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The Complex Bond Between Human Rights and Foreign Direct Investment (FDI) - An ExplanatoryAnalysis of the Influence of Human Rights in the Output of FDI:

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Ad un mondo migliore.

Table of Contents:

Introduction *4*
Chapter 1: Human Rights and FDI: *7*
1.1 Human Rights and CSR (Corporate Social Responsibility): 7
1.2 Country of Origin and the Likelihood of Wrongdoing: 13
1.3 Emerging Multinational Markets (EMNEs) and Human Rights: 19
Chapter 2: Foreign Direct Investment (FDI): *27*
2.1 Definition of FDI and Factors of Influence: 27
2.2 Trend of FDI During the Years and All Over the World: 33
2.3 Economic and Social Effects of FDI on the Host Countries: 36
2.4 The Complex Relationship Between FDI and Human Rights: 47
Chapter 3: FDI and Human Rights: An Explanatory Analysis using RStudio: *52*
3.1 Sample Selection and Description: 52
3.1.2 Panel data: 58
3.2 Methodology: 59
3.2.1 The OLS Pooled Model: 61
3.3 Findings and Discussion: 63
Conclusion: *75*

Introduction

Until the late 1980s, there was a clear division between development and human rights, each pursuing distinct strategies and goals. Although the 1945 United Nations Charter highlighted the interconnectedness of human rights and development, various entities such as governments, international donor agencies, multilateral organizations, and UN agencies were hesitant to acknowledge this connection. It was commonly accepted that human rights and development operated independently (Filmer-Wilson, 2005). This apparent separation between human rights and development led development organizations to pay minimal attention to advancing and safeguarding human rights. Human rights language gained wider acceptance, and the realms of development and human rights began to converge more in global discussions. Simultaneously, the advent of globalization challenged traditional development approaches. The rapid expansion of international free trade and investment led to a notable increase in global prosperity but came at the cost of widening wealth disparities and heightened human insecurity (Filmer-Wilson, 2005).

The conventional development mindset had previously regarded economic growth as the ultimate remedy (Filmer-Wilson, 2005). The alignment of human development and human rights discussions received official endorsement at the 1993 Vienna World Conference on Human Rights. During this conference, it was formally acknowledged that 'Development and the protection of human rights and basic freedoms are interconnected and support each other.' Hence, since 1993, a notable change has occurred in conceptualizing development (Filmer-Wilson, 2005). However, some argue that while the human rights agenda has been introduced to the international development arena in terms of rhetoric, it has yet to make its way into actual development practices despite being accepted and advocated for at the policy level (Filmer-Wilson, 2005).

The following research aims to analyze the complex link between human rights (HR) and foreign direct investment (FDI). Historically, FDI has been linked to countries where human rights violations were commonplace, especially, for example, in resource extraction industries. However, diversification of FDI into various sectors and changing labor demand have changed this dynamic. Investors seem likelier to focus on skilled labor and countries prioritizing human rights. Human rights and respect for them play a key role in attracting FDI and thus promoting economic growth. Notably, researchers argue that developing countries that respect human rights tend to be more successful in attracting foreign investment than those with a history of human rights violations. This

is due to excellent political stability, reduced risk, and access to a skilled workforce in human rights-respecting countries. Because the more a country respects human rights, the more it will be underpinned by political stability and, consequently, reduced risk to foreign investors' portfolios.

Remarkably, this research is structured into three main chapters. The "first chapter" discusses the critical distinction between Corporate Social Responsibility (CSR) and Business Human Rights (BHR). Specifically, while the former is often seen as an optional responsibility that goes beyond legal obligations, the latter focuses on the responsibility of businesses to respect human rights. The Business Human Rights debate gained momentum in the late 1990s because of incidents of Western companies supporting oppressive regimes and engaging in human rights abuses. Also mentioned at length is the shift in thinking about the responsibility of business in supporting human rights. Traditionally, human rights were seen as the sole responsibility of governments, but the rise of multinational corporations and the globalization of markets have challenged this notion. Growing awareness of human rights violations committed by corporations in areas with weak institutions has led to recognizing corporations as primarily responsible for upholding human rights.

In addition, the close link between low-income countries and weak institutions and the consequent violation of human rights is addressed. Industries characterized by labor-intensive and limited technological advances will likely engage in slavery practices. Similarly, another issue addressed concerns the HR practices of multinational companies from countries with institutional gaps and weaker governance. Human rights violations, such as child labor and poor working conditions, are sometimes tolerated in these countries, revealing the emergence of the Business and Human Rights (BHR) movement, which calls for companies to take direct responsibility for their human rights impacts.

Furthermore, more specific research has been directed toward a more detailed understanding of what FDI is, its influence, global trends, and its link to human rights. The "second chapter" is entirely devoted to FDI. Thanks to technological advances promoting outsourcing and production fragmentation, international trade and foreign direct investment (FDI) have grown significantly, especially in the services sector. This growth blurs the traditional distinction between vertical and horizontal FDI as multinationals invest in low-cost countries for global exports, resulting in complex sourcing and integration strategies. FDI involves foreign investors holding stakes in companies in other countries and is reported as inflows (foreign capital) and stocks (total capital value). FDI contributes to economic integration, technology transfer, international trade, and economic development. The Ownership, Location, and Internalization (OLI) paradigm, proposed by Dunning,

outlines the factors influencing international production decisions: ownership-specific advantages, location-specific benefits, and the desire to retain ownership of these advantages. The OLI paradigm also distinguishes three primary forms of FDI: resource-seeking, market-seeking, and efficiency-seeking. Resource-seeking FDI aims to take advantage of the host country's natural resources. Market-seeking FDI involves selling products or services in a foreign market. Efficiency-seeking FDI focuses on reducing costs and gaining a competitive advantage.

Finally, returning to the central theme of this research, socio-political factors, including human rights conditions, can influence FDI decisions. Some scholars argue that human rights violations indirectly hinder FDI by creating conditions conducive to violence and instability. Other scholars point to a more direct impact of human rights violations on investors' motivations, as investing in such countries can damage a company's reputation. Nevertheless, the relationship between FDI and human rights remains a complex one.

This research endeavors to comprehend the influence of human rights considerations on foreign direct investment (FDI). To address the research inquiry, a quantitative analysis was undertaken. Subsequently, a model was constructed through meticulous data analysis to yield valid findings in response to the research question. The analysis and the ensuing results are expounded upon in the concluding chapter of this thesis. Initially, the selection of data involved the acquisition of a dataset from the World Bank website, encompassing FDI inflows, GDP, labor force, inflation rates, internal resources indicators, and human rights compliance metrics across various nations over multiple years. Despite the inherent challenge of quantifying human rights variables, a judiciously selected indicator was employed.

Furthermore, upon importing the data into RStudio, the software of choice, dataset refinement procedures were applied. To summarize, the following processes were executed: exploration of data, description of data, model fitting, validation of model assumptions through diagnosis, and ultimately, the discussion of the findings. The "skimming" procedure was conducted on all initially selected variables due to incomplete data, resulting in disparities from the original dataset. Notably, this preliminary research, characterized by its broad and somewhat amateurish nature, revealed unexpected results. The study's limitations can be attributed to the author's limited experience in the field. Consequently, further investigation is imperative to clarify the factors contributing to countries' varying success in attracting FDI.

Chapter 1: Human Rights and FDI:

1.1 Human Rights and CSR (Corporate Social Responsibility):

Human beings possess certain inherent and non-negotiable fundamental rights called human rights solely by being human. These rights encompass various aspects, including political, civil, socio-economic, and cultural domains, as defined by the United Nations' Universal Declaration of Human Rights in 1948 (United Nations, 2022). The General Assembly proclaims this Declaration: «as a common ideal to be attained by all peoples and all nations, to the end that every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and to secure, by progressive measures of a national and international character, their universal and effective recognition and respect, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction.» (United Nations, 2022).

Although human rights are often discussed in connection with abuse perpetrated by violent or criminal parties such as warlords or repressive governments, the link between human rights and legitimate business activities has been largely overlooked, particularly in management and International Business (IB) research. Nevertheless, there is growing evidence of the business sector's involvement in controversies over human rights, such as child labor, human trafficking, engagement with rogue regimes, and violations of the right to life and health due to environmental degradation. In addition, however, there is a thriving and increasingly prominent debate on business responsibility in this area outside of the IB field. This has led to the emergence of a distinct interdisciplinary research field known as 'business and human rights' (BHR), a response to the UN's call for action to address the human rights challenges the business sector creates in global operations.

In the 1970s, initial efforts were to establish accountability for human rights violations, particularly for multinational corporations. In the 1970s, the United Nations (UN) and the Organization for Economic Cooperation and Development (OECD) launched similar initiatives aimed at regulating the business activities of Multinational Enterprises (MNEs) through international codes of conduct. As a result, the OECD Guidelines for Multinational Enterprises were developed, which included a single paragraph on human rights responsibility. Over time, the human rights sections of the OECD Guidelines were improved, and in 2011, they incorporated a human rights section that closely followed the UNGPs. The United Nations also attempted to create a code of

conduct for multinational corporations in 1977 and set up a center for transnational corporations. This UN Draft Code, similar to the OECD Guidelines, included a paragraph on human rights and a section on how companies should interact with authoritarian and racist governments.

Although early initiatives like the OECD Guidelines and the UN Draft Code attempted to establish human rights accountability for multinational enterprises, the UN Global Compact emphasized human rights' importance in responsible business conduct (Wettstein, 2012b). Despite the UN Draft Code never being adopted and the UN Center being dissolved in the 1990s, the OECD Guidelines have become one of the most critical global codes on corporate responsibility, including an entire chapter on corporate human rights responsibility today. This chapter is modeled on the 2011 UN Guiding Principles on Business and Human Rights (UNGP), a soft-law initiative that identifies the responsibility of companies to respect universal human rights as they operate locally or globally (Ruggie, 2011). Created in 2000 by then-UN Secretary-General Kofi Annan, the UN Global Compact is a voluntary framework comprising ten principles for responsible business. With over 10,000 signature organizations, the UN Global Compact is the most successful corporate responsibility guideline worldwide.

Notably, it placed human rights responsibility at the core of responsible business practices, introducing key terminology and ideas contributing to the current debate on business and human rights. The UNGPs, published in June 2011, are currently the most authoritative policy tool globally and are the primary focus of the discussion on business and human rights. The UNGPs have three core components: The first pillar emphasizes that governments must safeguard human rights from corporate exploitation. Second, it is the responsibility of businesses to respect human rights, which means that they should neither directly nor indirectly contribute to or be associated with human rights abuses committed by third parties such as suppliers, host governments, or business partners. Finally, governments and corporations have a shared obligation to enhance the availability of effective remedies for victims.

During the first five years of the new millennium, the UN Global Compact (UNGC) significantly shaped policies. This initiative was the first significant international corporate responsibility effort emphasizing human rights. At the same time, the UN Sub-Commission on Human Rights tried to establish a binding global framework on corporate human rights responsibility called the UN Draft Norms, which created intense debate and faced criticism, especially from MNEs. Eventually, it failed to be adopted by the UN Human Rights Council and was abandoned in 2004. Nonetheless, it set the groundwork for creating a UN Special Representative on Business and Human Rights (SRSG) (UN et al. on Business and Human Rights Calls for ILO Assistance on Precarious Work, 2010), and

Harvard professor John Ruggie was appointed to the role from 2005 to 2011. In addition, scholars in corporate social responsibility (CSR) and business ethics began to investigate the moral basis of corporate human rights responsibility, focusing on the ethical responsibility of companies and its relation to human rights (Werhane, 2016; Arnold, 2016). Policy-wise, the aspiration is to hold large MNEs accountable for their international operations and minimize the chances they can harm by infringing universal human rights. Also, large MNEs are expected to contribute positively to addressing human rights challenges since their acknowledged political and economic power sometimes rivals that of governments.

Traditionally, corporations and human rights have been approached as separate issues. Human rights were and still are considered to only apply to governments, while companies were thought to have no direct responsibility for upholding human rights. At most, and this remains partially true, businesses may have indirect human rights responsibilities when national governments require them to comply with specific human rights standards through domestic laws and regulations (Muchlinski, 2001). However, such requirements are considered part of a corporation's legal obligations rather than an additional social responsibility. The notion that companies have no direct responsibility for human rights began to be questioned in the 1970s. However, it was not until the 1990s, following incidents such as Western companies supporting South Africa's apartheid regime and the negative impact of oil companies in the Niger Delta, that this idea was seriously challenged. During this period, a systematic debate on business and human rights (BHR) started to gain momentum.

The debate was fueled by the involvement of Western oil companies, especially Shell, in significant environmental destruction and human rights abuses in Nigeria and reports of sweatshop conditions and child labor in the production facilities of major Western sporting companies such as Nike. Indeed, during the late 1990s, several influential human rights organizations conducted critical studies that triggered a more organized conversation about the obligations of businesses concerning human rights (Human Rights Watch, 1999a; 1999b). This discussion, which came to be known as the 'business and human rights debate,' has now become one of the most significant drivers in the broader debate on corporate responsibility two decades later (Chandler, 2003). It is fundamental not to confuse BHR and Corporate Social Responsibility (CSR); although they may seem the same, talking about BHR and CSR is different. BHR is to be seen as distinct from the broader CSR discussion. One of the notable distinctions is that Business and Human Rights (BHR) primarily originated from legal academic research. In contrast, Corporate Social Responsibility (CSR) has its origins rooted in the field of management studies (Ramasastry, 2015).

Companies have traditionally been viewed as having no obligations toward human rights. Instead, the responsibility for human rights was believed to rest solely with governments (Muchlinski, 2001). This way of thinking, state-centrism, is most commonly observed in legal discourse and practice. However, it is also widespread in political and ethical human rights considerations (Wettstein, 2009). The traditional focus on the role of governments in protecting human rights was challenged by the increasing globalization of markets and the growth of multinational corporations (Kobrin, 2009). The expansion of global markets and the rise of multinational corporations led to a situation where these corporations often operate in areas with weak institutions or governments that are unwilling or unable to protect the rights of their citizens. This created a disconnect between global economic progress and limited human rights protection in certain areas (Wettstein, 2009).

As a result, there was an increasing awareness that multinational corporations, rather than governments, should be held responsible for upholding human rights. This situation was exacerbated by the fact that home state governments needed to be more able to regulate the operations of their corporations. This created a governance gap, identified as the leading cause of the business and human rights problem that gained increasing attention from NGOs, policymakers, and academics in the mid-1990s and beyond (Ruggie, 2008). According to John Ruggie (2013: 39), in situations where corporations are engaged in severe human rights abuses such as genocide, war crimes, and some crimes against humanity, they may be directly subject to customary international law standards but only under specific conditions. Nonetheless, domestic courts must enforce these obligations in jurisdictions that allow it.

Another topic of discussion is the legal standing of multinational corporations in international law. This refers to whether or not they possess the legal personality necessary to be recognized as a subject and, therefore, an entity bound by international law (Muchlinski, 2001). In addition, scholars in business ethics have been exploring the moral basis for holding corporations accountable for human rights violations (Brenkert, 2016). Rather than relying on the legal concept of corporate personhood, the moral justification for corporate human rights responsibility rests on their capacity for a moral agency (Werhane, 2016; Arnold, 2016 for corporate human rights responsibility, and Donaldson, 1982 for more general).

Furthermore, political approaches to corporate human rights responsibility rely not on international law or ethical norms but on political processes and social expectations. The most well-known of these approaches is John Ruggie's UN Respect, Protect, and Remedy Framework, which is put into practice by the UNGPs. Ruggie stresses that the UNGPs are not designed to establish or enforce new legal obligations on companies. Additionally, he refrains from providing a moral justification for corporate responsibility based on normativity (Bilchitz, 2013). Instead, Ruggie derives corporate responsibility to respect human rights from changing social expectations of companies and their self-interest in avoiding the loss of support from critical stakeholders and maintaining their social legitimacy. According to Ruggie, the "courts of public opinion" are the standard for corporate legality regarding human rights behavior, making corporate human rights duty a political responsibility (2008: 16).

CSR is often considered an optional responsibility that companies undertake beyond legal obligations. It is usually associated with going beyond what is expected of businesses. Therefore, CSR language is associated with voluntarism and good business behavior rather than ethical duties and obligations of businesses. As a result, companies often see CSR as providing much discretion about which issues to prioritize and how to deal with them (Wettstein, 2012a). However, this voluntarism contradicts the traditional notion of human rights. Human rights, whether viewed from a moral (Sen, 2004), legal (Shelton, 2014), or cultural perspective (Kurasawa, 2014), aims to protect and promote our inherent dignity as human beings.

The urgency and essential nature of human dignity do not align with the perceived voluntarism of traditional CSR concepts. John Ruggie argues that respecting and protecting human rights is not optional or an act of goodwill but a fundamental expectation for all businesses (2008: 17). Thus, equating business and human rights (BHR) with corporate social responsibility (CSR) has a normative downside. This equation risks reducing the concept of human rights responsibility to mere acts of corporate goodwill, which could undermine the very core of human rights by failing to protect the equal and unconditional dignity of all human beings. In practice, it could lead corporations to meet human rights criteria selectively and on their terms. This could lead to public apathy towards corporate human rights behavior and promote hands-off public policies that do not hold corporations accountable for their impact on human rights.

Rapid economic growth, significant income inequality, and limited human rights infrastructure make emerging economies a substantial and intriguing context for examining the intersection of business and human rights. Although developed economies are not exempt from corporate-related human rights abuses, there is a greater concentration of such violations in developing and emerging economies, according to some records (Ruggie 2013). Emerging economies are often associated with industries that are particularly susceptible to human rights violations, including the garment and apparel, extractive, fishery, and construction sectors. Additionally, knowledge-based sectors such as IT and telecommunications are gaining importance in emerging markets and are linked to specific human rights abuses (Ruggie 2013).

Two emerging trends affect emerging economies and significantly affect global business and human rights. The first trend is the expected shift from south-east Asia to Africa as the future "factory of the world." The second trend is the impact of automation and artificial intelligence (AI) on emerging markets. This technological advancement may replace traditional factory labor and result in production from emerging markets to developed economies. While this shift may reduce the risk of Western multinationals being linked to labor rights abuses in emerging economies, it could have severe consequences for affected workers and broader socio-economic development in those countries. Another critical area of research that intersects with BHR and emerging economies focuses on how Western multinational corporations affect the institutions of these countries, as explored by scholars (Santoro, 2009).

Emerging market multinationals may need more familiarity with human rights protections when operating in markets with more advanced protections (Giuliani, Santangelo, and Wettstein, 2016). This difficulty is known as the "liabilities of foreignness" (Kostova and Zaheer, 1999), which may be especially relevant for emerging market multinationals whose countries of origin have lower human rights standards, limited freedom of speech and information, and more widespread oppression of minorities based on factors such as race, politics, sexuality, or religion (Giuliani, Santangelo, and Wettstein, 2016). These companies may need help to gain legitimacy in markets where the expectations of key stakeholders are higher.

Unsurprisingly, governments in emerging economies-initiated negotiations to establish global rules for corporate human rights accountability. These countries often face human rights violations involving corporations they have invested in, putting them in a difficult position where they must balance economic interests against human rights concerns (Giuliani & Macchi, 2014). By establishing global rules, these countries can improve standards without being at a competitive disadvantage and facing an unreasonable economic burden.

1.2 Country of Origin and the Likelihood of Wrongdoing:

The utilization of enslaved people is commonly seen as an outdated method of labor that more acceptable and humane practices have surpassed. Slavery has existed in diverse forms and across civilizations for thousands of years. Although it was abolished in most developed nations during the 19th and 20th centuries, it has gradually transformed from a sanctioned system based on legal ownership and ethnic distinctions to one banned and shifted towards the informal economy. Alternative terms such as "forced labor" and "practices resembling slavery" are used to describe this phenomenon (Belser et al., 2005; International Labour Organization, 2009).

