

Aiding Labor: Foreign Aid and the Promotion of Labor Rights in LDCs

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Abstract:

Recent research examines the influence of trade and capital liberalization on states' and private corporations' respect for labor rights in developing countries. This literature, however, generally overlooks the potential role of development aid on these rights. Herein I argue that official development assistance (ODA)—specifically aid to civil society programs and nongovernmental organizations—helps improve core labor standards. Such aid promotes labor rights through strengthening labor organizations, related civil society groups, and NGOs and improving their capacity to mobilize and bargain with the state and capital. Development aid likewise indirectly promotes respect for labor rights through a diffusion process from donor states with superior labor rights standards to recipients. I test hypotheses drawn from the arguments via quantitative analysis employing new data on labor rights practices as well as disaggregated foreign aid data.

Introduction

Does development aid influence recipient states' respect for core labor standards? The relationship between foreign aid and labor organizations dates to the early years of the Cold War. Moreover, since the end of the Cold War Western donor states have significantly increased aid expenditures to programs supporting civil society and non-governmental organizations and specifically to programs intended to promote human rights in recipient states. Many of these programs focus on labor-related issues such as child labor, workplace discrimination, forced labor, and rights of association and assembly. As such, development aid may exert a positive influence on labor standards in developing states, at least in some contexts. Despite historical and contemporary aid policies related to workers' rights, there has been little effort to systematically evaluate the relationship between foreign aid and labor practices. This manuscript addresses this gap in the literature by explicitly examining the manner in which foreign development promotes labor rights.

A wealth of recent scholarship suggests that the processes of market and capital liberalization and the increasing economic integration of formerly peripheral states into a global economic network impacts core labor standards in less developed states (LDCs). Economic globalization often leads to volatility in LDC labor markets and alters relations among labor, capital, and the state. Given the potential for the exploitation of workers under these conditions, it is important to identify factors that might bolster labor and promote respect core labor standards. While infrequently discussed in the extant literature, development aid has the potential to help ameliorate the adverse conditions for workers that often result from the processes of economic liberalization and integration. The intuition elaborated herein is that bilateral and multilateral Official Development Assistance (ODA) from member states of the Organization for

Economic Co-operation and Development (OECD) promotes labor rights by helping to compensate for globalization-induced changes in the domestic economy LDCs. Principally, I argue that development assistance both directly and indirectly benefits workers' ability to bargain with the owners of capital within the context of market integration and foreign economic penetration, leading to an overall increase in respect for labor rights. More specifically, ODA increases labor solidarity and promotes mobilization, strengthens labor's domestic allies, and fosters linkages between labor organizations and NGOs in influential OECD member-states and their counterparts in the developing world. Importantly, both the source and the type of aid shape its effectiveness. Aid targeted at the promotion of NGOs and civil society is most likely to produce positive changes in recipient respect for core labor rights. Moreover, aid from donor states that exhibit a strong interest in labor rights exerts a greater influence than aid from states that place less emphasis on such rights.

The manuscript proceeds as follows. I first briefly review the literature on globalization and labor rights in developing states and discuss the relationship between economic liberalization and relative bargaining power of workers in developing states. I then present the theory and outline the interrelated avenues through which aid potentially benefits workers. As I highlight, not all aid exerts the same influence on labor rights practices in recipient states. Both the source of aid as well as the specific programs to which aid is distributed influence aid's efficacy in promoting labor rights. Next, I discuss the data and methods used in the analysis. I then present the empirical results and offer some concluding remarks on the utility of foreign development assistance in promoting rights in LDCs.

Globalization and Labor Rights

Conventional liberal economic models assert that increased economic liberalization and market integration should, in the aggregate, largely benefit workers in LDCs. In brief, as the (typically) abundant factor, reducing constraints on trade should increase the returns to workers by increasing demand for their services in the market. Rising demand expands workers' relative economic and political power, which in turn theoretically translates to rising wages, expanding job opportunities, and improved working conditions (e.g., Rogowski, 1989). However, not all scholars agree with this perspective, and significant debate exists over the practical impact of "globalization" on the rights of workers and state respect for core labor standards. A first perspective generally concurs with the conventional liberal model, while an alternative perspective remains deeply critical of the influence of globalization on workers' rights in LDCs.

