Pakistan	Ukraine
Brazil	Panama	United Kingdom
Lithuania	Paraguay	United State
Luxembourg	Philippines	Uruguay
Malaysia	Poland	Zambia
	Portugal	

Table A.10

List of home countries

Afghanistan	Estonia	Lesotho	Romania
Algeria	Eswatini	Libya	Russian Federation
Angola	Ethiopia	Lithuania	Sao Tome and
Argentina	Finland	Luxembourg	Saudi Arabia
Armenia	France	Madagascar	Senegal
Australia	Gabon	Malawi	Serbia
Austria	Gambia	Malaysia	Singapore
Azerbaijan	Georgia	Maldives	Slovakia
Bangladesh	Germany	Mali	Slovenia
Barbados	Ghana	Mauritania	Somalia
Belarus	Greece	Mexico	South Africa
Belgium	Guatemala	Montenegro	Spain
Benin	Guyana	Morocco	Sri Lanka
Bolivia	Honduras	Mozambique	Sweden
Bosnia and H	Hungary	Myanmar	Switzerland
Botswana	Iceland	Namibia	Syrian Arab
Brazil	India	Nepal	Tajikistan
Brunei	Indonesia	Netherlands	Thailand
Bulgaria	Iran	New Zealand	Timor-Leste
Burkina Faso	Iraq	Nicaragua	Togo
Cambodia	Ireland	Niger	Tunisia
Canada	Israel	Nigeria	Turkey
Chile	Italy	North Macedo	Uganda
China	Jamaica	Norway	Ukraine
Colombia	Japan	Oman	United Arab
Comoros	Jordan	Pakistan	United Kingdom
Costa Rica	Kazakhstan	Papua New Guinea	United State
Croatia	Kenya	Paraguay	Uruguay
Cuba	Korea, Republic	Peru	Uzbekistan
Denmark	Kuwait	Philippines	Venezuela
Dominican Republic	Kyrgyzstan	Poland	Viet Nam
Ecuador	Lao People's	Portugal	Zambia
Egypt	Latvia	Qatar	Zimbabwe
El Salvador	Lebanon		
Equatorial G			