Slavery is not solely confined to the pages of economic history; it endures in different manifestations and settings within the modern business, encompassing traditional slavery, bonded labor, human trafficking, and forced labor (Quirk, 2006). While comprehensive empirical data is scarce, widely referenced approximations suggest that as many as thirty million individuals are engaged as enslaved people in today's global workforce (Bales, 2004; Kara, 2009), while the International Labour Organization (ILO) estimates a minimum of approximately twelve million (Belser, Cock, & Mehra, 2005). This prevalent issue is predominantly in sub-continental Asia, West Africa, East Asia, the Middle East, and Latin America. However, instances of slavery in various forms have also been uncovered within numerous developed nations. Despite being universally acknowledged as unethical and outlawed by international law and most legal jurisdictions, slavery remains a viable managerial approach for many corporations. Neglecting the existence of modern slavery contributes to what Cooke (2003) refers to as the "denial of slavery in management studies." This is alarming because it disregards the involvement of companies and managers in one of the most severe human rights violations in contemporary business practices.

The United Nations (2003) declared, "Slavery and practices similar to slavery remain one of the most pressing human rights issues facing the international community." Despite conflicting regulations, norms, and practices, management studies can play a significant role in shedding light on the persistence of slavery. However, different levels of variation are involved, indicating that they are not strictly categorical. Without a precise legal definition, modern slavery is a "multi-dimensional continuum" (Quirk, 2006) along these dimensions. In simpler terms, external and internal factors can influence the institutional forces that deem slavery illegitimate. Several factors may account for this deviation, including specific economic contexts that incentivize noncompliance with external labor standards perceived as a financial risk, the presence of alternative or competing organizational domains characterized by different norms and restrictions (such as local cultures or criminal

networks), or a lack of coherence within the prevailing corporate field due to isolation, limited professional development, and minimal inter-organizational interdependencies (DiMaggio & Powell, 1983).

Nevertheless, organizations do not passively react to institutional and external influences (Greenwood & Suddaby, 2006). Institutional processes are inherently political and reflect the power dynamics between organized interests and the actors who mobilize around them (DiMaggio, 1988). Consequently, businesses involved in slavery can significantly impact whether the institutional context will impose restrictions or permit the continued use of slavery as a labor practice. For instance, it is widely acknowledged that companies can employ non-market strategies that influence the market environment and the broader institutional context in which they operate (Baron, 1995). Similarly, Oliver (1991) demonstrates that organizations can adopt different strategic positions regarding institutional procedures. In other words, businesses can either evade institutional expectations to comply with legal labor practices or leverage those expectations to enhance their perceived legitimacy. Nevertheless, companies must develop and utilize internal resources (or a combination of resources) to effectively implement such strategies to seize opportunities or mitigate environmental threats (Barney, 1991).

An organizational capability refers to the ability of a company to perform a particular task or activity by effectively utilizing its available resources to achieve a specific objective (Helfat, 2003; Helfat et al., 2007). It is "a company's ability to consistently perform a productive task directly or indirectly related to its capacity to create value by converting inputs into outputs" (Grant, 1996). According to Winter (2003), operational capabilities are the implicit routines that enable businesses to thrive in the current environment. Operational capabilities have predominantly been employed to elucidate how companies gain and maintain a competitive edge by accessing various resources. Within the context of slavery, two main categories of operational capabilities can be detected. The first category pertains to exploiting and insulating capabilities, which are crucial for businesses engaged in slavery to navigate the existing environment effectively. The former involves capitalizing on favorable conditions that facilitate the establishment and perpetuation of slavery.

On the contrary, the latter requires companies to protect themselves against circumstances that may undermine the conducive conditions that allow slavery to persist. The second set of capabilities an organization needs goes beyond merely reacting to a given situation. These capabilities involve actively shaping the situation through "institutional work." Hence, they are known as sustaining and shaping capabilities. Sustaining capabilities involve the organizational routines developed to uphold and strengthen an already supportive environment.

Conversely, shaping capabilities encompass the knowledge and actions taken to create a more favorable environment for the organization, particularly in an antagonistic setting. By doing so, organizations can avoid conforming to broader institutional norms and conceal socially destructive behaviors (Zietsma & Lawrence, 2010).

Additionally, the likelihood of slavery occurrence is influenced by external factors that can be classified into industry context-related conditions and broader institutional context-related conditions. These institutional contexts encompass regulative, normative, and cultural-cognitive systems influenced by socio-economic, political, cultural, and geographic factors (Scott, 2001). Modern slavery tends to flourish more prominently in specific industries compared to others. Previous research has indicated its prevalence in agriculture, mining and extraction, construction, and particular forms of manufacturing like brickmaking and carpet weaving. Indeed, modern slavery, like its traditional counterpart, is more prevalent in industries characterized by high labor intensity. Sectors with limited technological advancements and rely on unskilled labor, particularly within personal service sectors, are more susceptible to engaging in slavery practices as it reduces the direct costs that drive profitability.

Moreover, slavery is commonly found in small-scale businesses with limited potential for capturing value (Domar, 1970). Therefore, the industry's legitimacy is crucial in determining the occurrence of slavery practices. Legitimacy is the perception or assumption that an entity's actions align with socially constructed norms, values, beliefs, and definitions (Suchman, 1995). Industries with low levels of legitimacy, such as sex work, domestic work, or unauthorized mining, are more prone to illicit practices like slavery. This is primarily because organizations within these industries already operate outside the purview of regulators and other formal institutional forces.

Furthermore, socio-economic factors play a crucial role in determining the supply side of slavery. Hence, poverty is a significant "push" factor, creating an environment conducive to labor exploitation, particularly in the most severe forms. The United Nations acknowledges that contemporary slavery is fundamentally linked to millions of people enduring "severe poverty." (Rassam, 2004). Furthermore, research supports the notion that lower levels of GDP per capita are associated with higher proportions of slavery relative to the population (Plant, 2007), assuming other variables remain constant. This is because such conditions enable slave recruiters to employ persuasion, coercion, and deception tactics to exploit potential laborers. In addition, structural unemployment arising from inadequate skills among workers and limited job opportunities in a region is closely linked to poverty. It intensifies poverty's underlying push, making individuals more

susceptible to labor exploitation. Finally, education and awareness play crucial roles in influencing the persistence of slavery. Indeed, limited levels of education restrict the available or perceived alternatives to bonded labor, while insufficient knowledge about slavery practices increases the vulnerability of potential victims (Andrees, 2008; Plant, 2007).

Moreover, the geographical context plays a crucial role in the prevalence and perpetuation of modern slavery. According to the ILO, forced labor is widespread in the informal economy, especially in hidden or hard-to-reach regions in developing and industrialized countries (Plant, 2007). Hence, geographical isolation influences the likelihood of slavery in two main ways. Firstly, specific industries, such as agriculture, forestry, and mining, are inherently tied to particular locations. If these locations are far from primary sources of labor, it creates a labor market characterized by high demand but limited supply. As a result, the cost of labor increases, posing challenges for small-scale operations to remain economically viable. Geographical isolation can also have significant cultural-cognitive and regulative implications that contribute to the institutionalization of slavery. Establishing slavery sites in secluded areas with minimal or no interaction with other communities provides a shield against law enforcement, advocates, and labor unions that would otherwise protect the interests of those affected. Ultimately, isolation can contribute to normalizing slavery practices among those involved, reducing the likelihood of resistance from the exploited workers. This is observable in slavery camps located in remote rural or mining regions.

Furthermore, despite formal regulatory institutions explicitly prohibiting slavery, its persistence is more likely in regions where informal institutional norms and regulations reinforce a permissive culture. Indeed, traditions play a significant role in shaping community norms, even though legal and social changes have abolished the formal acceptance of slavery in most cases. Certain areas still adhere to these traditions. For instance, bonded labor has been a longstanding issue rooted in customs and traditions in some countries, although there are gradual shifts in response to modern developments (Quirk, 2006). In general, slavery tends to be more tolerated when it perpetuates entrenched inequalities, such as longstanding accepted forms of exploitation or discrimination, particularly against women, racial minorities, or children. Gender inequalities, for instance, have been extensively linked to sex slavery in source and destination countries, according to various theories (Bertone, 1999; Kara, 2009; Schauer & Wheaton, 2006). In addition, various forms of social hierarchy contribute to the institutionalization of slavery.

For instance, bonded labor in India is strongly linked to the caste system, with approximately 80% of bonded laborers belonging to Dalits (formerly known as "untouchables"), Indigenous tribal people.

Ultimately, the regulatory context plays a crucial role in determining the prevalence of slavery and human rights abuses. National laws against slavery and international human rights agreements formally prohibit such practices as part of the formal institutional framework. However, the enforcement and effectiveness of these regulations vary significantly. The strength of governance in a particular region is a crucial determinant of whether modern forms of slavery will flourish. Governance encompasses the effectiveness of the government, the quality of regulations, the rule of law, political stability, control of corruption, and the extent to which citizens have a voice and accountability (Kaufmann, Kraay, & Mastruzzi, 2010). In regions lacking these factors, there is a higher likelihood of slavery thriving. Corruption, inadequate resources, and ineffective management can undermine good governance in the public sector, leading to weak enforcement of anti-slavery measures. Corruption, for instance, can facilitate human trafficking and enable ongoing labor exploitation by influencing border guards or local police through bribes. It can also hinder the prosecution of slave operators by corrupting the judicial system (Richards, 2004).

To understand this phenomenon, it is necessary to look beyond conventional public governance measures and examine governance specifically related to slavery regulation. Private or civil law implemented by corporations, non-governmental organizations, or the media may influence the power of governance and attention to the issue of slavery. Companies can control governance in different ways. On the one hand, they can contribute to the deterioration of poor control by offering bribes to exploit slave labor. On the other hand, they can improve governance or function as a substitute for public governance through private initiatives. This can involve implementing supply chain codes of conduct, collaborating with NGOs to address slavery, or engaging in activities to enhance public governance, such as supporting human rights training for judges or funding local law enforcement (Valente & Crane 2010). Likewise, NGOs and the media have the potential to strengthen governance and raise awareness by investigating and publicizing cases of slavery, as well as contributing to finding solutions.

Ultimately, Fiaschi, Giuliani, and Nieri (2016) investigate the relationship between Multinational Enterprise (MNE) internationalization, CSR, and involvement in human rights. They have analyzed the controversies in the context of prominent Latin American public companies. They found that when companies adopt CSR policies and invest in countries with high levels of speech and press freedom, they are less likely to be involved in human rights controversies. Additionally, firms originating from developing countries face various competitive challenges due to the specific traits of their home countries. The standards upheld by these firms' home countries are significantly lower compared to internationally accepted standards, particularly concerning labor and other human rights (Giuliani et al., 2016). For instance, Giuliani and Macchi (2014) suggest that the detrimental impact of companies on human rights in developing countries depends on factors such as the capacity of the host country's government or civil society organizations, industry characteristics like competition level or industry type, and specific features of the firms themselves. According to management literature, low-quality institutions in the home market can contribute to cases of wrongdoing due to several factors.

Firstly, complex regulations can create ambiguity regarding what is considered wrongdoing, making it easier to engage in such behavior (Wettstein, 2009). Secondly, an under-resourced judiciary needing more accountability increases the likelihood of wrongdoing being unpunished (Surroca et al., 2013). Lastly, high levels of corruption could provide avenues to bypass regulations and avoid sanctions for wrongful conduct (Keig, Brouthers, & Marshall, 2015). Conversely, being based in a home market with high-quality institutions shapes business behavior domestically and internationally, as even actions conducted abroad can be subject to punishment at home (Martin, Cullen, & Johnson, 2007; Spencer & Gomez, 2011). Therefore, assuming all this, emerging market multinational enterprises (EMNEs) operating in low-quality institutional environments are more likely to be involved in wrongdoing.

1.3 Emerging Multinational Markets (EMNEs) and Human Rights:

"A new type of determined multinational corporation is emerging globally, bringing challenges and prospects for established international companies. These emerging contenders come from unexpected corners of the world, including developing countries like Brazil, China, Russia, Egypt, and South Africa. They are revolutionizing various industries, ranging from agricultural machinery and refrigeration to aviation and telecommunications, and reshaping the dynamics of global competition "(Business Week, 2006, p. 42).

One aspect of HR that necessitates further investigation and deserves special consideration is the examination of the Emerging Multinationals Markets (EMNEs), which have become significant contributors on the global stage. While there is currently a focus on these "emerging" multinationals, it is essential to note that they are not entirely new phenomena. Transnational corporations originating from developing or third-world economies, possessing international assets and markets, have existed, and endured for at least the past fifty years. Furthermore, there is a shifting perspective regarding these firms, transitioning from being niche players associated with the economic progress of their domestic markets to becoming global competitors challenging established multinationals from more advanced economies.

Numerous reports from industry experts (BCG, 2006), business publications (Business Week, 2006), and international organizations (OECD, 2006) offer compelling evidence of the significant internationalization of firms from emerging countries in industries that multinational corporations from developed nations have traditionally dominated. For example, the BCG (2006) report highlights the presence of the top one hundred companies from developing economies in various sectors, including industrial goods, consumer durables, telecommunications, pharmaceuticals, and information technology. EMNEs, such as Embraer (aerospace, Brazil), Gazprom (gas, Russia), Infosys (IT services, India), AB InBev (alcoholic beverages, South Africa), and Huawei (telecommunication equipment, China), are increasingly influential in the global economy and rank among the leaders in their respective industries (Luo & Tung, 2019).

Moreover, these emerging multinationals are internationalizing through export operations and increasingly through foreign direct investment, including acquisitions. The process of internationalization presents a twofold challenge for EMNEs. Firstly, they need to counterbalance the negative perceptions of operating in emerging economies, known as the "liability of origin" (Ramachandran & Pant, 2010), by demonstrating their commitment to being responsible global corporate entities. This can be achieved, for instance, through adopting Corporate Social Responsibility (CSR) policies (Marano, Tashman, & Kostova, 2017). Secondly, internationalization involves navigating an expanding array of stakeholders and institutions (Surroca, Tribo, & Zahra, 2013), heightening the risks of engaging in corporate misconduct. Hence, according to scholars in the field of international business (IB), the conduct of emerging market multinational enterprises (EMNEs) is influenced by the quality of institutions in both their home and host markets (Meyer & Peng, 2016).

These firms could take advantage of their specific strengths in product and process technologies, which were well-suited to the factor costs, input characteristics, and demand conditions in the host countries where they made their investments (Lecraw, 1993). Indeed, Craig and Douglas (1997) propose that responses to increased economic liberalization and the entry of foreign firms could vary, ranging from cost-focused strategies based on low-cost labor and resources to manufacturing components or producing private-label goods for established multinational corporations. More recently, Khanna and Palepu (2006) suggested several general approaches that capitalize on the institutional voids characteristic of emerging economies.

As a result, the share of foreign direct investment (FDI) accounted for by emerging market multinational enterprises (EMNEs) has been on the rise, increasing from a mere 10% in 2000 to 40% in 2013 (UNCTAD, 2014). Similar to multinational enterprises from developed markets, these EMNEs have the potential to make significant and transformative impacts on both their home and host countries, prompting essential considerations regarding the appropriate legal and policy frameworks to govern their activities. Consequently, firms from emerging economies possess a distinct advantage by operating in institutional voids, which they leverage to compete against foreign multinational corporations in their local economies and markets with similar institutional environments. The underlying theme among these frameworks is that emerging economy firms have cultivated specific advantages from their unique institutional contexts in their domestic markets, which can be expanded into international markets.

Researchers like Spencer & Gomez (2011) have applied neo-institutional theory to shed light on this relationship, proposing that firms originating from countries with higher-quality institutions are less prone to engaging in unethical business practices due to the influence of domestic stakeholders, which extends to their foreign operations. In contrast, it is reasonable to anticipate that EMNEs from home markets with low-quality institutions would exhibit a higher likelihood of involvement in wrongful conduct. Another viewpoint put forth by scholars suggests that firms imitate and adapt to the institutional environment in which they operate. Accordingly, the likelihood of misconduct is contingent upon the quality of institutions in the host markets.

Consequently, firms operating in host markets with low-quality institutions are expected to exhibit higher levels of wrongdoing, irrespective of the quality of institutions in their home markets (Surroca et al., 2013). From this perspective, EMNEs that enter host markets with high-quality institutions would strive to avoid involvement in unethical practices as part of their efforts to counterbalance their "liability of origin" (Fiaschi, Giuliani, & Nieri, 2017; Marano et al., 2017). Examining the management literature concerning the negative aspects of business reveals various factors contributing to corporate misconduct and the quality of institutions in home and host markets. These factors include firm performance, size, age, and state ownership. Overall, the literature has identified different and sometimes contradictory mechanisms through which internationalization, institutional pressures from home and host markets, and organizational characteristics can affect the engagement of EMNEs in unethical behavior. What requires further investigation is how the interplay of multiple factors at both the firm and country levels can influence the occurrence and severity of corporate wrongdoing.

A significant concern related to the HR practices of EMNEs arises when considering the countries from which these new players originate. Emerging market countries are frequently distinguished by institutional gaps (Khanna & Palepu, 1997), limitations on freedom of speech, and press censorship (Fiaschi, Giuliani, & Nieri, 2016). However, these institutional weaknesses also reflect the ability of these countries to safeguard against and address human rights abuses associated with the business sector. As a result, certain human rights violations, such as child labor and poor working conditions, are sometimes tolerated, and social and environmental regulations are often less stringent compared to more developed nations (Kaufmann, Kraay, & Mastruzzi, 2010). Nevertheless, according to Ruggie (2008, 2011), human rights violations are widespread in countries affected by internal conflicts and characterized by weak governance and the absence of the rule of law. Weak governance and the rule of law are commonly observed in emerging economies (Doh et

al., 2017; Khanna & Palepu, 1997). Firstly, the presence of multinational enterprises (MNEs) in a region can stimulate competition among local firms to achieve cost-related competitive advantages, often resulting in the mistreatment of employees' human rights. This is done to make local firms more appealing as subcontractors and partners for MNEs. Giuliani et al. (2013) argued that MNEs significantly contribute to indirect human rights abuses when their production and supply chains extend across local economic and social systems. Secondly, when numerous MNEs operate in a region, they employ skilled workers, leaving local firms with predominantly low-skilled labor, which may be subjected to poor working conditions without proper social security measures. In light of these findings, it becomes evident that the impact of MNEs on local communities in emerging economies is not as straightforward as suggested in some literature streams (Giuliani & Macchi, 2014), highlighting the necessity for further research in this field, as emphasized by Giuliani et al. (2016).

Furthermore, global value chains dominate the production and consumption systems (Gereffi, 2014; Gereffi et al., 2005). However, they give rise to two challenges in upholding human rights. The first challenge is known as the 'race to the bottom.' Multinational companies that oversee value creation across transnational production networks maintain their competitive advantage by engaging in cost competition, which includes pressuring suppliers to reduce their prices (Anner, 2015). This cost competition and price pressure on suppliers are driven not only by the necessity for companies to stay competitive in the market but also by the incentives established by corporate elites, such as CEOs and executives, whose variable compensations are tied to financial performance (Bivens & Mishel, 2013; Giuliani, 2018).

One consequence of this cost competition is that governmental responsibilities to protect and fulfill human rights should be addressed in favor of policies that attract investment, which frequently involves maintaining low wages and flexible labor regulations through labor market liberalization. In large countries like China and the United States, competition for low wages exists between different labor markets or regions, partly driven by state policies that seek to deregulate labor relations or fail to enforce existing regulations. As a result, workers and their families are left vulnerable, often working in poverty and lacking government protections for their rights at work (Standing, 2014).