In line with liberal economic theory, the pro-globalization perspective asserts that increased trade and capital liberalization among LDCs encourages the rule of law, increases investment in social and economic infrastructure, and promotes best practices through the diffusion of norms and technology (Bhagwati, 2004; Richards, Gelleny and Sacko, 2001; Finnemore, 1996). Increasing economic openness may therefore help promote respect for certain labor rights (Neumeyer and de Soysa, 2005; 2006; Spar, 1998). Foreign economic penetration by multinational corporations may also help improve labor standards in LDCs because Western MNCs often respond to social and political pressures to promote better labor practices within their supply lines (Prakash and Potoski, 2007; Spar, 1998). Moreover, recent research suggests that these practices spill over from MNCs to local firms in LDCs (Moran, Graham and Blomstrom, 2005). Similarly, recent studies find that a "trading up" of labor standards occurs when LDC exports flow to states with superior labor standards (Greenhill, Mosley, and Prakash,

2009). Consequently, over time market integration is expected to translate into improvements in the rights of workers in LDCs, at least under some conditions.

By contrast, globalization critics express concern about the “race to the bottom”, the weakening of labor relative to capital, and a general erosion of labor standards (e.g. Drezner, 2001; Rodrik, 1997). Some studies further suggest that changes in the domestic economic structures resulting from the penetration of foreign capital and the growth of export-oriented sectors of LDC economies can undermine the ability of lower skilled workers to unionize and bargaining collectively for higher wages and basic rights, leading to a widening wage gap between high- and low-skilled workers and a general worsening of labor rights (Busse, 2004; Mosley and Uno, 2007; Wood, 1997). For instance, in recent years many liberalizing LDCs have constructed export-processing zones (EPZs) as means of reducing labor costs and increasing production. Importantly, labor is often subcontracted in EPZs, and states often explicitly restrict labor rights within these zones, especially rights to free association and collective bargaining (Moran, 2002; see also McCay 2006; Rock, 2001).

The influence of globalization on labor rights is primarily related to the manner in which it augments the balance of power between labor and capital. The greatest social and political returns to workers come under conditions in which labor can effectively mobilize and exert leverage on the government (Hicks, 1999; Garret, 1998; Rueschemeyer, Stephens, and Stephens, 1992). However, previous studies suggest that trade and financial liberalization can adversely impact labor’s ability to mobilize and effectively bargain with the state, thus undercutting their ability to successfully lobby for their interests and leverage greater respect for core labor rights (Rudra, 2002; 2005).

Multiple factors constrain labor's bargaining power in LDCs, thereby restricting their ability to leverage the state to implement and enforce core labor standards. First, conditions in the domestic labor markets of LDCs undermine labor's latent power, making it difficult for workers to secure or promote their rights during periods of economic liberalization (Rudra, 2002: 419; 2005: 34-35; World Bank, 1995). Labor's bargaining power is largely contingent on the existence of tight labor markets (Olson, 1971). However, this situation rarely obtains in LDCs. Rather, the labor markets of less developed states are typically characterized by surpluses of low-skilled workers; moreover much of the labor market functions in informal sectors (Rudra, 2005: 33). These factors impede mobilization and organization, reducing labor's bargaining position relative to the state. Second, in LDCs organized labor (to the extent it exists) often faces significant government restrictions on rights to association and collective bargaining. Moreover, frequency with which state security forces (and increasingly the private security forces MNC's) abuse, detain, harass, and intimidate labor activists and union members further undermines the ability of workers to mobilize and press their demands on the state. Even in states with some history of respect for labor rights, increased trade openness can lead to erosion of labor standards in specific industries and in specific locations such as EPZs (e.g., Moran, 2002). Thus, to the extent that globalization restricts labor's bargaining power, it likely contributes to a general decline in respect for core labor rights. At minimum, it prevents workers from maximizing the potential gains anticipated by liberal theory.

The Case for ODA

Increased trade and capital flows are not the only financial factors that potentially influence the relationship between workers and capital in liberalizing LDCs. Official aid transfers from

developed states to developing states often accompany the processes of economic liberalization and market integration. Western states employ aid as a carrot to induce LDCs to liberalize, and donors seek to blunt the adverse effects often associated with such reforms. Member-states of the OECD provide both direct bilateral aid and channel multilateral aid through partner institutions in the form of loans and grants designed to assist in the restructuring of LDCs economies undergoing market liberalization. ODA flows to projects such as debt repayment and financing, economic infrastructure improvements, health and population programs, disaster relief, and social infrastructure programs. Importantly, a subset ODA flows specifically to projects related to the promotion civil society within the recipient state and directly to NGOs and related actors, much of which is intended to help promote political liberalization and improve respect for human rights in the recipient state.