The second issue arises when the pursuit of responsible business practices surpasses the preferences dictated by market liberalism. However, government efforts to address the challenges posed by the race to the bottom are impeded by the fragmented legal and economic structures inherent in global value chains. These value chains, which oversee the global creation of value, comprise distinct legal entities that operate within various jurisdictions, making it difficult for a single regulatory authority

to safeguard human rights effectively. To put it differently, the outsourcing and offshoring of production allow leading companies to exploit variations in regulations and enforcement, thereby minimizing costs (Barrientos et al., 2011). However, international institutions and standards only have an indirect impact since they assume that states are responsible for the legal regulation of economic activities, even though their enforcement may be weak (Bernaz, 2017; Buhmann, 2018). Despite the transnational nature of production and the associated laws, regulations aimed at safeguarding people and the environment are still primarily defined at the national level (Ruggie, 2018).

Globalizing rights within global value chains through innovative regulatory approaches have gained significant moral significance as it interacts with multinational efforts to establish norms promoting responsible business conduct (Ruggie, 2013). A pivotal moment was achieved in 2008 with an agreement on a comprehensive definition of corporate responsibility for human rights. The United Nations Guiding Principles (UNGP) further expanded this by outlining the concept of 'human rights due diligence' as a management procedure to identify and prevent human rights violations. These normative advancements indicate that the field of 'business and human rights' (BHR) is reshaping corporate social responsibility (CSR) theory and implementation, primarily by redefining the nature of business accountability for human rights.

The prevailing agreement revolves around defining responsible business conduct based on the idea that a business entity holds an independent obligation to uphold human rights, including labor rights, across its entire global value chain. This obligation is expected to be implemented through a comprehensive process of due diligence undertaken by the company to ensure it does not violate these rights. The emergence of the Business and Human Rights (BHR) movement, encompassing activists, academics, and policymakers, is founded on universally recognized international human rights standards. This movement advocates for businesses to bear direct responsibility for their impacts on human rights, elucidating the practical implications of this responsibility through detailed guidance on due diligence. As a result, an emerging and highly interdisciplinary field of practice and theory has emerged, carrying significant implications for multinational corporations seeking to uphold responsibility, particularly in emerging economies (Giuliani et al., 2016).

Studies on institutional arbitrage demonstrate that multinational enterprises (MNEs) often take advantage of differences in institutional regulations across countries. They exploit countries with less stringent labor market regulations than their home countries to achieve efficiency gains. As a result, MNEs can engage in irresponsible business practices by shifting their operations away from home countries with more robust press and judicial systems to countries where such conduct is tolerated and goes unpunished (Surroca et al., 2013; Fiaschi et al., 2017). The field of business and human rights, along with legal scholarship, has uncovered numerous cases of corporate misconduct where MNEs utilize the legal separation between their headquarters and subsidiaries to evade prosecution in their home countries for wrongdoings committed in foreign host countries with dysfunctional judicial systems and corrupt politicians (Zerk, 2012). One may assume that exploitative practices are limited to low-income countries and diminish as these nations experience economic growth, partly fueled by such exploitative conduct.

Indeed, while Emerging Market and Developing Economy (EMNE) companies play an increasingly significant role in global trade and foreign investments, they have received limited attention in discussions about business practices and human rights concerns (Ciravegna & Nieri, 2022). There are several instruments through which institutional pressures impact business involvement in Human Rights Initiatives (HRIs) (Ciravegna & Nieri, 2022). First, complex regulations can create ambiguity regarding HRIs (Wettstein, 2009). Secondly, the probability of corporate misconduct receiving support diminishes when there is an ineffective, inadequately funded, non-transparent legal system and high corruption levels (Keig et al., 2015; Spencer & Gomez, 2011). Third, both home and host market institutions shape business conduct. Hence, home market institutions influence firm-level behavior, including strategy (Meyer & Peng, 2016) and encouragement to respect human rights (Whelan & Muthuri, 2017). Indeed, some scholars argue that low-quality institutions result in "institutional voids" (Khanna & Palepu, 1997), i.e., situations where institutions fail to perform their functions, including sanctioning businesses' involvement in HRIs. Fourth, being based in a high-quality institution's home market leads to a higher chance of being held for HRIs and more severe sanctions for firms found blameworthy of HRIs (Keig et al., 2015; Spencer & Gomez, 2011; Yiu et al., 2002).

Additionally, internationalization creates further challenges and makes the effect of institutions more difficult to grasp. While diversifying their market presence, companies face increased difficulty overseeing regulatory compliance and ensuring effective control over foreign subsidiaries to prevent Human Rights Violations (HRIs) (Kostova & Roth, 2002; Strike et al., 2006). Conversely, international expansion can motivate avoiding HRIs, as Emerging Market Multinational Enterprises (EMNEs) seek to transcend their initial liabilities and build a positive global image by demonstrating ethical behavior (Fiaschi et al., 2015; Marano et al., 2017; Zyglidopoulos et al., 2016).

Following the proverb "When in Rome, do as the Romans do," companies adjust to their institutional surroundings by imitating the conduct of local organizations (DiMaggio & Powell, 1983; Salomon & Wu, 2012). Hence, companies that operate in countries with weaker institutional frameworks are more prone to involvement in human rights issues, regardless of their home country's solid institutional foundations (Surroca et al., 2013). Conversely, EMNEs that have expanded into host markets characterized by institutional solid quality encounter significant external pressure to avoid engaging in Human Rights Violations (HRIs) (Fiaschi et al., 2017; Zyglidopoulos et al., 2016).

Multinational enterprises (MNEs) will continue to invest in countries even when the citizens have limited influence over the political process as long as there are favorable business prospects. This is exemplified by the recent foreign direct investment (FDI) surge into China. Despite China's authoritarian regime, by 2003, it had emerged as the second-largest recipient of FDI inflows worldwide, totaling $53 billion. Likewise, scholars have observed that foreign investment exhibits significant variations, particularly in contrasting investment patterns between economically advanced nations and less-developed countries (Blonigen and Wang, 2005; Büthe and Milner, 2008). In recent years, there has been a notable increase in foreign direct investment (FDI) in the developing world. While a significant portion of investment in developed countries is directed towards specialized research and development, highly skilled labor, and accessing affluent consumer markets, investments in developing countries more frequently focus on extracting resources and establishing lower-cost manufacturing and service production, some of which is intended for export to developed nations (UNCTAD, 2014). Historically, industries associated with lower worker and human rights standards have existed.

Consequently, international investors may be perceived as complicit in human rights violations when involved in such industries. This is why multinational enterprises (MNEs) from developing countries operate in environments with weaker regulations and customer bases. They are better equipped to cater to the needs of impoverished individuals in less developed countries (LDCs) because they originate from nations where the average wealth levels of citizens are lower and income distribution is unequal compared to developed countries (World Bank, 2002). As a result, developing-country MNEs are accustomed to operating in regions with less advanced infrastructure and adapt their technology and managerial expertise to suit these conditions (Lall, 1983). As a result, developing-country MNEs are more prevalent in LDCs, with lower regulatory standards, limited corruption control, and a weaker rule of law.

Main Approaches	
1. HR and CSR	Business and human rights (BHR) emerged as a response to the growing recognition of corporations' involvement in human rights abuses. It highlights the distinction between BHR, which focuses on corporate responsibility for upholding human rights, and CSR, which is often considered optional.
2. Country of origin and violation of HR	The focus is on the persistence of slavery in various forms, including forced labor and human trafficking, especially in low-income countries with weak institutions. It is noted that governance, including the effectiveness of governments, regulations, and political stability, plays a crucial role in the prevalence of slavery, with multinational enterprises from weaker institutional environments being more prone to involvement in such practices.
3. EMNEs and HR	The discussion revolves around the significance of examining emerging multinational markets (EMNEs) with human rights (HR). It addresses the HR practices of EMNEs from countries with weaker governance, highlighting the potential for human rights violations and the emergence of the Business and Human Rights (BHR) movement advocating for corporate responsibility.

Source: own elaboration based on Chapter I

Chapter 2: Foreign Direct Investment (FDI):

2.1 Definition of FDI and Factors of Influence:

International trade and foreign direct investment (FDI) have experienced rapid growth on a global scale. In 2003, worldwide merchandise exports reached nearly 7.3 trillion dollars, commercial services exports were close to 1.8 trillion dollars, and FDI inflows reached approximately 560 billion dollars (UNCTAD, 2022). However, a noteworthy aspect of this growth is the remarkable expansion of FDI in services, with the inward stock of FDI in services rising from 950 billion dollars in 1990 to 4 trillion in 2002 (UNCTAD, 2022). Services accounted for about two-thirds of FDI inflows in 2001-2002. This significant growth in trade and FDI flows has been accompanied by a surge in the trade of intermediate inputs within and across firms. The rise in international vertical specialization, where inputs are traded across national borders for further processing and final assembly, is closely linked to the increasing fragmentation of production, with multinational corporations playing a pivotal role. Technological advancements, like computer-aided design and computer-aided manufacturing, have contributed to this trend, leading to a rise in outsourcing within and across countries.

Consequently, the conventional classification of FDI into vertical and horizontal forms has become less meaningful, as multinational corporations now invest in low-cost countries to establish export platforms to serve multiple countries worldwide. As a result, business firms' sourcing strategies and multinational corporations' integration strategies have become more intricate and complex than ever before.

FDI refers to an investment where a foreign direct investor residing in one country holds a lasting interest and exercises control over an enterprise in another country (known as a foreign affiliate). FDI inflows represent the capital provided by a foreign direct investor to its foreign affiliate situated in the reporting country. It also includes money a foreign direct investor residing in the reporting country receives from its foreign affiliate located abroad. FDI flows are reported as net figures, presenting them as credits minus debits. Consequently, in cases where there is reverse investment or disinvestment, FDI can have a negative value. FDI stock represents the total value of capital and reserves that can be attributed to a non-resident parent enterprise. It also includes the net indebtedness of foreign affiliates to parent enterprises (UNCTAD, 2022).

This influence is typically demonstrated by the investor owning at least 10% of the voting power in the enterprise within the foreign country. FDI facilitates international economic integration and fosters enduring and stable connections between economies. It is a vital conduit for technology transfer between countries, promotes international trade by providing access to foreign markets, and catalyzes economic development. The indicators in this category include inward and outward values for stocks, flows, and income, categorized by partner country and industry, and FDI restrictiveness.

The rapid expansion of FDI involving multinational enterprises (MNEs) has outpaced the growth of various international transactions, including trade between nations. Apart from FDI, MNEs play a significant role in coordinating many global transactions. Nearly half of all trade flows occur within MNEs, known as intra-firm trade. These prevailing patterns in the real world have sparked considerable attention in international economics, prompting researchers to empirically examine the key factors that influence FDI behavior (Blonigen, 2005). The primary inquiry regarding foreign direct investment (FDI) centers around why a company would opt for producing goods through its affiliate in a foreign market instead of pursuing alternative options like exporting or licensing agreements.

The conventional explanation revolves around intangible assets specific to the company, such as technologies and managerial expertise. These assets function as public goods within the company, meaning their utilization in one facility does not deplete their availability in other facilities. Still, it does not necessarily elucidate why they would expand internationally and become multinational. To explain why these assets contribute to the decision to establish a multinational enterprise (MNE), we often highlight the potential market failures associated with these assets (Blonigen, 2005). A commonly posited hypothesis is that it becomes challenging to fully capture the economic benefits of such support when engaging with external entities. For instance, negotiating a contract with a licensee may only offer the total value if the intangible asset is completely disclosed.

Conversely, the licensor may only reveal the asset once a contract is finalized. In such scenarios, the optimal choice may be for the company to internalize the market transaction by establishing its production affiliate in the target market. The early conceptualization of this idea can be traced back to the work of Oliver Williamson on transaction costs, which laid the foundation for the ownership-location-internalization (OLI) paradigm. The Ownership, Location, and Internalization (OLI) paradigm, proposed by Dunning in 1981, outlines the factors influencing international production decisions.

The model presents the three consecutive elements - firm-specific ownership advantage and location-specific circumstances as linked factors leading to transaction mode, the selection of internalization as the transaction approach, and the resultant internalization-driven savings - as separate entities, thereby obscuring their conceptual differences and causal connections (Li, 2007). These factors include the possession of ownership-specific advantages over potential host country firms, the intention to retain these advantages instead of selling or licensing them, and the advantages gained from relocating to a foreign host country.

The OLI paradigm operates on the premise that a cost-benefit analysis of transaction costs shapes investment decisions for a particular country. Profit maximization plays a crucial role in determining these decisions, as companies evaluate the attractiveness of the investment climate and the estimated costs associated with investing in a potential host country. As a result, Foreign Direct Investment (FDI) distribution across countries is partly determined by location-specific advantages (Cooke, 1997). Furthermore, an extension of the OLI paradigm, presented by Dunning in 1988 and discussed by other researchers (Caves, 2007) and (Cohen, 2007), introduces three primary "forms of production": resource-seeking, market-seeking, and efficiency-seeking. This extension further explores the motivations and objectives behind FDI in various industries.

Resource-seeking Foreign Direct Investment (FDI) is driven by the desire to capitalize on the availability of raw materials or natural resources in a host country. The ultimate aim is to profit from selling these resources globally. Geological or climatic factors often determine the choice of location. For instance, a country might provide corporate access to resources and develop infrastructure to facilitate extraction and transportation. This kind of FDI is mainly associated with early investments, especially in developing nations. It is exemplified by companies in the oil industry and tropical fruit firms like Dole or Chiquita (Cohen, 2007).

On the other hand, *market-seeking* FDI involves a company establishing operations in a foreign country to safeguard or expand its access to a particular foreign market. The corporation typically relocates the entire production process to the host country and sells its products or services within that market. The primary considerations for choosing the location are the size and potential growth of the objective market and the availability of a domestic labor force with the necessary skills for the production process. This type of FDI is particularly relevant for manufacturing firms operating

in sectors with low value-added and high transportation costs, such as those producing heavy or bulky goods like tires or fabricated metals, as well as service industries (Caves, 2007).

Efficiency-seeking Foreign Direct Investment (FDI) involves a company relocating a portion of its production process to another country to reduce overall costs and gain a competitive advantage in the global market. There are two main ways to achieve improved efficiency: firstly, by lowering factor costs in a specific part of the production chain, such as reducing labor costs in the assembly of a finished product, and secondly, by attaining economies of scale in the production process (Cohen, 2007). In making location decisions for efficiency-seeking FDI, companies consider the availability of highly skilled or inexpensive labor, depending on the specific requirements of the production chain. Export processing zones (EPZs) fall into this category because they focus on minimizing labor costs. Similarly, manufacturing sectors that involve high value-added processes and relatively low transportation costs, such as the electronics industry, also align with this type of FDI.

The OLI paradigm is widely recognized as the dominant theoretical framework for making decisions about foreign investment (Dunning 1993). Hence, the decision to engage in international production is contingent on three conditions. Firstly, a company should possess specific advantages that surpass those of firms in other countries. These advantages may include exclusive property rights, intangible assets like product innovations, or superior marketing strategies.

Secondly, the company must gain some location-based benefits by expanding abroad, such as cost savings in transportation, access to specific natural resources in the host country, proximity to a large market, or the need to bypass trade barriers. Finally, the company must genuinely desire to retain ownership of these advantages rather than merely selling or licensing them to foreign firms. The company must seek to internalize its advantages across different markets (Blonigen, 2005). Recent research has employed more formal theories of firm behavior, such as hold-up issues and agency theory, to establish structured frameworks for comprehending market failures that drive a company to become a multinational enterprise (MNE). However, evaluating these hypotheses presents challenges due to the unobservability of firm-specific factors influencing the decision to engage in FDI.

As a result, metrics such as R&D intensity (the ratio of research and development spending to assets or sales) and advertising intensity have mainly been employed as substitutes for intangible assets (Blonigen, 2005). These variables are then employed as explanatory factors in firm-level studies to determine whether firms adopt a multinational approach. In fact, including such variables has become customary in any analysis examining the FDI decision at the firm level. Morck and Yeung (1992) present an alternative assessment method whereby they discovered that publicly traded U.S. companies that announced foreign acquisitions witnessed positive abnormal returns in their stock prices. Still, this effect was only observed among firms with substantial research and development (R&D) and advertising intensity.

However, asserting that these empirical analyses definitively validate the internalization hypothesis would be inaccurate. Indicators such as R&D and advertising intensity might function as proxies for other factors that drive foreign direct investment (FDI) rather than being directly linked to the internalization hypothesis. Moreover, evidence suggests that firms lacking R&D intensity or innovation compared to their industry competitors are more inclined to engage in FDI. For instance, Kogut and Chang (1991) and Blonigen (1997) provide evidence indicating that Japanese firms' FDI acquisitions in the U.S. were motivated by the desire to access firm-specific assets rather than solely driven by internalization of their firm-specific assets. These motivations may or may not contradict the motivations related to internalization for FDI.

The quality of institutions is likely a crucial factor influencing foreign direct investment (FDI) activity, especially in less-developed countries, for various reasons:

1. Inadequate legal protection for assets increases the risk of asset expropriation, discouraging investment.
2. The poor institutional quality required for well-functioning markets and issues like corruption raises business costs, thereby reducing FDI activity.
3. When poor institutions result in inadequate infrastructure, the expected profitability diminishes, leading to decreased FDI inflows into a market.

While these fundamental hypotheses are widely accepted, accurately quantifying the impact of institutions on FDI Accurately measuring data for institutions is challenging. Most measures rely on composite indices reflecting a country's political, legal, and economic institutions, derived from survey responses from officials or businesspeople familiar with the country. Comparing these measures across countries may need to be clarified since survey respondents may differ between countries. Additionally, institutions exhibit a high degree of persistence, limiting the availability of informative variation over time within a single country.

The political environment of a host state can affect the ownership, locational, and internalization aspects of the OLI paradigm. A state can enhance ownership advantages through the proper regulatory environment by helping a firm preserve its intangible aspects or monopolistic advantage over local producers. State credibility decreases political risk and cost of internalizing production as multinationals gain confidence that the state will not adopt policies after initial investment that negatively affect their operations (Jensen, 2003). However, the role of the host state is most robust as a locational factor. Some locational criteria, such as natural resources and port access, are fixed. However, states can make their location more desirable in various other ways. They may offer preferential taxation policies and other financial incentives (Oman, 2000). Moreover, as discussed below, the political environment of a host country and the education and skill levels of the workforce may also factor in locational criteria.

While the OLI paradigm provides insights into the reasons for foreign investment and its significance for various industries, there remains a necessity for further research to understand why certain countries are more successful than others in attracting FDI. While scholars and policymakers have made efforts to determine the relative impact of fiscal and economic policies on FDI attraction (Li, 2006; Loree & Guisinger, 1995), there needs to be a more systematic investigation into the role of socio-political factors. Consequently, uncertainty remains regarding how state policies and practices influence FDI decision-making. In this context, the focus on human rights as a country-specific locational factor gains importance as it may influence FDI, depending on the characteristics of the investment sector. More research is needed to explore the relationship between human rights conditions and FDI, particularly in various investment sectors.

2.2 Trend of FDI During the Years and All Over the World:

In 2021, worldwide foreign direct investment (FDI) reached a value of $1.6 trillion, marking a substantial increase of 64.3% compared to the previous year's low levels. This recovery was a universal trend, as FDI growth was evident across all regions. Developed economies experienced a remarkable surge in their foreign investments, tripling their overseas investments to $1.3 trillion in 2021 from $408 billion in 2020 (Handbook of Statistics 2022, n.d.). Conversely, developing economies saw a 17.8% uptick in the value of FDI outflows, amounting to $438 billion. Despite the pandemic, developing Asia and Oceania remained significant contributors to investment flows. While FDI flows to developing economies grew slower than developed economies, they still increased by 29.9% to reach $837 billion (Handbook of Statistics 2022, n.d.).

Similarly, developing Asia and Oceania maintained their upward trajectory, with FDI inflows hitting an unprecedented high of $619 billion, signifying a 19.3% increase. In the Americas, FDI inflows to developing economies rebounded vigorously, surging by 56% to reach $134 billion, thereby recouping some of the losses incurred in 2020 (Handbook of Statistics 2022, n.d.). Regarding distribution, the share of global inflows from developed economies returned to pre-pandemic levels, accounting for approximately half of the total, in contrast to the one-third share observed in 2020. The percentage of global flows from developing economies remained slightly above 50%. FDI flows to Africa contributed 5.2% to the global FDI landscape. FDI directed towards developing Asia and Oceania, the largest beneficiary of FDI, constituted 39.1% of the global inflows (Handbook of Statistics 2022, n.d.).

The share of developed economies of FDI flows saw a significant rise from 52.3% in 2020 to 74.3% in 2021, whereas the share of developing economies dwindled from 47.7% to 25.7%. Among the sources of global FDI outflows, developed Europe held the largest share at 32.3%, followed closely by the developed economies in the Americas at 28.9%. From 1984 to 1998, there was a remarkable 900% increase in the total Foreign Direct Investment (FDI) flows across nations, reaching a value exceeding $4.0 trillion. Concurrently, global trade expanded by 121 percent, and worldwide output grew 34% during the same period (WTO, 1998; United Nations, 1998). The surge in FDI can be attributed in part to the shift towards democratic political structures, the adoption of free market economies, economic expansion, and deregulation.

The increase is also fueled by privatization initiatives that welcome foreign investors, the relaxation of FDI constraints, and various countries' liberalization of foreign investment regulations. Indeed, these efforts have facilitated a more accessible entry for foreign corporations into new markets, leading to increased international direct investment. In 1991, foreign direct investment (FDI) amounted to nearly $40 billion and exceeded $114.5 billion by 1997. The data on Direct Investment flows among OECD countries indicates that the United States had an estimated outflow of $123.5 billion in FDI for 1998 (Simon & Schuster, 2000). The dominance of the United States in providing FDI is unsurprising. As of 1980, 178 of the world's 382 largest multinational enterprises (MNEs) were American companies (Simon & Schuster, 1987). The conclusion of the Cold War marked the start of a new phase characterized by political stability and the expansion of capitalism. This led to the emergence of new markets in Europe and Asia.

The robust U.S. economy and thriving stock market in the past decade facilitated the consolidation of American companies through mergers and acquisitions. U.S. firms benefiting from a strong dollar, political stability, and capitalism have dominated global mergers, acquisitions, and investment activities (Ndu, 2003). Notably, U.S. utilities acquired eight of twelve privatized U.K. Electricity sector companies. The U.K.'s outward foreign direct investment (FDI) increased from under $20 billion in 1991 to over $63.7 billion in 1997, with Germany, France, Japan, and certain Asian nations also making significant contributions to FDI outflows. Germany contributed around $40.3 billion, France $35.6 billion, Japan $26 billion, and developing countries collectively added over $55 billion in 1997 (Ndu, 2003). The FDI outflows from developing countries escalated from an average annual figure of $10.5 billion between 1985 and 1990 to $55 billion in 1997 (Hill, 1999). The predominant share of FDI outflows from these developing countries originated from locations like Hong Kong, Singapore, and South Korea. The impact of the 1997 financial crisis in Southeast Asia on the observed increase in FDI outflows from developing nations remains uncertain (Hill, 1999). From 1991 to 1997, roughly two-thirds of annual FDI inflows were directed toward developed countries, while approximately one-third flowed into developing countries across Asia and Latin America.

Remarkably, the principal sources of FDI were often the primary recipients, as the United Nations (1998) indicated. To illustrate, in 1997, the United States received $90.71 billion, the United Kingdom garnered $37.05 billion, France obtained $23.12 billion, Belgium/Luxembourg secured $12.45 billion, Sweden acquired $10.90 billion, and Germany received $9.6 billion. The recent foreign direct investment (FDI) surge towards Europe and the United States has been attributed primarily to cross-continental mergers of multinational enterprises (MNEs). Another significant factor

driving FDI inflows to Europe is the substantial opportunity generated by the European Economic Community. The projected benefits from European integration by 2002 also intertwine with this trend. Factors such as stable economic conditions, increased privatization, and the relaxation of regulations to favor FDI contribute to this phenomenon. In the case of the United States, its allure for FDI inflows is rooted in its vibrant and prosperous economy, a favorable political atmosphere, and a receptive stance towards FDI. Nations like the United Kingdom, Japan, Germany, the Netherlands, and France find these aspects especially appealing.

The escalating FDI flows toward developing economies during the late 1980s spurred intensified competition between developed and developing nations to attract FDI, as highlighted by Loots (two thousand). For instance, the share of developing economies in global FDI flows surged from 21% in 1998 to around 42% in 1997, according to UNCTAD (1998). Despite the impact of the Asian financial crisis, which hindered foreign direct investment (FDI) inflows to developing nations in 1998, there was a notable rise in FDI flows to these economies, escalating from approximately $26.7 billion in 1990 to roughly $183 billion in 1998, as reported by IFC (1997) and UNCTAD (1999).

The primary beneficiaries among developing economies were China, Brazil, Mexico, and Singapore, which received respective sums of $45 billion, $16 billion, $12 billion, and $9 billion. China's appeal to foreign direct investment (FDI) is multifaceted. It encompasses shifting from a centrally planned economic model to a more market-driven one. Furthermore, challenges such as import tariffs, the impracticality of relying solely on exports to serve the Chinese market, and a combination of affordable labor and tax incentives contribute to China's attractiveness as a destination for establishing productive facilities to cater to the Asian and global markets through exports. Even with these advantages, China faces familiar hurdles encountered by other developing economies.

While numerous developing regions are currently witnessing a surge in foreign direct investment (FDI) inflows, the African continent has recently encountered a substantial lack of success in attracting FDI. Despite ranking as the second largest recipient of FDI flows in the early 1970s, Africa's share has steadily declined. To illustrate, between 1993 and 1998, Africa's portion of FDI constituted a mere 4.7 percent of the total FDI flows directed toward developing regions. In contrast, Latin America and the Caribbean received 33%, while Asia and the Pacific received 53% (IFC, 1997; UNCTAD, 1999). Despite considerable strides in political and economic spheres across many African nations, the region has been notably marginalized regarding FDI allocation. For instance, the entire African continent only managed to attract $5 billion in FDI in 1997 (Hill, 1999). This is particularly striking given the noteworthy economic advancements achieved across various African countries. Over the past five years, the real gross domestic product (GDP) has averaged nearly 4%, with certain nations reaching growth rates of 5 to 8% (Camdessus, 2000).

2.3 Economic and Social Effects of FDI on the Host Countries:

Investing in a country has countless consequences. These effects can be considered benign or not. Among the benefits that FDI brings to a country that receives it, we can consider the increase in domestic investment, economic expansion, job creation, the raising of income levels, promotion of entrepreneurship, and potential transfer of technological knowledge, which are crucial for economic progress, especially in developing countries. In the era of globalization and liberalization, unless there is a collective global endeavor to ensure a more equitable distribution of FDI, susceptible and fragile developing economies will likely remain devoid of FDI even as they face economic vulnerabilities and uncertainties. While multinational enterprises (MNEs) primarily prioritize profit in their global investments, there is potential to incentivize them to maintain FDI stability even when countries undergo temporary economic imbalances. This could contribute to international economic stability and the alleviation of global poverty.

Furthermore, MNEs could be motivated to invest in other politically and relatively economically stable developing nations, aside from prominent examples like China. The focus on policy measures to attract FDI often revolves around host countries. Particularly during the 1960s, investigations into the role of multinational enterprises (MNEs) in development primarily revolved around scrutinizing the actions of foreign investors. The overarching aim of this research was to eventually ascertain whether such investments yielded positive or negative outcomes for the host nation. Subsequently, in the 1970s, empirical studies shifted their focus away from attempting to arrive at conclusions about the conduct of foreign investors or the ramifications of foreign direct investment (FDI).

Instead, the emphasis turned to categorizing different types of investments. As previously mentioned, endeavors involving the extraction of natural resources appeared distinct from those related to manufacturing, and initiatives primarily aimed at the domestic market were contrasted with projects geared towards serving export markets.

Moreover, empirical analysis began to indicate that the conduct of MNEs could vary depending on their country of origin. The response to whether FDI was beneficial or detrimental to the host country was more complex (Caves, 2007). Any assessment of the impact had to consider the various categories of investment. While acknowledging the necessity to consider distinct investor categories, it has become evident that foreign direct investment (FDI) influences many diverse objectives, even when focusing solely on economic consequences. As recognized in early literature, gaining a comprehensive understanding of the overall impact requires in-depth examinations of how foreign investors specifically influence narrower indicators.

Consequently, Caves presents various studies that partially explore economic repercussions. In the process of analyzing the effects, researchers have addressed aspects such as multinational corporations and their concentration, the displacement of local entrepreneurs, the allocation of research and development (R&D) activities, levels of productivity and profitability, training initiatives, technology selection, inclinations toward importing or sourcing locally, and the impact on the balance of payments (Caves, 2007).

Caves highlights the significance of investigating the potential link between multinational enterprises (MNEs) and the economic growth rate of less developed countries (LDCs) (Caves, 2007). However, his scrutiny of attempts to address this significant inquiry leads him to the conclusion that establishing a definite connection between an LDC's accumulation of foreign investment and its subsequent economic development is an area where reliable conclusions could be more robust. He offers little hope that endeavors to directly study the comprehensive impact instead of examining behavior across various domains will yield valuable insights. This lack of optimism seems justified given the diverse nature of foreign direct investment (FDI). Still, numerous aspects of this complex puzzle need to be explored, even at a more detailed level. Some of the most substantial gaps pertain to external factors influencing the situation. The economic consequences of FDI remain somewhat uncertain, and the situation becomes even less clear when considering the potential political and societal impacts of multinational enterprises in developing nations (Goodsell, 1974).

One could reasonably deduce that most FDI contributes positively to overall economic output, calculated at global market prices when import protection is minimal. Conversely, a high degree of import protection leads to a notable proportion of FDI initiatives that do not result in net contributions to economic output. FDI in other developing nations enabled these companies to utilize their specialized strengths in product and process technologies aligned with the cost of resources, input attributes, and demand situations in the host countries where they put their resources.

Recent studies have similarly indicated that businesses in developing economies use their domestic advantages by expanding internationally. Craig and Douglas (1997) suggest that reactions to increased economic openness and the influx of foreign companies could encompass strategies ranging from cost-focused approaches based on inexpensive labor and resources to producing components or private-label items for established multinational corporations. Dawar and Frost (1999) observed that emerging economy firms typically responded to liberalization in one of three ways—seeking government assistance, becoming a subsidiary of a foreign multinational corporation, or selling out. They presented defensive and assertive choices based on emerging economy firms' distinct assets or resources.

More recently, Khanna and Palepu (2006) outlined several general approaches that leverage institutional gaps prevalent in emerging economies. These firms have the unique advantage of addressing institutional gaps, which they utilize to compete against foreign multinational corporations within their local economies and in markets with similar institutional circumstances. The common theme in these frameworks is that emerging economy firms have cultivated specific advantages due to their distinct domestic market institutional settings, which can be expanded to international markets.

Several articles within the special issue investigate the motives behind the expansion of companies from emerging economies to other countries. There is an ongoing discussion among researchers in international business regarding the driving forces for firm internationalization or multi-nationalization. This debate revolves around the distinction between "asset seeking" and "asset exploitation" rationales for such expansion (Dunning, 1988, 2006; Mathews, 2006; Narula, 2006). In the conventional Western models of global growth, a fundamental assumption is that companies already possess the necessary technology and knowledge related to their products to cater to the demands of foreign markets. In this context, internationalization is seen as a means to leverage and capitalize on the firm's existing pool of expertise or ownership advantages (Dunning, 1988). It involves transferring the firm's knowledge across borders, encompassing technological, production, marketing, and other forms of know-how.

However, an alternative perspective on internationalization proposes that companies must enhance their technological and scientific knowledge before entering international markets. This enhancement is essential to offer products that align with the higher-level demands of global markets. Sometimes, the initial step towards internationalization can be inward-focused as a starting point for broader international endeavors (Mathews, 2006).

Consequently, from this standpoint, the decision of firms from emerging economies to internationalize is also driven by the pursuit of learning objectives. These objectives enable these firms to surmount initial resource challenges from technological disparities and the disadvantages of entering international markets later. The second prevailing theme evident in the articles within the special issue pertains to the various trajectories adopted by firms during their process of international expansion. The emphasis here lies not so much in the specific geographical routes taken but instead centers around their capabilities. Mainly, the focus is on acquiring capabilities that complement their strengths.

Cuervo-Cazurra's research delves into the patterns of international growth observed among twenty Latin American multinational corporations (Aulakh, 2007). The findings indicate that firms possessing robust advantages within their domestic locations are more inclined to pursue multi-nationalization by establishing international marketing subsidiaries. Conversely, companies with products that face challenges in being transferred across geographical borders tend to opt for the creation of foreign production subsidiaries. Likewise, other scholars propose that, akin to the conventional OLI model, South African multinational enterprises initially embarked on a path of global expansion driven by exploiting their existing assets, followed by a phase of internationalization driven by the pursuit of new assets (Narula & Dunning, 2000).

Hence, these investigations indicate that emerging economy multinational corporations leverage not only their existing ownership strengths (which might encompass more than just technological assets and might involve elements like process proficiencies, marketing expertise in challenging contexts, and the realm of inadequate marketing infrastructure, etc.) as the foundation for their initial competitive edge. Subsequently, they seek complementary resources and capabilities (Aulakh, 2007). These resources and capabilities are crucial for extending their advantages to foreign markets and cultivating fresh strengths essential for thriving in increasingly competitive settings.

Foreign direct investment (FDI) impacts the economic growth of the host nation by facilitating the transfer of novel technologies and expertise, nurturing human resources, enabling global market integration, fostering heightened competition, and promoting the growth and restructuring of businesses. Numerous research studies suggest that FDI contributes to the economic advancement of the host country. However, it is worth noting that FDI can also yield adverse effects for the host nation. The existing body of literature underscores the mixed nature of these outcomes. As stated by the OECD in 2002, multiple pathways exist through which foreign direct investment (FDI) can influence the host country's economic growth. The impacts of FDI encompass both favorable and adverse

aspects, indicating that alongside its advantages, FDI can also introduce disadvantages to the host country's economy, as noted by Mencinger (2003). The instruments that drive the positive effects of FDI on economic growth can be categorized into five primary clusters: the transfer of novel technologies and expertise, cultivation of human resources, integration into the global economic landscape, stimulation of heightened competition domestically, and facilitation of business growth and restructuring (OECD, 2002). Nevertheless, some of these mechanisms, mainly the first four, can also yield unfavorable effects on economic growth.

FDI has the potential to complicate the implementation of economic policies. Hence, FDI has the potential to impact economic growth by facilitating the transfer of technology and expertise, with effects that can be both positive and negative. Multinational corporations are often perceived as technologically advanced entities. According to Borensztein et al. (1998), these multinational corporations contribute nearly all global expenditures on research and development (R&D).

Additionally, Ford et al. (2008) highlight multinational corporations as significant agents in dispersing technology, given their widespread presence across different world regions. A country's economic growth pace can be elucidated by its technological status. In developing nations, adopting more advanced technologies by multinational corporations is pivotal in driving economic growth (Borensztein et al., 1998). Lim (2001) proposes that a pivotal role of FDI lies in its capacity to facilitate technology transfer from developed to developing nations. Frindlay (1978) posits that FDI serves as a means to enhance a country's economic performance under the diffusion of more advanced technologies introduced by multinational corporations. Saggi (2002) and Hermes and Lensink (2003) underscore FDI's significance as a primary avenue for augmenting economic growth, given that the technology and knowledge transfer from multinational corporations contributes to the heightened productivity of local enterprises. As indicated by Varamini and Vu (2007), the outcome of technology transfers is enhancing performance for local companies, thereby fostering an increase in Gross Domestic Product (GDP). Multinational corporations' introduction of novel technologies leads to decreased research and development (R&D) expenditures for recipient firms.

Consequently, this reduction enables these firms to enhance their competitiveness through cost reduction, as Berthélemy and Démurger (2000) noted. Technology transfers are willingly extended to domestic suppliers of multinational enterprises, aiming to enhance the quality and output of the goods they supply to these multinationals (Rodriguez-Clare, 1996).

These innovative technologies are conveyed through training, technical support, and other forms of information dissemination, all geared toward enhancing the production standards and volume of the products procured by multinational corporations (OECD, 2002).

Nonetheless, the technology transfer process also has the potential to yield unfavorable consequences. Vissak and Roolaht (2005) contend that the host country could develop a reliance on technologies introduced by multinational corporations and other developed nations. Their research indicates that this dynamic could decrease domestic companies' inclination to create novel technologies. Adding to this perspective, Sen (1998) suggests that multinationals might respond negatively to host country research endeavors to maintain their technological edge over local enterprises. The same author further observes that, with a similar intention, multinational corporations may exclusively share inappropriate technologies. In such scenarios, the host country's reliance on technology from multinational corporations could persist. The second pathway through which FDI can impact the host country's economic growth involves the development of its human resources or workforce. This avenue has the potential to bring about both positive and negative outcomes.

Moreover, according to Ozturk (2007), FDI contributes to the host country's economic advancement by enhancing its productive capacity by training the labor force. This training leads to an improvement in the skills and capabilities of workers. As Zhang (2001a) outlined, FDI serves as a wellspring of economic growth because it brings expertise in production and management techniques and highly skilled personnel. De Mello (1999) notes that the introduction of FDI is expected to enhance the knowledge base of the labor force through training initiatives that introduce new methods, production practices, and management strategies. As previously noted, foreign direct investment (FDI) is a conduit for introducing novel technologies to the host country.

Consequently, it becomes imperative for the local workforce to acquire the skills to utilize these technologies effectively. However, a common occurrence is the absence of this capability, prompting multinational corporations to offer essential training, thereby enhancing the host country's capacities (Borensztein et al., 1998). According to the OECD (2002), multinational enterprises are more prominent in providing training than local companies. This is attributed to utilizing advanced technologies, practices, and methodologies that local workers might need expertise in, potentially restricting their utilization (Borensztein et al., 1998).

As Hanson (2001) noted, local businesses subsequently hire these trained workers, thus disseminating the acquired knowledge within those firms. Lim (2001) further elaborates that many employees leverage their newfound knowledge to establish their enterprises, transmitting this knowledge to the employees of these new ventures. The OECD (2002) emphasizes that multinational corporations also enhance training within host countries, as they underscore the necessity for a capable and qualified labor force to local authorities. Concerning the workforce, adverse outcomes can arise from the influx of foreign direct investment (FDI). The utilization of advanced technology by multinational corporations can lead to a projection of reduced labor requirements compared to those of local enterprises. This scenario raises the potential for the latter's displacement by entities employing a smaller workforce, subsequently contributing to a rise in unemployment rates (OECD, 2002).

Another circumstance highlighting the diminishing support from local authorities is highlighted by Ford et al. (2008). These researchers identify cases where governmental bodies, observing that multinational corporations serve as a training source, subsequently decrease public expenditures in education. This action counteracts the impact of FDI-provided workforce training. Another reported consequence involves highly educated workers potentially leaving the country, as there might be a need for more research and development opportunities within the host nation (Vissak & Roolaht, 2005). It is widely accepted that FDI significantly contributes to incorporating the host country into the worldwide economy, mainly through the inflow of external financial resources (OECD, 2002).

This correlation is substantiated by Mencinger (2003), who establishes a clear connection between heightened FDI and rapid engagement in global trade. The process of entering the international market spurred by FDI engenders economic growth, which is further amplified when the nation embraces openness (Barry, 2000). Elaborating on this, Blomström and Kokko (1998) elucidate that local firms' integration into the global market also involves emulating and acquiring the knowledge possessed by multinational corporations.