Previous research has produced mixed results regarding the ability of foreign aid to promote significant political liberalization appears limited (e.g., Knack, 2004). However, recent analyses suggest that aid can successfully contribute to democratic transition in some contexts (Wright, 2009). There is also some evidence (albeit weak) that aid promotes respect for human rights in recipient states (Meyer, 1998; Apodaca, 2001). As I argue here, development aid may, at least under some conditions, also positively influence labor rights in recipient states. I identify two avenues through which OECD aid potentially promotes labor rights in LDCs. First, aid may help strengthen labor organizations, NGOs, and other civil society actors working to promote labor rights or related human rights. Second, aid promotes labor rights via a diffusion effect, transferring norm of behavior and best practices from developed donors to less developed recipients. Importantly, both the type and source of aid influences its effectiveness.

Aid that flows directly to unions and other labor organizations represents the most direct path through which development assistance may promote labor rights. In this case, aid work directly to increase the organizational capacity of labor organizations, helps educate and train labor leaders and activists, and increases the technical capacity of the group. The strength of labor organization and their capacity to mobilize workers influences their bargaining position relative the regime. Consequently, to the extent aid can bolster labor organization it should help promote core labor standards. The relationship between foreign assistance and organized labor is well established. During the Cold War the United States channeled significant amounts of aid to labor organizations in LDCs through the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). Union leaders and labor organizers were also officially brought into the service of the US State Department and worked closely with their counterparts in Western Europe (Heaps, 1955: 101-102). US foreign assistance funded the AFL-CIO to train union leaders and labor activists in developing countries, provide education in labor and industrial law and negotiation, assist local unions in fund raising activities, provide economic assistance to unions, and promote linkages with labor organizations in the West (Carothers, 2001: 244; Windmuller, 1963: 563).¹

In a more indirect (but no less important) manner, aid devoted to NGOs and other civil society actors that work to promote human rights can also exert a positive influence on labor standards. As part a broad collection of actors working to promote human rights in LDCs, NGOs and other civil society actors play potentially important roles in promoting labor rights in LDCs. Even where labor rights issues are not an explicit focus of human rights NGO activities, their interests and activities often overlap with those of labor organizations and unions. NGOs in LDCs work closely with western-donors, international NGOs, and international institutions to

address issues such as child labor, exploitation, trafficking, gender and minority discrimination, exploitation, the rights of assembly and speech, and politically motivated violence against union members and labor activists. While often lacking the institutional bargaining power of formal unions, the activities of these organizations represent an important component of the overall machinery of rights promotion in the developing world, including the promotion of core labor rights. Indeed, in many these actors are the most successful at strengthening labor rights.

To the extent that trade unions exist in LDCs, they are commonly institutionally weak, financially constrained, and lack the technological and organizational tools to effectively mobilize large numbers of workers. The global decline in union membership and the overall weakness of unions in most emerging industrial economies has increasingly led NGOs to take the lead in lobbying for the rights of workers in many parts of the world (Braun and Gearhart, 2004; Hertel, 2010: 174). The contributions of these organizations are particularly important in states with strict laws governing the activities of unions. Where union activities are strictly proscribed, human rights NGOs and similar civil society actors help fill the role typically played by traditional unions, undertaking activities such as lobbying for greater respect for core rights, mobilizing workers, educating workers on their rights, offering legal counsel to workers, and raising awareness about labor issues among the population. For example, because labor unions were banned in Indonesia until 1998, workers and labor rights activists organized community groups and NGOs to pursue their goals (Hadiz, 1997). Similarly, Bangladeshi workers EPZs are forbidden to unionize. Women employed in these areas therefore worked through a variety of domestic and international NGOs, women's groups, and human rights organizations to promote respect for labor standards and women's rights in the EPZs. The joint efforts of these workers and local NGOs have contributed to significant improvements in labor rights and to the

formation of the Bangladesh Independent Garment Workers' Union (Rock, 2001). McKay (2006) likewise points to the role of NGOs as mechanisms for labor rights promotion in his study of labor organization in Filipino EPZs in the 1990s. According to this study, church- and community-based NGOs have been instrumental in promoting the rights of workers in the Philippines. The heavy-handed tactics employed by government and industry—including violence against labor leaders and their families, harassment, threats, firings of union members, and plant shutdowns—undermined the power of labor unions working in the EPZs and restricted the ability of unions to organize and recruit members. However, local NGOs assisted workers in creating and opening political space and helped them solidify their gains under conditions in which traditional labor organization would have proven difficult or dangerous. Similarly, because China prohibits independent labor unions, NGOs often work directly with corporations to monitor and promote labor rights (Hertel, 2010: 174). As these examples illustrate, civil society and NGO organizations often play a key role in the promotion of labor rights, serving as both compliments to traditional unions where such organizations exist and substitutes where they are absent.