According to Zhang (2001a), the interaction with multinational networks holds significant importance, as it presents the potential for local companies to gain insights from the functioning of these networks and possibly even become integrated within them. Another avenue through which local firms integrate into the global market due to FDI is by becoming incorporated into the strategies of multinational enterprises. This can prompt local companies to align their activities with those of the multinationals, potentially expanding their operations to an international scale or even taking over the roles of other suppliers within multinational subsidiaries in different countries (OECD, 2002).

Ford et al. (2008) argue that multinationals often involve their suppliers in their international networks, allowing local enterprises to engage in global trade by establishing relationships with other international entities. The study by OECD (2002) emphasizes the significance of trade associations, of which multinationals are typically prominent members, as valuable sources of knowledge about the global market. These associations serve as hubs for the exchange of pertinent experiences. The study also highlights that in response to multinational corporations' demands, local authorities might develop infrastructures, especially transportation systems, to enhance international trade and benefit local firms as they expand internationally. This aspect is corroborated by Gunaydin and Tatoglu (2005), who indicate that such outcomes of FDI facilitate the distribution of raw materials in the host country. Makki and Somwaru (2004) state that the rise in exports due to FDI prompts local enterprises to enhance their productivity through more effective exploitation of their capabilities and by gaining access to economies of scale.

However, the augmented integration into the global economy facilitated by FDI can engender unfavorable outcomes for the host nation. Vissak and Roolaht (2005) observe that FDI represents a susceptible conduit for the propagation of global economic issues, especially those originating in the home countries of multinational corporations. This predicament originates from the intensified linkage with the global market, which renders host nations more open economies and more susceptible to fluctuations in the worldwide economy. Mencinger (2003) proposes that FDI exerts a notably more substantial influence on imports than exports, consequently impacting the balance of payments. The pronounced effect of FDI on imports stems from the significant demand for goods and raw materials by multinational corporations, which often surpass the availability in quantity and quality within the host country due to their extensive procurement requirements (OECD, 2002). Indeed, adverse repercussions on the balance of payments can stem from foreign direct investment (FDI). The objective of bolstering the balance of payments is only sometimes realized over the long term.

These effects can be alleviated or even countered (during periods of low FDI inflows) by the routine remittance of profits from multinational subsidiaries to their home countries (OECD, 2002; Hansen & Rand, 2006; Ozturk, 2007) or by the payment of licensing fees and royalties for the utilization of technology owned by the headquarters (Sen, 1998), which, under certain circumstances, could invert the balance of payments trend. Ram and Zhang (2002) and Duttaray et al. (2008) demonstrate that over time, the repatriation of profits surpasses the positive impact of the initial investment (FORTE & MOURA, 2013).

As Lee and Tcha (2004) stated, foreign direct investment significantly enhances production factors and the accrual of capital within the host nation, attributable to the competition it fosters. Multinational corporations augment market supply in the host country, prompting local enterprises to respond to this competition to uphold their market presence (Pessoa, 2007). Nonetheless, the escalated competition may also entail adverse consequences. The instigated competition results in a rise in research and development (R&D) expenditures by domestic enterprises, and in specific instances, these local companies capitalize on the enhancements to expand their market share and even transform into suppliers for multinational corporations (Blomström & Kokko, 1998). Established businesses must enhance their technology and methodologies to confront the competition imposed by multinational enterprises (Driffield, 2000; Varamini & Vu, 2007).

Consequently, local firms tend to channel investments into equipment and their workforce (De Mello, 1997). FDI is commonly perceived as a means to invigorate a nation's internal competition, leading to heightened productivity, decreased prices, and a more effective allocation of resources (Pessoa, 2007). However, the heightened competition induced by FDI only sometimes yields positive outcomes for the host nation. When the market is heavily protected, the existing multinational corporations might leverage their influence with authorities to maintain the status quo. Therefore, these multinationals retain their market position, avoiding increases in the host country's capacity and impeding supply growth. This perpetuates the utilization of current resources and hinders progress through enhanced competition (Loungani & Razin, 2001).

Various aspects linked to FDI can contribute to the vanishing of domestic enterprises. Hanson (2001) and Zhang (2001b) indicate that the augmentation in national economic income is not uniformly distributed across all participants within the economy: multinational corporations experience boosted income that justifies the overall increase, yet local firms endure a decline in revenue, which could eventually lead to their extinction. Sahoo and Mathiyazhagan (2003) allude to the potential emergence of a situation characterized by multinational oligopoly, which could drive local enterprises out of existence. The rivalry between multinational corporations and local firms also extends to the acquisition of human resources.

Hansen and Rand (2006) suggest that foreign direct investment (FDI) likely plays a pivotal role in cultivating a more favorable economic environment, yielding positive economic growth consequences. FDI catalyzes alterations within firms of host countries. Two scenarios stand out where these modifications significantly impact local enterprises. Leveraging their superior capabilities, multinational corporations possess the capacity to penetrate sectors characterized by formidable entry barriers for domestic firms. This penetration tends to diminish or even eradicate prevailing

monopolies within these sectors, leading to a transformation in the structure of the national economy (Blomström & Kokko, 1998).

Indeed, FDI inflows introduce uncertainty due to the challenge or inability to forecast these financial streams (Vissak & Roolaht, 2005). This unpredictability can potentially unsettle the nation's economic progress and complicate the execution of desired economic policies by local governing bodies (Sen, 1998; Vissak & Roolaht, 2005). An additional detrimental outcome for the host country's economy emerges when an abrupt and substantial surge of capital enters, as it is liable to engender a corresponding increase in inflation (Sen, 1998).

Overall, there is a consensus that the favorable influence of FDI on the economic growth of host countries is contingent upon specific factors present or absent within those nations. These factors encompass attributes like human capital, the structure of trade, the degree of economic openness (Chowdhury & Mavrotas, 2003), the economic and technological milieu (Hansen & Rand, 2006), as well as the legal framework and political stability (Asheghian, 2004). One area of extensive debate revolves around analyzing technology transfers and their effects. Given the notable asymmetry in outcomes, this discourse underscores the argument concerning technological disparities. Among numerous studies, contrasting viewpoints exist regarding the implications of FDI due to the technological divide between developed countries (typically the origins of multinational corporations) and the host nations.

The OECD (2002) posits that this technological divide should be balanced. This stance is rationalized by the uncertainty surrounding the capacity of local firms to assimilate or replicate the novel technologies employed by multinational corporations, mainly when the technological disparity between them is stark. Borensztein et al. (1998) state that the disparity should be manageable, as excessively pronounced differences might hinder host countries' ability to assimilate the new knowledge. Consequently, following the previously mentioned reasoning, advanced nations reap more significant advantages from FDI compared to less developed and developing countries due to their elevated levels of human capital (Li & Liu, 2005). Nevertheless, a distinctive scenario contradicting this notion was identified by Bende-Nabende et al. (2001).

It is inadequate to assert that the impact of FDI on economic growth hinges solely on the host country's developmental stage or geographic location. Disparate outcomes have emerged from studies conducted in developed nations and investigations undertaken in developing and underdeveloped countries spanning diverse locales. This pattern holds even for sample sets encompassing a heterogeneous array of countries. Virtually all studies suggest that the effects of FDI are contingent upon a myriad of conditions unique to each country, spanning economic, political, social, cultural,

and other dimensions, whether they pertain to the timing of FDI inflows or subsequent contributions. The commonly cited rationales arise from how a nation can harness the presence of multinational corporations and the benefits they bring, which can be leveraged to enhance the economic performance of the host country.

Foremost among these reasons is how the host country can profit by adopting more sophisticated technologies and expertise. Despite the overwhelming consensus in empirical research highlighting the favorable impact of FDI on economic growth, there exist instances where these effects cannot be substantiated. In response to the query that prompted our investigation, we determine that a singular answer is elusive: The impact of FDI in the host country can manifest as either positive or negative, contingent upon the specific circumstances of the country and the nature of the investment. Hence, local governing bodies play a pivotal role in orchestrating the attainment of the intended outcomes. These authorities possess the agency to make determinations that foster the requisite conditions for harnessing positive consequences while alleviating adverse ones. An alternative avenue involves the discerning selection of foreign investment initiatives that align most effectively with the country's requirements.

2.4 The Complex Relationship Between FDI and Human Rights:

Multinational corporations (MNCs) provide investment and assistance to governments in countries with oppressive mechanisms capable of maintaining control and ensuring smooth operations (Evans, 1979). This encourages authoritarian governments to uphold and potentially reinforce repressive systems that provide a cheap labor force (Hymer, 1971), minimal political organization, and limited working-class mobilization (O'Donnell, 1978) to attract investment. Recent research suggests human rights violations discourage foreign direct investment (FDI). Hence, two categories of studies demonstrate how a favorable human rights record can attract FDI. Researchers contend that human rights abuses indirectly hinder foreign direct investment (FDI). Respecting human rights establishes a favorable investment environment by fostering conditions not conducive to violence, political instability, or social conflict (Sorens & Ruger, 2012). It also promotes improved conditions for human capital development (Blanton & Blanton, 2007). Other studies emphasize a more direct impact of human rights violations in host countries on investors' motivations: investing in nations disregarding human rights can damage a company's reputation.

Additionally, Colonomos and Santiso (2005) highlight the importance of civil society's cultivation of moral expertise, while others emphasize the role of non-governmental organizations (NGOs) in directing media attention toward human rights abuses, thereby making it challenging for multinational corporations (MNCs) to distance themselves from countries responsible for such violations (referred to as the "spotlight phenomenon" by Spar, 1999). The process through which significant and influential multinational corporations are motivated to control their international activities to safeguard a favorable brand reputation, potentially at the expense of immediate financial gains, is termed the 'spotlight phenomenon' (Spar, 1998; Blanton & Blanton, 2007). These studies suggest that investors avoid countries with a poor track record in human rights. Although some empirical studies support this notion, they often examine limited sample sizes or specific types of investors. Nonetheless, the evidence indicates that investors consider human rights treaties as part of the legal framework in the host country.

The potential correlation between FDI and human rights is significant in the worldwide political economy. Nevertheless, the connection between these two factors needs to be better comprehended. Common belief suggests that FDI and the protection of human rights are inherently conflicting. However, academics are proposing that the interaction between human rights and FDI is more intricate, with favorable human rights conditions potentially playing a crucial role in attracting foreign investment.

While there is general agreement regarding the economic advantages of FDI, as highlighted in studies by Moran (2002) and Oman (2000), the potential correlation between FDI and human rights is a subject of disagreement. The business realm has frequently been portrayed as an overbearing "hidden dictator" (Greider, 1993), and FDI has been linked to human rights circumstances that harm the overall populace of the recipient nation. Commonly accepted belief suggests an inherent conflict between FDI and the promotion of human rights. Lately, though, researchers have challenged this presumption's accuracy. Several elements indicate that the state of human rights holds significance for foreign investors. These include growing public consciousness regarding human rights violations, the amplified impact of online activists, rising demand for a skilled workforce, and a longing for entry into fresh markets (Spar, 1999). Upholding human rights also fosters an atmosphere conducive to nurturing human potential, resulting in generally more transparent, responsible, and economically effective countries.

The significance of human rights in influencing decisions about where to establish operations offers a comprehensive theoretical framework for understanding the variations in countries' appeal to foreign direct investment (FDI). The traditional notion suggests that a country's repression of human rights might enhance its attractiveness to potential foreign investors. According to this perspective, such nations could offer favorable business conditions and maintain lower labor costs compared to the expected market balance. Countries with weak human rights standards might also seek to minimize uncertainty and investment risk by suppressing dissent and uprisings. A potential "race to the bottom" scenario could arise, where poorer human rights conditions indicate a more promising and privileged investment partnership. Conversely, human rights respect could make a country more appealing for FDI. Valuing human rights directly diminishes risks for foreign investment by bolstering political stability and predictability. It also lessens the susceptibility of investors to the negative consequences associated with public backlash against human rights violations.

Furthermore, a culture of upholding human rights nurtures an environment conducive to fostering human potential, resulting in a more transparent, well-educated, and economically proficient society. Skeptics have consistently argued that an inherent conflict exists between foreign direct investment and human rights. As Lenin (1939) outlined, when the profitability of the domestic market plateaus, companies are compelled to expand overseas. Driven by the pursuit of profit maximization and the sustenance of their growth rates, these companies choose countries where local communities can be exploited and managed. This globalization of capital plays a pivotal role in establishing and perpetuating a dynamic of core-periphery dependence and exploitation. This system utilizes resources and labor from peripheral societies by more advanced capitalist entities (Cardoso and Faletto, 1969; Dos Santos, 1970).

Expanding upon these concepts, (Hymer, 1971) asserted that multinational corporations actively seek to control the world's most impoverished populations to maintain financial supremacy. Hence, foreign investors are drawn to, endorse, and potentially prolong regimes that violate human rights. In response, "authoritarian governments actively seek the capital and connections linked with foreign direct investment" (Spar, 1999). Local elites disproportionately benefit from foreign investment and are often willing to sacrifice the greater good to attract and retain such investment (Maxfield, 1998; also observed in Cardoso and Faletto, 1969). Similarly, autocratic regimes frequently quell political dissent to secure a mutually beneficial partnership with foreign corporations (Evans, 1979).

Anecdotal evidence suggests a particular inclination within the international financial and business community for societies that suppress human rights. Corporations have endorsed such practices to uphold a profitable status quo in certain instances. Historical instances like the United Fruit Company in Guatemala and IT&T in Chile illustrate how attempts to challenge the privileges of foreign investment led to "intervention and the restoration of anti-labor, oppressive governments that disregarded human rights." (Rodrik, 1996). For a prospective investor, privileges such as the freedom to engage in collective bargaining and protest without the threat of violent retaliation might be perceived as sources of unpredictability and jeopardy. Instances of human rights violations can mitigate this uncertainty by establishing a managed and restricted labor force.

Consequently, the outcome is that the curbing of human rights permits a potential host nation to transform into a welcoming destination for foreign investors (Rodrik, 1996), characterized by a "favorable balance of class forces," featuring modest wages, stringent control, and minimal instances of economic disputes rooted in class differences (London & Ross, 1995). Therefore, if human rights are suppressed to uphold political stability and ensure affordable labor expenses, it raises suspicions that unfavorable human rights circumstances could benefit foreign direct investment.

The interconnected relationship between oppressive governance and foreign investment, a central aspect of the traditional standpoint, is facing growing challenges across various forms of FDI. Apart from the persistent hazards linked to political instability and violence in these nations, investors now confront mounting "audience costs" globally. These costs arise from the emergence of a "spotlight" mechanism that scrutinizes corporate actions and publicizes their engagement in human rights violations. Corporations under this "spotlight" might experience market-based repercussions, negatively impacting their reputation, image, and stock value (Spar, 1998).

Notable companies incurring expenses due to their association with abusive regimes or complicity in human rights abuses include Nike in Indonesia, Unocol in Myanmar, and Texaco in Ecuador (Ottaway, 2001). Furthermore, signs suggest that businesses are receptive to this scrutiny, as seen in the swift disinvestment of companies like Apple and Kodak from Myanmar when Massachusetts aimed to penalize the country for its abusive human rights practices (The Economist, 2000). Recent developments in the extent and nature of foreign direct investment (FDI) might contribute to reconsidering interests that emphasize human rights. Historically, FDI primarily concentrated on primary sector activities like mining and oil extraction. These investments were limited to countries possessing such resources, so pursuing corporate interests often led companies to engage with nations known for human rights abuses.

However, the landscape has shifted over time, and FDI now encompasses a broader range, including consumer goods, manufacturing, information, and services. For instance, the share of U.S. FDI toward petroleum decreased from around one-third in 1977 (Kozlow et al., 1978) to slightly over 7% in 1996 (U.S. Dept. of Commerce 1997; Spar, 1999). With this diversification of FDI, a progressively smaller portion of global investment is tied to oppressive regimes holding natural resources. Instead, investors are gaining more flexibility to opt for host countries that may or may not prioritize human rights.

Moreover, there has been a shift in the demands and prerequisites of the labor force. Notably, the significance of labor expenses as a decisive factor in production costs has remained the same. If the reduction of labor costs is no longer a primary consideration in the corporate assessment of benefits, the competitive dynamic inherent in the conventional interpretation of FDI ceases to be a "zero-sum game," as "achieving success for firms no longer requires disadvantaging the local populace" (Spar, 1999). In simpler terms, investors are now more inclined to focus on countries with a skilled workforce and superior human capital quality. Individuals not threatened by the prospect of violent retaliation from their government are more inclined to dedicate their skills, time, and, most notably, their innovative ideas to bettering their nation's economy. This active involvement of the population enhances efficiency and overall economic productivity.

Furthermore, a widespread adherence to human rights principles promotes the capacity and amplifies the opportunities for citizens in the host nation to access higher education and training. Indeed, multiple research studies provide empirical evidence substantiating the argument that human rights "contribute practically to enhancing a country's economic performance" (Isham et al., 1997). It is reasonable to anticipate that adherence to human rights could directly impact FDI, especially as the worldwide investment landscape becomes more varied and the potential repercussions of human rights violations become more pronounced. Additionally, respect for human rights might also indirectly affect FDI by promoting the growth of human skills and generating economic advantages (Jensen, 2003; Kucera, 2002; Mankiw et al., 1992).

According to some evidence and studies in the literature on FDI and HR, developing nations that uphold human rights achieve tremendous success in drawing foreign direct investment more than those with a history of human rights abuses. This positive effect stems from multiple factors. First, the respect for human rights directly lowers the risk associated with FDI by indicating improved political stability and predictability within the host nation, thereby reducing the susceptibility of corporations to backlash from a socially aware consumer base. Additionally, promoting human rights indirectly creates a conducive atmosphere for nurturing human skills, making countries attractive to foreign investors seeking access to a pool of highly skilled labor (Jensen, 2003; Kucera, 2002; Mankiw et al., 1992).

So, expanding the discourse on corporate social responsibility and arguing its practical benefits, i.e., adopting social responsibility, which includes respect for human rights, is a competitive advantage that can directly increase profitability (Jensen, 2003; Kucera, 2002; Mankiw et al., 1992). Hence, although conflicts between economic interests and societal norms are numerous, human rights respect is a domain where these values can effectively harmonize and strengthen the global economy.

Chapter 3: FDI and Human Rights: An Explanatory Analysis using RStudio:

3.1 Sample Selection and Description:

My thesis aims to understand the relationship, if any, between respect for human rights (HR) and Foreign Direct Investment (FDI). To do this, I have looked at the amount of FDI inflows[1] in a set of countries over the years and the respect for human rights in those countries through a human rights index. Although it is challenging to have quantitative variables to measure human rights, I found a perfect indicator on the World Bank website. This is an initial, very general type of research to see whether or not there is a relationship between these two variables and what kind of relationship. The initial dataset I imported to R consisted of 205 countries from 2002 to 2021 and seven variables. As a first step, by importing the data set to R, I adjusted it through very specific codes, from a large data set of 205 observations and 141 variables to a data set of 3707 observations and 10 variables (panel data). Only in this way could I begin to analyze my data. Hence, I performed the following procedures: exploration of the data, description of the data, fitting the model, diagnosing/verifying model hypotheses, and finally, discussion of the results.

Additionally, this research aims to test whether or not respect for human rights influences FDI output. Hence, my dependent variable (Y) will be the amount of net foreign direct investment (FDI) entering a nation annually, represented as a proportion of the total Gross Domestic Product (GDP). While the independent variables (X) are GDP, Population, Labour Force, Inflation, Internal Resources, and Human Rights. As with all the data in my research, all data were taken from the official World Bank website. Before choosing which variables to include, there was careful reading and in-depth analysis of which variables might be economically and statistically relevant. For example, I had initially considered several control variables, including the variable 'Access to the Internet,' since it was considered relevant by some similar studies. Moreover, the HR variable indicates respect for human rights, chosen after careful selection against other indicators. Ultimately, since not all data were available at the beginning of the analysis, a "skimming" exercise was carried out for all variables initially chosen with incomplete data to not skew the results. Finally, as a matter of convenience, I standardized all data directly on R.

[1] Data are in current U.S. dollars

Regarding the Human Rights variable, as mentioned above, many indicators measure respect for human rights worldwide. Using the one reported by the World Bank was not the first choice. Initially, I considered using the indicator reported by Freedom House or The Development Index. Nevertheless, comparing them, I found the one from the World Bank to be the most comprehensive. Multiple indicators are reported on the site, depending on the field of interest. That is why, in the end, the choice fell on this one. Although quantifying how countries respect human rights is a highly complex process, having six particular subcategories is the best process for this type of research. My chosen indicator six dimensions are: "voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, the rule of law, and control of corruption" (Cuervo-Cazurra & Genc, 2008).

Governance pertains to the systems and historical practices through which authority is established within a nation, influencing the rules and regulations under which economic activities are conducted. Based on research conducted by the World Bank (Kaufmann et al., 2003; Kaufmann et al., 1999), we delve into six dimensions of governance previously listed (Cuervo-Cazurra & Genc, 2008). These dimensions correspond to three distinct facets of governance. The first pair, voice, accountability, political stability, and absence of violence, encompass the mechanisms for selecting, overseeing, and replacing governments (Cuervo-Cazurra & Genc, 2008). The subsequent two dimensions, government effectiveness, and regulatory quality encapsulate a government's ability to devise and execute sound policies adeptly. The final two, the rule of law and control of corruption, underscore the regard the state and its citizens hold for the institutions that govern their social and economic interactions. However, it is essential to note that not all dimensions have equal significance for multinational enterprises (MNEs). Voice and accountability encompass citizens' capacity to select their governments, encompassing political procedure, civil liberties, and political entitlements (Kaufmann et al., 2003). While voice and accountability constitute significant components of a country's governance framework, their significance tends to be lower for foreign investors than other governance dimensions.

The dimension of political stability and the absence of violence denotes the notion that the effectiveness of governance within a nation can be imperiled by the likelihood of abrupt shifts in government (Kaufmann et al., 2003), which have the potential to disrupt ongoing policies and curtail citizens' capacity to peacefully elect and replace their governing authorities (Kaufmann et al., 2003). The stability of the political landscape in the host country is a matter of concern for foreign corporations, as swift alterations in leadership can result in policy changes affecting foreign investors and even the disregard of pre-existing agreements (Henisz & Williamson, 1999). While all foreign investors may be vulnerable to the repercussions of political instability, companies from developing

countries may be more adept at managing such challenges, given their familiarity with political instability and violence in their domestic contexts.

Regulatory quality pertains to policies that hinder market dynamics, such as price restrictions or inadequate oversight of financial institutions. It also encompasses perceptions of overregulation in domains like business expansion, license acquisition, and foreign trade. Additionally, it addresses the consistency of regulations' application, whether uniform or subject to discretionary interpretation (Kaufmann et al., 2003). Companies generally harbor reservations about regulations as they impose constraints on their operational autonomy. Nevertheless, managers may emphasize the effectiveness of regulations rather than their extent. The rule of law pertains to a society's ability to establish a setting where just and foreseeable regulations are the foundation for economic and social engagements. Equally significant is the degree to which property rights are upheld within this framework (Kaufmann et al., 2003).

Ultimately, corruption signifies the exploitation of governmental authority for personal profit. Its presence indicates a disregard for the regulations governing economic interactions within the society. It involves the necessity for extra, unorthodox payments to facilitate tasks or the dominance of elites over state affairs (Kaufmann et al., 2003). Corruption amplifies the complexities of functioning within the nation (Shleifer & Vishny, 1993), curtails inflows of foreign direct investment (FDI) while also modifying its composition (Wei, 2000; Smarzynska & Wei, 2000), and influences the approach to market entry (Rodriguez et al., 2005).

As we have seen, the stability of the host country's political landscape and being a perfect inducer of respect for human rights is a cause for concern for foreign companies. Indeed, rapid changes in leadership can lead to changes in policies of interest to foreign investors and even to non-compliance with pre-existing agreements (Henisz & Williamson, 1999). So, this is why I finally decided to use this indicator, which ranges from -2.5 to + 2.5.

FDI - net inflows (% of GDP)	**GDP**	**Population**	**Inflation**
Foreign direct investment refers to the net funds coming into an economy, representing a significant ownership stake (10 percent or more of voting stock) in a business operating within a foreign economy compared to the investor's own. This total includes equity capital, reinvested earnings, other long-term financial resources, and short-term capital, as documented in the balance of payments. This data series illustrates the net inflow of funds (new investments minus divestments) from foreign investors into the reporting economy and is expressed as a ratio relative to the country's GDP.	GDP per capita measures gross domestic product divided by the population at the year's midpoint. GDP is the total value added by all domestic producers, along with applicable product taxes minus any subsidies not part of the product's value. This calculation does not account for the depreciation of built assets or the reduction of natural resources due to depletion and degradation. The data is presented in current U.S. dollars.	The total population figure is determined using the de facto definition of population, encompassing all individuals residing within a specific area, irrespective of their legal status or citizenship. These values represent estimates for the midpoint of the year.	Consumer price index-based inflation signifies the yearly percentage shift in the expenses incurred by the average consumer to purchase a set of goods and services, which can include items that remain constant or alter at specified periods, like annually. Typically, the Laspeyres formula is employed for this calculation.
Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates.	*Source:* World Bank national accounts data and OECD National Accounts data files.	*Source:* (1) United Nations Population Division. World Population Prospects: 2022 Revision. (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Report (various years), (5) U.S. Census Bureau: International Database, and (6) Secretariat of the Pacific Community.	*Source:* International Monetary Fund, International Financial Statistics and data files.

Internal Resources	**Labor Force**	**Human Rights (Political Stability/No Violence)**
Annual freshwater withdrawals encompass the total water extraction, excluding losses from evaporation in storage basins. This includes water obtained from desalination facilities in nations where they constitute a substantial water source. In significant water reuse or substantial extraction from non-renewable aquifers or desalination plants, withdrawals can surpass 100 percent of the total renewable water resources. Withdrawals for agricultural and industrial purposes encompass the complete water usage for activities like irrigation, livestock farming, and direct industrial application, which includes cooling thermoelectric plants.	The labor force comprises individuals aged 15 and above who contribute their labor to produce goods and services within a defined timeframe. This group encompasses those presently employed, those actively looking for work among the unemployed, and individuals seeking their first job. However, specific categories of workers, such as unpaid workers, family labor, and students, are typically excluded from this count. Additionally, in some countries, military personnel may not be included. The size of the labor force can fluctuate throughout the year due to the entry and exit of seasonal workers.	The indicator "Political Stability and Absence of Violence/Terrorism" assesses how people perceive the chances of encountering political turmoil or acts of violence, particularly those driven by political motives, such as terrorism. Range: -2.5 +2.5
Source: Food and Agriculture Organization, AQUASTAT data.	*Source*: World Bank, World Development Indicators database. Estimates are based on data obtained from International Labour Organization and United Nations Population Division.	*Source*: The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by many enterprise, citizen, and expert survey respondents in industrial and developing countries. These data are gathered from survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

The following figures graphically represent one of the two variables of main interest for this analysis: HR. The first figure (Table 1) shows a map of how the various countries taken into analysis, on average, from 2002 to 2021 respect human rights. In the second, however (Table 2), the same is observed; the only change is the time considered: only the most recent year (2021). Both maps follow the same legend: green corresponds to a low level and red to a high level. Therefore, for HR, countries where the colors approach red have a high level of respect for human rights. Conversely, the closer to green, the more those countries will be considered significant actors in human rights violations. As for the second graph, although it may seem more accurate because there is only one year taken into consideration, it is slightly incomplete due to the many absences of data (areas not colored in the map).

Table 1[2]*:*

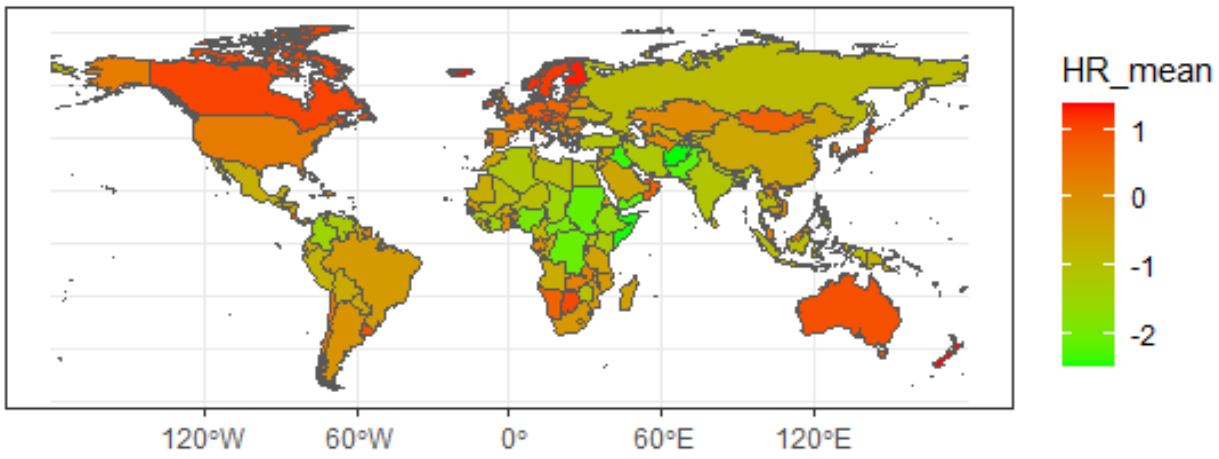
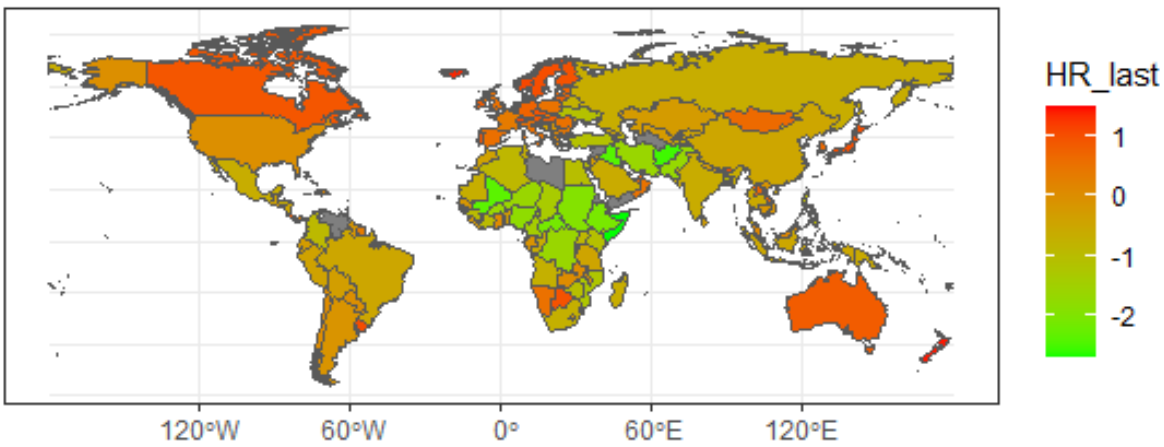


Table 2[3]*:*



[2] *Source*: own elaboration from RStudio
[3] *Ibidem*

3.1.2 Panel data:

The perfect way to describe my data set is "Panel Data." The field of panel data econometrics is in a constant state of evolution. The increasing availability of data observed across different units (such as households, firms, and countries) and over various periods has led to several estimation methods that leverage this dual dimensionality to address common challenges related to economic data. One of the primary challenges is dealing with unobserved heterogeneity. Observing data over time from different units has been common in other statistical fields, often called longitudinal data. In the realm of panel data and beyond, the econometric approach stands out due to its unique emphasis on model specification and testing. This approach tackles various issues stemming from the statistical challenges inherent to economic data, setting it apart from experimental contexts in other fields.

Panel data, or longitudinal or cross-sectional time-series data, pertains to information concerning various entities observed over different time intervals (Wooldridge, 2010). The increased accessibility of data recorded across various units (households, businesses, and nations) and spanning different time frames has led to several estimation methodologies that leverage this dual dimensionality to address common challenges inherent in economic data (Blonigen, 2005). Panel data offers the capacity to manage individual diversity.

In other words, panel data allows for controlling variables that may not be directly observable or measurable, like cultural elements or company variations in operational practices (Wooldridge, 2010). It also permits the management of variables that evolve but remain consistent across entities, such as national policies, federal regulations, and international agreements. Utilizing panel data, one can integrate variables at varying levels of analysis (e.g., students, schools, districts, states), which is particularly suitable for multi-level or hierarchical modeling (Gelman & Hill, 2006). However, some drawbacks include issues related to data collection (e.g., sampling methodologies, coverage), non-responses in micro panels, or interdependencies between countries in macro panels, leading to correlations among nations (Blonigen, 2005).

3.2 Methodology:

Regression models depict the connection between variables by aligning a line with the gathered data. Linear regression models utilize a straight line, whereas logistic and non-linear regression models employ a curved line. Regression enables the estimation of how alterations in the independent variable(s) correspond to changes in the dependent variable. Simple linear regression is employed to approximate the association between two numerical variables. Combining Panel data with a simple linear regression model results in the OLS Pooled Model.

The fundamental linear panel models employed in econometrics can be characterized by applying appropriate constraints to the following overarching model:

$$y_{it} = \alpha_{it} + \beta_{it}^{\top} x_{it} + u_{it}$$

Where "i" ranges from 1 to "n," representing an individual (such as a group, country, etc.), and "t" ranges from 1 to "T," representing the time index, "μit" denotes a random disturbance term with an average value of 0. However, it is essential to note that the latter aspect cannot be estimated when dealing with "N = n * T" data points (Bevans, 2022). Various assumptions about the predictors' parameters, errors, and exogeneity are typically formulated. These assumptions give rise to a classification of viable models for panel data. The most prevalent assumption is parameter homogeneity, which implies that "βit" is equal to "β" for all "i" and "t," and "αit" is equal to "α" for all "i" and "t." (Bevans, 2022). This leads to the resulting model:

$$y_{it} = \alpha + \beta^{\top} x_{it} + u_{it}$$

It represents a standard linear model aggregating all the data across different "i" and "t" values. When aiming to represent individual variations, it is common to hypothesize that the error term consists of two distinct components, where one pertains exclusively to the individual and remains constant over time. This concept is called the unobserved effects model (Bevans, 2022).

$$y_{it} = \alpha + \beta^{\top} x_{it} + \mu_i + \epsilon_{it}$$

The suitable technique for estimating this model relies on the characteristics of the two error elements. The individual-specific error term Eit is typically considered well-behaved and unrelated to the regressors χit and the individual error component μi. However, the individual component may either be independent of the regressors or exhibit correlation. In cases of correlation, using the ordinary least squares (OLS) estimator would result in inconsistency. As a remedy, treating the μi as an additional set of "n" parameters to be estimated is customary, analogous to the general model where αit = αi for all t. This is known as the fixed effects model (also referred to as within or least squares dummy variables model). It is typically estimated through OLS on transformed data and yields consistent estimates. When the individual-specific component μi is uncorrelated with the regressors—referred to as the random effects scenario—the overall error term μit is also uncorrelated, thus ensuring the consistency of the OLS estimator.

However, the shared error component among individuals introduces correlation across the combined error terms, which makes OLS estimation inefficient. In such cases, one needs to turn to some variant of feasible generalized least squares (GLS) estimators (Bevans, 2022). These estimators rely on estimating the variance of the two error components, for which several different procedures are available. The most efficient estimator is pooled OLS when the individual-specific aspect is absent. This collection of assumptions is commonly referred to as the pooling model.

Nevertheless, this term mainly pertains to the characteristics of errors and the appropriate estimation technique rather than the model itself. Suppose one deviates from the typical assumptions of well-behaved, white noise errors and allows the idiosyncratic error term Eit to exhibit arbitrary heteroskedasticity and serial correlation over time (Bevans, 2022). In that case, a broader form of feasible generalized least squares (GLS), the unrestricted or general GLS, becomes necessary. This specification can also incorporate individual-specific error components, which might be correlated with the predictors. In such cases, it has termed fixed effects GLS.

3.2.1 The OLS Pooled Model:

The OLS (Ordinary Least Squares) regression model is a statistical technique used to analyze data from different sources or groups. It is based on estimating parameters by minimizing the differences between observed values and those predicted by the model. In short, the pooled OLS model is used when you have data from different sources or groups, but you want to treat the entire dataset as if it were from a single population (Bevans, 2022). This is particularly useful when there are compelling reasons to treat the data as homogeneous and comparable to each other. It collects data from different sources or groups, each with several observations on independent and dependent variables. The model is based on the classical linear regression model that links the dependent variable (Y) to the independent variables (X) for the entire dataset.

The general formula is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_k X_k + \varepsilon$$

Where Y is the dependent variable, X_1, X_2, ..., X_k are the independent variables, β_0, β_1, β_2, ..., β_k are the regression coefficients to be estimated, and ε represents the random error. The error, by assumption, is distributed as a "normal"-> ε n Norm (Mean, Var). The normal has a bell shape and has two benchmarks. The Mean tells us where it is centered, and the Variance is how wide the distribution is. The higher the Variance, the larger the error; from this, the smaller the Variance, the more the values will be distributed around the Mean. So, when we do this kind of analysis, we hope that, on average, our error is 0, so that on average, we are not making an error and, therefore, that the Variance is constant, that is, that it does not vary over time, and therefore is possibly tiny. Next, homoscedasticity is observed.

The significance of the cause-and-effect relationship between the analyzed variables is verified through tests and statistical tests. This step is crucial since significance, in statistics, means the opposite of randomness.

$$E(Y) = \beta_0 + \beta_1 X_1 + \varepsilon \text{ where } \varepsilon \text{ is } 0$$

So, we have to set the equation as follows:

$$E(Y) = \beta_0 + \beta_1 X_1$$

The average model is correct, and the straight line captures the expectation of Y. The expectation is the trend of the phenomenon. It is necessary to verify that the assumptions are met.

Before analyzing the results and defining the relationship between the variables, it is crucial to check the significance of β_0 and β_1 estimates. Indeed,

β_0 represents the average intensity of Y

β_1 represents how much Y varies as X changes while holding the other X's constant.

R usually provides two tests:

- Test statistic
- p-value

3.3 Findings and Discussion:

The OLS Polled Model Results on R:

Pooling Model

Call:

plm(formula = FDI ~ HR + POP + INFL + INT + LAB, data = DATI_std,

model = "pooling")

Unbalanced Panel: n = 164, T = 4-19, N = 2914

Residuals:

Min.	1st Qu.	Median	3rd Qu.	Max.
-65.483	-2.960	-1.181	0.951	130.677

Coefficients :

	Estimate	Std. Error	t-value	Pr(>|t|)
HR	0.696	0.175	3.96	**0.000*** **
POP	-1.653	0.237	-6.97	**0.000 *** **
INFL	0.161	0.167	0.97	0.33
INT	-0.00	0.153	-0.03	0.98
LAB	0.229	0.168	1.36	0.17

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 209000

Residual Sum of Squares: 202000

R-Squared: 0.036-> 3,6%

Adj. R-Squared: 0.0352

F-statistic: 22.2404 on 5 and 2908 DF, p-value: <0.000

Firstly, I run the model, in this case, the OLS Pooled Model. Secondly, I verified that the model assumptions were met before discussing the results. The model has zero mean, but the graph (Table..in the Appendix) shows that the distribution of the residuals does not appear to be homoskedastic. In statistics, homoskedasticity and heteroskedasticity are concepts related to the variance of the residuals in a statistical model. These concepts are often associated with regression analysis but can be applied to various statistical models. The former occurs when the residuals of a statistical model have a constant (homogeneous) variance across all conditions or levels of the independent variable. In other words, the dispersion of the residuals is the same at all points along the regression line or in all data sets. This is an essential assumption in many statistical techniques, especially in linear regression, because if the residuals have non-constant variance, estimates of model parameters may become inefficient or biased. The latter occurs when the residuals have a variance that varies systemically with one or more of the independent variables or the values predicted by the model.