The expanding role of non-labor NGOs in promoting labor rights coincides with an overall increase in aid commitments to NGO and civil society actors in the post-Cold War period (OECD, 2012). While aid-sponsored activities conducted during the Cold War often served principally to counter the strength of leftist labor unions, by the 1990s the waning threat of communism as well as the progress of global market liberalization and other facets of globalization contributed to significant changes in the strategy and goals of aid distribution. Notably, OECD states increasingly devote resources to funding civil society organizations and NGOs in order to promote a range of civil, political, and other human rights. Funding for civil

society-related sectors increased from roughly \$2 billion dollars annually in 2000 to over \$9 billion in 2005 and to more than \$14 billion in 2010 (OECD, 2012). The US increased its support to NGOs and civil society through various USAID programs from \$56 million in 1991 to over \$230 million by the end of the decade (Carothers, 1999: 50). The EU has devoted some 31% of its total foreign aid to human rights-related groups during recent years (in Crawford, 2001: 138). Moreover, many donors also provide domestic NGOs a prominent role in national aid distribution policy (Alonso, 2005: 511-512; Carothers, 1999).²

Recent increases in aid flows to these groups are in part related to broader trend in development strategies employed by international organizations and developed states. Specifically, the rights-based development strategies that have emerged from western governments and international organizations seek to exploit the natural relationships among development organizations, human rights-related NGOs, and donor states in order to more effectively promote economic and social rights within the overall development framework (Nelson and Dorsey, 2003; 2007). By incorporating these actors into broader development programs, the promotion of human, labor, children's, and women's rights has become explicitly linked to western-backed development efforts in LDCs.

Finally, as with trade and investment, aid represents an important source of norms transmission between developed and less developed states. As such, recipient states may increasingly begin to adopt (or enforce) the labor standards practiced by the states upon which they rely most heavily for aid. Greenhill, Mosely, and Prakash (2009) demonstrate a trade-based "California effect" through which the labor standards of an LDC's primary export recipient are transmitted back to the exporting state. A similar diffusion effect is likely to occur with respect to development assistance whereby donor countries with superior labor practices (and active

interest in labor rights) transmit standard operating procedures, best practices, and norms of respect for core labor rights to recipient states. This suggests, however, that the source of aid largely determines its influence on labor practices as recipient labor practices are anticipated to increasingly mirror the practices of their largest donors. Thus, recipients of aid from states that exercise a high level of respect of for core labor rights are likely to slowly improve their own practices while those that receive significant aid from donors that express less interest in protecting labor would not necessarily alter their labor practices. Put otherwise, norms of respect for workers' rights should diffuse through the conduit of the donor's respect for those rights and their interest in promoting them overseas.

In part, this diffusion effect is related to the manner in which aid flows promote linkages between domestic unions and related organizations in recipient states and their foreign and international counterparts. Transnational linkages provide unions and related NGOs in LDCs with allies in influential Western states who can directly assist these groups in organizing, lobbying, monitoring, and other activities. Furthermore, these linkages increase international attention on the policies and practices of recipient states. National labor unions may then pressure their home governments to restrict aid flows to states that fail to enforce protections for workers, and international organizations may increase political pressure on these states. Linkages between domestic NGOs and their foreign counterparts likewise increase the visibility of labor-related causes in ODA recipient states. Civil society organizations transmit information about domestic abuses to their counterparts in donor states, which in turn raise public awareness in Western states, organize boycotts, and lobby their home governments for action (Keck and Sikkink, 1999). Pressure from these groups, in turn, can result in changes in aid flows to recipient states (Apodaca and Stohl, 1999; Carey, 2007), thereby increasing leverage on LDC

governments to respect international labor standards. These transnational partnerships between organizations in donor and recipient states should therefore more effectively promote labor rights in LDCs (Douglas, Ferguson and Klett, 2004; Harrison and Scorse, 2003; Murillo and Schrank, 2005). However, this effect is likely strongest in the context of donor states that exhibit a strong interest in core labor standards. Donor states with such interest are the most likely to devote significant resources toward promoting labor rights in recipients and the most likely to help foster the linkages that can successfully augment core labor standards.