In other words, the dispersion of the residuals increases or decreases unevenly along the regression line or in different categories of data. Heteroskedasticity can lead to estimates of model parameters that are still valid but less efficient or biased, as well as incorrect standard error estimates of the coefficients. So, homoskedasticity occurs when the variance of the residuals is constant, while heteroskedasticity occurs when the variance of the residuals changes systemically. It is crucial to identify heteroskedasticity in the data and deal with it appropriately to obtain accurate estimates in statistical models. Hence, advanced statistical methods, such as robust regression, can deal with heteroskedasticity without requiring a data transformation, as in the case of the package I used.

Furthermore, the interpretation of coefficients is fundamental to analyzing the results of a statistical model. The coefficients in linear models and many other statistical models represent the relationship between the independent and dependent variables. Understanding the meaning of coefficients is crucial to drawing correct and informative conclusions from analyses.

beta_HR_scalaOriginale	beta_POP_scalaOriginale
0.601	**12.1**

Indeed, the coefficient for "HR" is 0.601. The p-value associated with "HR" is 0.000, which is extremely small. The coefficient for "HR" (0.601) represents the estimated effect of an increase by one unit of the variable "HR" on the dependent variable in the model, holding the other independent variables constant. Hence, as HR increases by one unit, holding the other variables constant, FDI will increase by 0.601 unit. Since the p-value associated with "HR" is very small (<< 0.05), we can conclude that there is significant statistical evidence to suggest that the coefficient of "HR" is different from zero. In other words, "HR" significantly affects the dependent variable. The positive direction of the coefficient (0.601) indicates that an increase in "HR" is associated with an increase in the dependent variable. In summary, the coefficient of "HR" (independent variable) is statistically significant and positive, which suggests that "HR" has a substantial and positive effect on the dependent variable in the model. For the other variable, which was found to be significant, the beta coefficient was also substantial2 and positive, akin to the variable “HR.” The coefficient of "POP" is "12.1." This represents the estimated effect of a one-unit increase in the "POP" variable on the dependent variable in the model, holding the other independent variables constant. So, as “POP” increases by one unit, holding the others constant, FDI will increase by 12.1 units. In addition, the p-value associated with "POP" is also very low. So, there is significant statistical evidence since the coefficient of "POP" is non-zero and positive. In other words, an increase in the population ("POP") is associated with an increase in the dependent variable, and this relationship is statistically robust.

Moreover, I ran the bptest(pooled). According to this test, H0 is "homoskedasticity," so by rejecting the null hypothesis, it follows that the residuals of this model are significantly heteroskedastic. As the p-value is low (0.000), I had to reject H0. Therefore, the distribution of the residuals is heteroskedastic. Consequently, some effects have not been considered. At this prospect, I have performed tests on this.

The test that checks for individual (country) effects in the data was successful. Additionally, the test affirms the presence of significant time-varying effects, although the significance is low. The Fixed Effect model will not necessarily capture all these effects because the "effects" in this case are not fixed but vary over time, and perhaps an even better hypothesis would be to use a random effect model. Finally, as a final confirmation of the more excellent fit of the fixed model over the OLS model, I ran the pFtest, comparing the two models.

To compute this test, the fixed and pooled models must have the same regressors. In this case, we have the null hypothesis, H0, that pooling is better than FE. The worth of the p-value is infinitely (0.000), so we must reject H0. Thus, based on this result, it can be inferred that the fixed effects model (fixed effects) is significantly better than the pooled effects model (pooled effects). In other words, there are significant differences between different units or groups that justify using a fixed effects model to account for these differences.

The Fixed Effect Model Results on R:

Call:

plm(formula = FDIoverGDP ~ HR + POP, data = DATI, model = "within",

index = c("Country", "Year"))

Unbalanced Panel: n = 190, T = 4-20, N = 3699

Residuals:

Min	1st Qu.	Median	3rd Qu.	Max.
-82.787	-1.432	-0.176	1.055	113.767

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)
HR	0.113	0.452	0.25	0.802
POP	-2.785	1.343	-2.07	**0.038 ***
INFL	0.013	0.011	1.16	0.248
INT	0.000	0.001	0.40	0.689
LAB	0.000	0.000	0.41	0.681

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 147000

Residual Sum of Squares: 147000

R-Squared: 0.002 -> 0.2%

Adj. R-Squared: -0.0587

F-statistic: 1.30732 on 5 and 2745 DF, p-value: 0.258

From the model results, however, it appears that the fixed model is worse than the pooled model despite previous tests. The fixed-effects model is useful when the dataset has unit- or group-specific effects. If the results of the fixed-effects model look worse, it could mean that the units or groups do not differ significantly from each other, so a pooled model (without fixed effects) might be more appropriate. In addition, it could be that the variables used need to be corrected or that other important variables that explain the variation in the data need to be included. The choice of variables is crucial in a data analysis. In addition, the fixed-effects model may be more complex than the pooled model and may risk overlapping the data if there are few observations for each unit or group. This can lead to less reliable results or even worse generalization. Given the large dataset, however, it is not this assumption but the choice of variables. Finally, a pooled model might be more appropriate if the goal is to study relationships between variables in general and not specifically between units or groups. Thus, despite appearing to be the opposite, given the circumstances, the pooled model was more appropriate than the fixed model.

beta_HR_scalaOriginale	beta_POP_scalaOriginale
0.601	**9.75**

Based on the results, we can see that there was a considerable result. The R-squared was lower (0.2%) than before (3.6%). Moreover, the variable "HR" is no longer significant, leaving only "POP" as the only significant variable in the model. Calculating (β_1), it can be seen that HR has remained quite the same, while for "POP," it has dropped a little but remains significant and positive. So, as POP changes by one unit, keeping the other variables fixed, Y (FDI) varies on average across countries by 9.75 units. This result is significant because the t-test on beta was significant.

Ultimately, I tried the random effects model. As a first step, I ran the test as I did previously for the FE and OLS model. Obtaining a high p-value (1) as a result means that there is no significant difference between the fixed-effects model (fixed effects) and the random-effects model (random effects). In other words, Hausman's test suggests that both models are consistent with the available data. Therefore, based on the results of Hausman's test, both models appear correct and appropriate.

Hausman Test:

data: FDI ~ HR + POP + INFL + INT + LAB

chisq = 0.2, df = 5, **p-value = 1**

alternative hypothesis: one model is inconsistent

Refinement Testing: Division of the countries into two categories:

To improve the results obtained, I tried to do some "refinement tests." Indeed, I divided the data frame into two categories: developing and developed countries. Before performing the analysis, I performed some exploratory statistics. For instance, I ran a boxplot to better understand the data and lifted the countries considered "outliers": Liberia and Chad (Figure). As far as developed countries are concerned, the validity situation could have improved significantly. The R-square value fell slightly (3.4%). In contrast, the situation for developing countries changed slightly from an R-squared value of 3.6% to a value of 5%. Ultimately, as for the significant variables, they remain the same: HR and POP.

Call:

plm(formula = FDI ~ HR + POP + INFL + INT + LAB, data = PAESI_SVILUPPATI,

model = "pooling")

Unbalanced Panel: n = 76, T = 9-19, N = 1394

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)
HR	0.640	0.275	2.33	**0.02** *
POP	-1.992	0.380	-5.24	**0.000** ***
INFL	0.148	0.259	0.57	0.57
INT	-0.124	0.259	-0.48	0.63
LAB	0.355	0.282	1.26	0.21

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

R-Squared: 0.0342 -> 3.4%

beta_HR_scalaOriginale	beta_POP_scalaOriginale
0.546	11.4

Call:

plm(formula = FDI ~ HR + POP + INFL + INT + LAB, data = PAESI_INSVILUPPO,

model = "pooling")

Coefficients:

	Estimate	Std. Error	t-value	Pr(>|t|)
HR	0.876	0.188	4.66	**0.0000** ***
POP	-0.866	0.245	-3.53	**0.0004**
INFL	0.186	0.157	1.18	0.238
INT	0.089	0.142	0.63	0.530
LAB	0.053	0.166	0.32	0.746

***

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

R-Squared: 0.050 -> 5%

beta_HR_scalaOriginale	beta_POP_scalaOriginale
0.775	13.8

The beta of HR in developing countries is 0.775. Thus, in developing countries, where human rights are less respected, this model shows respect for human rights has a very significant and positive impact on FDI. As the number of HR units increases, holding the others constant, FDI increases by 0.775 units. While in developed countries, the coefficient of HR is 0.546. Thus, as one unit of HR increases, FDI in developed countries increases by 0.546 units.

Fixed Effect for developing and developed countries:

As far as the fixed effect model is concerned, the above considerations do not change. Indeed, only POP appears as a significant variable in developing countries, and the R-square remains very low (0.7%).

R-Squared: 0.007 -> 0.7%

On the contrary, as far as developed countries are concerned, the situation worsens dramatically. No significant variable appears anymore, and the R-square falls even further (0.2%).

R-Squared: 0.002 -> 0.2%

Upon scrutinizing the obtained results, it is apparent that the analysis has yielded statistically significant and positive outcomes in alignment with initial expectations. Indeed, this analysis has answered the primary research question: "To what extent do human rights influence Foreign Direct Investment (FDI)?" The outcome indicates that human rights significantly influence investment decisions within nations. The initial model, Ordinary Least Squares (OLS) Pooled Regression, has established that an increase in Human Rights (HR) index values, reflecting greater adherence to human rights principles, corresponds with a proportional increase in FDI, specifically by a magnitude of 0.601 units. However, it is imperative to acknowledge that the R-squared (R^2) statistic for this model is relatively low at 3.6%, signifying that this model explains merely 3.6% of the variance in the data.

The dataset was stratified into developing and developed countries to enhance comprehension and provide more detailed insights. The identical analysis was then performed within these subgroups, yielding comparable findings. In both cases, the only two variables that exhibited statistical significance were 'HR' (Human Rights) and 'POP' (Population), both of which exerted a substantial and positive influence on the dependent variable 'FDI' (Foreign Direct Investment). In developed countries, it can be deduced that for each unit increase in the HR index, FDI increases by 0.546 units. While this result is slightly lower than that observed in the initial analysis, it remains statistically significant and positive. Conversely, in the context of developing countries, the influence of HR on FDI appears even more pronounced. Specifically, an increment of one unit in HR is associated with a noteworthy 0.775 units increase in FDI. In this case, the R-square value is also slightly higher (5%), giving, albeit still minimal, more validity than the previous model.

In addition, as postulated by numerous scholars, human rights undeniably wield a pivotal influence on the dynamics of FDI. Furthermore, a distinction can be drawn between developing and developed countries. Human rights assume a paramount role in shaping investment decisions in the former. In contrast, while still relevant in the latter, they do not constitute a primary driver for foreign nations contemplating investment. In developing countries, notably, FDI has outpaced developed countries regarding inflows (UNCTAD, 2022). Unnecessary human rights violations, especially in developing countries, are well known. This correlation suggests a significant connection between these factors. Concurrently, various deterrent factors such as conflict, corruption, political instability, and others diminish the attractiveness of certain countries for investment. Consequently, these factors amplify the perceived risks for investors, rendering such nations less appealing for foreign capital inflow.

This analysis reveals a substantial corroboration regarding scholars' claims of the perceived importance of human rights conditions in foreign investors' considerations. An exploration of the factors that support this thesis has already been provided, including the significant impact of increased public awareness of human rights violations, the increased effectiveness of online activism, the growing demand for skilled labor, and the appeal of new market entrants, as explained by Spar (1999). There is a tendency to believe that commitment to human rights fosters an environment conducive to human capital development, promoting greater transparency, accountability, and economic efficiency in countries.

Nevertheless, there is also the opposite view, according to which the emphasis on human rights appears to be more of a superficial concern that takes a back seat instead of being of paramount importance.

Overall, developing countries that uphold human rights tend to be more effective in luring foreign direct investment compared to countries marked by violations of human rights. Hence, respect for human rights directly impacts lowering the risk associated with Foreign Direct Investment (FDI). This is because it serves as a clear indicator of improved political stability and predictability in a host country, reducing the vulnerability of businesses to criticism from socially conscious consumers. Notably, indirectly, human rights create a favorable environment for the growth of human capital, making countries with access to highly skilled labor more attractive to foreign investors. It is important to note that there are several interconnected pathways through which political factors affect investment choices.

Furthermore, to simplify the analysis, I have named the variable of respect for human rights 'HR.' This variable is an indicator taken from the World Bank website: "Political stability and absence of violence/terrorism measure the perceived likelihood of political instability and/or politically motivated violence, including terrorism." Thus, interpreting the results appropriately, I would say that as HR increases, i.e., political stability and the absence of violence decreases, FDI generally increases by 0.601 units. Then, more precisely, in developing countries, they increased by 0.775 units, while in developed ones, by 0.546 units. The human rights indicator is taken from the Worldwide Governance Indicators (WGI). This research data set collects assessments of the quality of governance from various sources, including surveys of businesses, citizens, and experts in developed and developing countries. These assessments are collected through collaboration with survey organizations, think tanks, non-governmental organizations, international bodies, and private sector companies. It is crucial to note that the WGI results do not necessarily reflect the official outlook of the World Bank, its executive directors, or the countries they represent.

Moreover, the World Bank Group does not use the WGI as a basis for resource allocation. Along with the one used in this research, there were other indicators: voice and accountability, government effectiveness, rule of law, control of corruption, and regulatory quality. Since this research aimed to understand if human rights impacted the FDI, I think the "Political Stability/No Violence" indicator seemed the most appropriate choice. Although the results can be considered good, they can still be improved. So, regarding the limitations of this thesis regarding the HR variable, there might be a possibility that the HR indicator alone needed to be more valuable. Therefore, perhaps supporting other HR indicators was necessary, such as those mentioned above.

Summary of the Key Findings:

OLS Pooled Model Results:	***Fixed Effect Model Results:***	***Developing Countries***	***Developed Countries***
• The model has zero mean, but the graph shows that the distribution of the residuals does not appear to be homoskedastic	• It appears that the fixed model is worse than the pooled model despite previous tests.	• OLS Pooled	• OLS Pooled
• "HR"(+) and "POP" as significant variables	• Only "POP" results significant	• "HR"(+) and "POP" as significant variables	• "HR" (+) and "POP" as significant variables
• R-Square (3.6%)	• R-Square (0.2%)	• R-Square -> 5%	• R-Square -> 3.4%
• (βHR) -> 0.601 • (βpop) -> 12.1	• (βHR) -> 0.601 • (βpop) -> 9.75	• (βHR) -> 0.775 • (βpop) -> 4.22	• (βHR) -> 0.546. • (βpop) -> 11.4

Limitations of the Research:

The vast majority of the observed variance in the dependent variable remains unaccounted for or unexplained by the independent variables embedded in the model. This observation emphasizes the imperative need for the model to capture latent relationships more fully in the data set or recognize the possibility of factors not considered affecting the dependent variable.

As a result, the effectiveness of the model could be much better. Given the initial data set and my inexperience, this result was somewhat expected. This fact is also indicated by selecting variables that needed to be more appropriate. In fact, despite the extensive preliminary research, the intricate and potentially weak relationships between variables and the presence of factors not considered require further consideration.

This experience orients my future research toward a more focused and specialized area, hoping to obtain plausibly more reliable results. Moreover, although the choice of the human rights indicator has been long and upright, it has likely constituted a significant limit to analysis. The apparent limitation, however, remains the inherent challenge of quantifying qualitative variables. Human rights represent a complex reality, very difficult to reduce to numerical values. Therefore, choosing an indicator that only includes one aspect of these rights could limit any search. Therefore, besides including statistically insignificant variables, the challenge of representing human rights in a quantitative framework is a significant limitation. However, all these limitations and results will be valuable for future research.

Conclusion:

Human rights are inherent, universal, and equal, meaning everyone possesses them equally and unconditionally solely by being human. Consequently, the obligation to uphold these rights is absolute, regardless of what domestic legislation may dictate. Corporations are responsible for respecting human rights, even if fulfilling this responsibility conflicts with the country's laws. The United Nations Guiding Principles on Business and Human Rights (UNGPs), which serve as the authoritative framework for corporate human rights responsibility, emphasize this point clearly. As stated in the commentary to paragraph 11 of the UNGPs: "The responsibility to respect human rights... extends beyond compliance with national laws and regulations" (Ruggie, 2011). Thus, human rights establish a universal baseline for acceptable conduct not subject to cultural or national relativism. While the practices and interpretations of human rights may naturally vary across different contexts, they all adhere to the same universal core that businesses should respect in all circumstances and locations.

Hence, our autonomy as human beings arises from our capacity for contemplation. Our instincts do not predetermine our actions but primarily result from deliberate choices (Ulrich & Smith, 2013). We are rational beings defined by our ability to reflect on our relationship with ourselves, others, and our broader surroundings (Wettstein, 2009). Decisions are considered autonomous when they are contemplative and grounded in sound reasoning. In contrast, arbitrariness entails the absence of reflection, resulting in the loss of autonomy and transforming individuals into slaves of their impulses rather than masters of their judgment. Our freedom is rooted in our ability to commit ourselves to certain principles and decisions willingly.

The involvement of multinational corporations is becoming increasingly crucial in discovering and implementing viable solutions in this context. As multinational corporations hold significant economic and political influence, it is becoming increasingly essential to view their participation and active commitment to restoring justice by upholding the human rights of the underprivileged as an ethical obligation, not merely a charitable gesture. Poverty should no longer be perceived solely as an economic problem but should be recognized as a breach of individuals' fundamental human rights (Wettstein, 2009), thereby constituting an issue of injustice. Structural approaches are concerned not only with companies' economic function but also with their increasing political clout and impact.

In brief, these approaches relate to the capacities of influential and formidable corporations to reshape the inherently biased global economic system into one that is fairer and more balanced. Numerous global challenges we confront today can no longer be resolved by any individual entity in isolation. They demand collaborative efforts involving various stakeholders and sectors, all motivated by a sincere commitment to achieving global solutions. Multinational corporations should assist in areas where specialized knowledge is crucial for enhancing global human rights conditions.

Profit generation is a company's primary duty (European Commission, 2001). Any other moral considerations will automatically be secondary in a conflict. CSR proponents who align with this line of thinking offer a seemingly straightforward solution: they remove any friction between ethics and profitability, asserting complete alignment between the two realms. They argue that the obligation to generate profits necessitates responsible corporate conduct. This approach, known as the business case argument, is essentially the only way to reconcile the voluntary nature of CSR with the perceived primary obligation to generate profits. In essence, the moral justification for CSR is replaced by an economic rationale.

Corporate Social Responsibility (CSR), as stated in the previous chapters, is an authoritarian idea of corporations' expected actions and conduct. Consequently, the queries and concerns associated with CSR are fundamentally ethical. Contemplating these matters involves moral reasoning. The honest character of CSR inherently suggests that it extends beyond merely adhering to existing laws and regulations. To put it differently, it is not a significant leap to deduce that if CSR cannot be enforced by law, it must inherently be a matter of voluntary choice (Wettstein, 2009). Hence, moral duty's sole logically conceivable origin is our inherent autonomy as human individuals. Moral duty cannot be externally imposed; instead, it must emerge from a voluntary commitment. Consequently, it arises from the independent understanding of the inherent human and compassionate behavior requirement, which compels us to base our actions and choices on collectively recognized and morally justified reasons.

The analysis has yielded statistically significant and positive outcomes in alignment with initial expectations. Indeed, this analysis has answered the primary research question: "To what extent do human rights influence Foreign Direct Investment (FDI)?" The results show a significant impact of human rights on investment decisions within nations. The initial model, Ordinary Least Squares (OLS) Pooled Regression, has established that an increase of one unit in Human Rights (HR) index values, reflecting greater adherence to human rights principles, corresponds with a proportional increase in FDI, specifically by a magnitude of 0.601 units.

Then, the dataset was stratified into developing and developed countries to enhance comprehension and provide more detailed insights. The identical analysis was performed within these subgroups, yielding comparable findings.

Indeed, in developed countries, it can be deduced that for each unit increase in the HR index, FDI increases by 0.546 units. While this result is slightly lower than that observed in the initial analysis, it remains statistically significant and positive. Conversely, in the context of developing countries, the influence of HR on FDI appears even more pronounced. Specifically, an increment of one unit in HR is associated with a noteworthy 0.775 units increase in FDI. As postulated by numerous scholars, human rights undeniably wield a pivotal influence on the dynamics of FDI.

Furthermore, through this additional analysis, a distinction can be drawn between developing and developed countries. Human rights assume a paramount role in shaping investment decisions in the former. In contrast, while still relevant in the latter, they do not constitute a primary driver for foreign nations contemplating investment. In developing countries, notably, FDI has outpaced developed countries regarding inflows (UNCTAD, 2022). Unnecessary human rights violations, especially in developing countries, are well known. This correlation suggests a significant connection between these factors. Concurrently, various deterrent factors such as conflict, corruption, political instability, and others diminish the attractiveness of certain countries for investment. Consequently, these factors amplify the perceived risks for investors, rendering such nations less appealing for foreign capital inflow. This analysis reveals a substantial corroboration regarding scholars' claims of the perceived importance of human rights conditions in foreign investors' considerations.

Remarkably, for several reasons, respect for human rights is crucial in foreign direct investment (FDI). FDI involves acquiring foreign companies in the host country, often attempting to exploit its resources and market potential. Respect for human rights is an ethical imperative, ensuring that the economic benefits generated by FDI are not at the expense of the host country's population's well-being, dignity, and fundamental rights. A stable social environment is critical to the success and sustainability of FDI projects (Blanton & Blanton, 2009). Consequently, human rights violations, such as forced labor, child labor, or discrimination, can lead to social unrest and instability. In addition, investing involves risk-taking. So, respect for human rights is a key risk mitigation strategy for foreign investors (Blanton & Blanton, 2009). Companies prioritizing human rights are less likely to incur legal, financial, or operational risks associated with protests, strikes, or public reaction.

Ultimately, as noted in previous chapters, many international organizations, such as the United Nations and the International Labor Organization, uphold and monitor human rights standards. Failure to comply with these standards can lead to diplomatic tensions, trade restrictions, or international sanctions, negatively impacting FDI. In sum, respect for human rights in the context of FDI is not only a moral imperative but also a practical necessity (Blanton & Blanton, 2009). It contributes to social stability, protects a company's reputation, ensures legal compliance, reduces risk, promotes sustainability, and improves foreign investment's overall economic and social impact in host countries. Hence, countries that uphold human rights and respect them are seen as offering lower risks to foreign investors because such circumstances indicate a higher level of political stability and predictability. Moreover, investing in nations with vital human rights records also decreases investors' exposure to the potential consequences of the "spotlight" regime's sanctions (Spar, 1998).

The most fundamental category of these moral entitlements encompasses human rights. Human rights guarantee the absolute minimum required for us to lead a dignified and tolerable life as human beings. Consequently, these rights are owed to every individual and are universal. Human rights are unconditional; we can rightfully assert them simply because we are human. There are no additional prerequisites we must fulfill or qualities we must possess to possess these rights, and there are no actions or circumstances that can ever justifiably deprive us of them. Human rights are inherent and cannot be separated or divided. A proper emphasis on justice should be more than inquiring about preventing a bad situation from deteriorating further. It inherently involves considering what actions are necessary to rectify existing injustices.

Furthermore, new digital technologies and artificial intelligence are expected to comprehensively impact various aspects of international business, profoundly influencing human rights considerations. For instance, automation and blockchain technology advancements will revolutionize how businesses structure, coordinate, and oversee their value chains. These advancements can also enhance the traceability and transparency of value chains, which is crucial for effectively implementing human rights due diligence (Voegtlin & Scherer, 2016). While automation and new robotic technology offer significant opportunities, they may also introduce unknown structural risks to human rights. The reduction in manufacturing costs is likely to result in a shift from the previous trend of outsourcing to countries with low labor costs, which has been a defining characteristic of multinational enterprises in the past three decades, and instead relocate certain parts of the value chain back to Western countries. Nevertheless, empirical research still needs to be explored.

To conclude, these findings highlight the importance of human rights globally. This research has certainly contributed to increasing knowledge of economics and human rights. This study has highlighted the importance of considering human rights in all aspects of the economy, both on a small scale, such as in the context of corporate responsibility, and on a large scale, such as in the following research. However, a need to explore the intricate dynamics at play further emerges to understand whether this is a strategic or moral choice. Therefore, the relevant emphasis on human rights in the field of FDI should not simply be a strategic choice but primarily a moral one. Thus, the universality of human rights and unconditionality imply that policymakers, businesses, or society should consider the reasons for investment. More in-depth research and data analysis are needed to draw firm conclusions. For instance, further research could be directed toward understanding the relationship between FDI and HR, perhaps focusing research on individual countries or areas. Additionally, further analysis could build on this model using different human rights indicators and then compare the results.

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Methodological Appendix:

Checking β_1 through the p-value:

The p-value, obtained through a statistical analysis, indicates the probability of encountering a specific set of observations under the assumption of the null hypothesis. In hypothesis testing, p-values aid in determining whether the null hypothesis should be rejected. A smaller p-value indicates a higher likelihood of rejecting the null hypothesis (Bevans, 2022). Usually, we have two hypotheses. The first is that H0 also called the null hypothesis, is equal to 0, and the second is that H is different from 0. Subsequently, the other assumption made is that H0 is accurate, and the p-value is calculated under this assumption. Notably, if the p-value is low, the empirical evidence is very much against H0. This means the data assigns a very low probability of H0 being accurate, so the null hypothesis must be rejected. If H0 is rejected, one must necessarily accept the alternative hypothesis, i.e., H1. To make it more transparent, one can say that one hopes that the p-value is low so that β_1 is significantly different from 0. The fact that it is different from 0 allows us to say that the relationship between X and Y exists (Bevans, 2022).

Researchers primarily employ p-values to determine if a specific observed pattern holds statistical importance. Statistical significance means that the p-value resulting from a statistical test is sufficiently low to warrant dismissing the null hypothesis associated with the test. What qualifies as "sufficiently low"? The prevalent criterion is $p < 0.05$, signifying a situation where the calculated test statistic's extremeness would arise in just 5% of instances. Nevertheless, this threshold varies based on the academic discipline; specific fields lean towards thresholds like 0.01 or 0.001. P-values are frequently understood as the likelihood of erroneously dismissing the null hypothesis of your test even when it holds true. The t-test has H0 as the corresponding regression beta equal to 0. If the p-value is high (usually more than 0.05), it means that based on the empirical data, H0 is not implausible, so it cannot be rejected.

Consequently, there is no way to be sure that the variable has a significantly non-zero effect on Y. In the t-test, H0 means that the tested variable does not affect Y (beta = 0), so one would hope to reject H0. The probability of erroneously rejecting the null hypothesis is often higher than the calculated p-value, especially in situations involving a single study or a small sample size (Bevans,

2022). This arises because, with limited data, there is an increased chance of stumbling upon a statistically significant pattern purely by chance. P-values are also commonly misinterpreted as endorsing or contradicting the alternative hypothesis. However, this is an incorrect assumption.

The p-value solely indicates whether there is support for the null hypothesis. It needs to provide insight into the truth of the alternative hypothesis or the reasons behind it. Hence, this test does not tell us whether β_1 is correct, only if it is significant (Bevans, 2022). Additionally, we will see that β_0 and β_1 cannot explain this panel data, consisting of an innumerable set of countries over an innumerable period of years. So, we must admit that there is something else, other phenomena that have not been considered or are not quantifiable but could be fundamental. In this case, the equation will be the following:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \varepsilon$$

Where Z represents those phenomena for which we have no data but indeed impact Y. The hypothesis that follows is that they exist constant, hence fixed, country-specific effects that we do not know what they are due to but that exist. If there is a correlation between X and Z or X and Y, the error (ε) explodes to +infinity. This means that the more what we do not observe exists, and especially the more significant it is, the more we make an error in our analysis. Consequently, we cannot express the significance of β_0 and β_1 without considering these fixed effects in the model.

What does it mean? Let us assume that FDI has an average intensity. The straight line still exists but will shift as the intercept shifts to seconds of the country it considers. This is why the Pooling OLS Model is no longer needed, and another model is introduced into the analysis: the Fixed Effect model. It must check the country considered to check how far the line shifts from the mean. This effect is constant, hence fixed, for each country. This p slightly vitiates the interpretation of β_1 because something else is always added to $\beta 1X$ and constantly changes it. So β_1 determines how much, on average, per country, FDI varies as a function of HR. This model's estimation of β_1 is more accurate, but the interpretation of $\beta 1$ is less accurate. At the moment where I put ($\beta_2 Z$), I am reducing the error (ε). As mentioned above, if it does not consider Z, the error explodes, but if instead, it considers the error reduces, and thus $\beta 1$ is more accurate. Notably, the fixed effects model assumes that the unaccounted factors within the model could have arbitrary correlations with the included variables. This is particularly advantageous when your focus is solely on analyzing the effects of variables that exhibit changes over time (time-varying effects).

Additionally, two other standard methods are used to analyze panel data: the fixed effect and the random effect. In the former, there is a connection between predictor and outcome variables within a specific entity (like a country, an individual, or a company). Each entity possesses distinctive individual traits that might impact the predictor variables. For instance, one's gender could influence one's stance on a particular issue, a country's political system might affect trade or GDP, or a company's operational methods could influence its stock price. By utilizing fixed effects, we acknowledge that inherent characteristics within an individual could influence or skew the predictor or outcome variables, requiring control (Blonigen, 2005). This forms the basis for assuming a correlation between an entity's error term and predictor variables. Fixed effects work to eliminate the influence of these time-invariant traits, thus enabling the assessment of the net impact of predictors on the outcome variable.

The fixed effects regression model has 'n' distinct intercepts, each assigned to an entity. These intercepts can be represented through binary variables, absorbing the effects of all unconsidered variables that differ across entities but remain constant over time (Blonigen, 2005). Another crucial assumption of the fixed effects model is that these unchanging attributes unique to each individual should not be correlated with other individual attributes. Since each entity is distinct, the entity's error term and the constant (which captures individual traits) should not exhibit a correlation with others. Suppose there is a correlation among error terms. In that case, the fixed effects approach might not be suitable, and it might need to model that relationship (possibly through random effects) to ensure accurate inferences.

Suppose there is a strict absence of correlation between individual effects and the predictors. In that case, treating the individual-specific constant terms as randomly distributed among different cross-sectional units might be suitable (Bartels, 2008). This perspective aligns when we assume that the sampled cross-sectional units are drawn from a larger population. If there are reasons to suspect that differences among entities exert some influence on your dependent variable, then adopting random effects could be more appropriate. The random-effects framework must define the individual characteristics that could impact the predictor variables. However, a limitation here is that certain variables might not be available, thereby introducing omitted variable bias to the model. An advantage of employing random effects is the ability to include time-invariant variables, such as gender. In contrast, these variables get absorbed by the intercept in the fixed effects model (Bartels, 2008).

However, the trade-off is the potential for obtaining inconsistent estimators if the assumption needs to be better-suited. Hausman test is used to choose between fixed and random effects (Rehal, 2022). Indeed, in this test, the null hypothesis suggests that the preferred model is random effects, while the alternative asserts the preference for fixed effects. The test evaluates whether the unique errors correlate with the predictors; the null hypothesis posits that they do not. The "phtest" function performs the Hausman test by comparing two estimates (Bartels, 2008). Firstly, it runs a fixed effects model and records the estimates. Subsequently, it runs a random model and saves the corresponding estimates. Then, the test is conducted.

Using the ordinary least squares (OLS) method, we estimate the value of the regression coefficients (β) that minimize the sum of squares of the residuals (differences between observed and model-predicted values). The model's goodness of fit is evaluated by comparing the observed values with those predicted. Various metrics, such as the coefficient of determination (R^2), can be used to assess how well the model explains the variation in the data. It should be noted that the pooled OLS model assumes that data from different sources are homogeneous and do not have different structures. This may not always be the case in reality, so it is essential to carefully consider whether the pooled OLS model is appropriate for the data at hand.

In addition, if there are valid reasons for considering data from different sources as heterogeneous or having different structures, it may be more appropriate to use other regression models, such as fixed-effects, like in the case of my analysis, or random-effects models, that account for differences between groups. The decision between fixed and random effects specifications hinges on Hausman-type tests, contrasting the two estimators under the assumption of no significant difference. If this assumption holds, the more efficient random effects estimator is chosen. Even after this stage, deviations of the error structure from sphericity can still impact inference. Thus, either screening tests or robust diagnostics are necessary.

Dynamic models and the absence of strict exogeneity of predictors introduce additional challenges for estimation, often addressed within the generalized method of moments (GMM) framework. These were prerequisites for a panel data econometrics package for the R language and environment (Croissant & Millo, 2008). The specific requirements were already met by existing packages adapted to other branches of computational statistics, a common occurrence in the R ecosystem. However, others, such as fixed-effects or between-effects estimators, were simple to compute once the data were transformed. However, in all cases, there were linguistic inconsistencies with the standard econometric toolkit or nuances to overcome, such as ensuring the appropriate

calculation of standard errors for the demythologized model, a common pitfall (Croissant & Millo, 2008). Therefore, the need for an all-encompassing econometric package to facilitate seamless specification search, estimation, and inference was recognized. This package is named the PLM Package.

The PLM Package on R:

PLM is a specific package used to analyze panel data with OLS. Panel data exhibit a unique structure: each row in the dataset corresponds to a specific individual and time. In the context of "plm," the "data" argument can be an ordinary data.frame. However, if this is the case, an additional argument named "index" must be included to specify the data's structure (Croissant & Millo, 2008). This "index" argument can take on various forms:

- NULL (the default value): In this case, it is assumed that the first two columns of the data contain the individual and time index, and the observations are arranged by individual and time.
- A character string: This should be the name of the individual index.
- A character vector with two elements: This vector should contain the names of the individual and the time index.
- An integer corresponds to the number of individuals, applicable only for balanced panels where individuals order observations.

Internally, the "pdata.frame" function is called, resulting in a "pdata.frame" object. This object is essentially a data. frame with an " index " attribute." This attribute, in turn, is a data. frame containing the individual and time indexes. Alternatively, you can directly use the "pdata.frame" function and then incorporate the "pdata. frame" in the estimation functions (Croissant & Millo, 2008).

Estimation Approach:

Within the plm framework, four estimation functions are available:

- "plm": This function estimates fundamental panel models, including within, between, and random effects models. These models are estimated by applying the "lm" function to transformed data.
- "pvcm": This function estimates models with varying coefficients.
- "pgmm": It has been used to estimate generalized method of moments (GMM) models.
- "pggls": This function estimates general feasible generalized least squares (GLS) models.

The structure of these functions aligns with that of the "lm()" function. Specifically, the first two arguments are "formula" and "data" (which is required and should be a data. frame). Three additional arguments are common across these functions:

- "Index": This argument helps the estimation functions identify the data's structure, namely the individual and time associated with each observation.
- "Effect": Determines the type of effects to include in the model—individual effects, time effects, or both.
- "Model": Specifies the type of model to be estimated, often involving fixed or random effects.

The outcomes of these four functions are stored within objects sharing the same name as the function (Croissant & Millo, 2008). All of these objects inherit from the "panelmodel" class. Within a "panel model" object, various elements will be coefficients, residuals, fitted values, variance-covariance matrix, degrees of freedom for residuals, and the call. Extracting these elements can be done using dedicated functions.

Testing Approach:

The diagnostic testing interface offers formula and panel model methods for most functions, with a few exceptions (Croissant & Millo, 2008). This enables users to opt between using pre-estimated results stored in a panel model object or re-estimating for testing. While the former is more efficient, diagnostic testing on panel models often utilizes OLS residuals from pooling model objects, which is computationally less intensive. Therefore, most examples presented later rely on formula methods, known for their clarity in illustrative contexts (Croissant & Millo, 2008).

Pooling Suitability Tests:

The "pool test" function assesses the hypothesis that identical coefficients apply to each individual (Croissant & Millo, 2008). This entails a standard F test, accomplished by comparing a model derived from the entire sample with another derived from estimating an equation for each individual separately (Croissant & Millo, 2008). When employing "pool test," the initial argument is a "plm" object. The subsequent argument is a "pvcm" object acquired through the "within" model specification. Should the first argument be a pooling model, the test encompasses all coefficients, including intercepts. Conversely, distinct intercepts are assumed if they represent a within model (Croissant & Millo, 2008).

In order to test the hypothesis that all coefficients within the Grunfeld example—excluding intercepts—are equal. It can be used:

```
R> znp <- pvcm(inv ~ value + capital, data = Grunfeld, model = "within")
R> zplm <- plm(inv ~ value + capital, data = Grunfeld)
R> pooltest(zplm, znp)

        F statistic

data:  inv ~ value + capital
F = 5.7805, df1 = 18, df2 = 170, p-value = 1.219e-10
alternative hypothesis: unstability
```

The identical test can be calculated by utilizing a formula as the primary argument for the "pool test" function:

```
R> pooltest(inv ~ value + capital, data = Grunfeld, model = "within")
```

Testing for Individual and Time Effects:

The "plmtest" function carries out Lagrange multiplier tests aimed at detecting individual and/or time effects, leveraging the outcomes of the pooling model. The core argument is a "plm" object, which results from a pooling model or can be specified as a formula (Croissant & Millo, 2008).

Two supplementary arguments can be incorporated to indicate the specific test type (Croissant & Millo, 2008). The "type" argument offers the following options:

- "bp": Based on Breusch and Pagan (1980).
- "honda": Utilizing the approach introduced by Honda (1985), which serves as the default option.
- "kw": King and Wu (1997) method.
- "ghm": Gourieroux, Holly, and Monfort (1982) approach.

The desired effects to be tested are indicated through the "effect" argument, which includes the following options: individual, time, or two ways.

Ultimately, the PLM package offers several ml-based tests encompassing joint, marginal, and conditional assessments (Croissant & Millo, 2008). Additionally, semiparametric alternatives are available that stand firm against heteroskedasticity and avoid reliance on distributional assumptions. Through PLM, the objective is to offer an inclusive package encompassing the essential functionalities required for managing and conducting econometric analyses on panel data.

While the perspective aligns with that of an econometrician among various approaches to longitudinal data analysis, our syntax maintains consistency with essential linear modeling tools such as the "lm" function. On the input side, the formulation of models to be estimated is accomplished using formulas and data arguments (Croissant & Millo, 2008). Simplifying formula composition, specialized functions are provided, and the data structure is specified via an index argument. Regarding outputs, the model objects—falling under the new "panel model" class—are designed to seamlessly integrate with the restriction testing frameworks presented in the "lmtest" and "car" packages. Moreover, specific techniques are accessible for generating robust covariance matrices. For testing purposes involving heteroskedasticity and correlation, these matrices are incorporated into testing functions alongside a "panel model" object (Croissant & Millo, 2008).

Throughout this paper, Croissant & Millo (2008) have illustrated the primary functionalities of the package through their application to renowned datasets from econometric literature. They have also briefly discussed the resemblances and disparities compared with the maximum likelihood approach to longitudinal data. In the future, plans encompass extending the methods outlined here to systems of equations and models involving autoregressive errors.

Additionally, they intend to introduce covariance estimators that accommodate cross-sectional correlation robustly. Finally, β_0 is always subsumed, and by default, the plm model "cuts" all rows where it finds NA in the considered variables.