The above discussion highlights a number of interrelated paths through which ODA may help promote labor rights practices in globalizing states. As the discussion suggests, however, not all aid is equal in terms of its influence on changes in respect for labor standards. Aid devoted specifically to labor organizations or to other civil society actors is more likely to contribute to positive changes in recipient labor rights practices.³ Moreover, the source of the aid likely influences its impact on recipient labor practices. Specifically, as a greater proportion of a recipient's aid originates within donors exhibiting superior labor practices, recipients are more likely to improve respect for core labor standards via a diffusion effect. These hypotheses are formalized as follows:

H1a: *Greater aid flows increase recipient state respect for core labor rights.*

H1b: *Greater flows of civil society and NGO aid increase recipient state respect for core labor rights.*

H2: *Greater shares of aid from donors exhibiting superior labor rights practices increases respect for core labor rights in recipient states.*

Empirical Model

I model the relationship between aid and labor rights using conventional country-year data for 90 LDCs for the years 1986-2002. After accounting for missing data among the covariates, the

analysis includes roughly 1400 unique observations. I include only LDCs (as opposed to transitional states) because they are typically the largest recipients of development assistance and because recent studies suggest that less developed states are less likely to fully respect core labor standards (Mosely and Uno, 2007).⁴ Because the sample includes a large number of panels (states) over a lengthy temporal window, I rely on generalized least squares (GLS) using a random effects estimator as the statistical model. All models are estimated using robust standard errors clustered on country in order to account for within unit correlations and include a one-period lag of the dependent variable to control for temporal autocorrelation.

The dependent variable in each model is the state's *Labor Practice* score (Mosley and Uno, 2007; Greenhill, Mosley and Prakash, 2009). This indicator, which is based on Kucera's (2002) earlier template, focuses on the formal legal rights of workers to act collectively and the extent to which states and employers respect these rights. The creators examine respect for workers' rights along 37 dimensions, ranging from the murder or disappearance of labor leaders to government restrictions on unions and workers' organizations to prohibitions on strikes and other worker protests.⁵ The original measure includes separate scales for legal respect for core labor standards as well as protection of rights in practice. Because the theory presented above focuses on the behaviors of states and businesses in complying with international labor standards, I use only the indicator accounting for respect for rights in practice. In this analysis higher values reflect greater respect for workers' rights.

I rely on multiple distinct measures to evaluate the influence of aid on labor rights practices. These include measures for aggregate aid, aid to civil society and NGO activities, and a weighted measure of the source of aid. All aid data are taken from the recently compiled Aid Data (2.1) dataset (Tierney et al., 2011).⁶ This dataset records project-level data on aid activities

for more than 80 donor states between the 1940s and present. It represents a significant advancement over the commonly used OECD DAC database by allowing researchers to disaggregate aid flows by donor, recipient, sector, and project type; moreover, it includes flows by donors outside the OECD.⁷ I rely on official aid commitments rather than reported disbursements because of data reliability issues.⁸

I first construct a measure of aggregate aid using the total bilateral aid commitments from OECD member states and multilateral commitments via institutions and funds through which the OECD directs its aid to developing states (e.g. the United Nations, World Bank, and regional development banks). As is common in studies of foreign aid, I scale aid commitments to the size of the recipient's economy and express the aid as a percentage of GDP.⁹ Because aid must be dispersed to various agencies and actors who then implement the programs that may exert observable effects on the behaviors of states and businesses, the influence of aid is not likely immediately apparent. Moreover, aid flows are often irregular, spiking some years and diminishing sharply in others. The variable *Total ODA* therefore reflects a one-year lag of the three-year moving average of the scaled bilateral and multilateral ODA commitments.

The second hypothesis anticipates that program-specific aid rather than aggregate aid is more likely to benefit labor rights in the recipient state. Testing this hypothesis therefore requires information on the specific types of aid commitment to developing states. The argument put forth here suggests that aid that flows to labor organizations, human rights NGOs, and other related civil society actors exerts a positive influence on labor rights practices in the recipient state. Current data does not permit me to neatly distinguish between each of these actor types; however, AidData (2.1) does allow for finer disaggregation than the sectoral data previously available from the OECD. Specifically, it disaggregates aid commitments according to the

OECD Creditor Reporting System (CRS) purpose codes. I therefore construct the variable *CSO/NGO Aid* to specifically reflect aid committed to government and civil society promotion and aid flows to NGOs and NGO promotion activities.¹⁰ As with the aggregate aid variable, this measure reflects a one-period lag of the three-year moving average of aid scaled to GDP.

In order to account for the manner in which specific sources of aid influence state respect for core labor rights, I construct a weighted average of the labor practices of a country's donor states. This measure is based on the "trade context" variable developed by Greenhill, Mosley and Prakash (2009) to assess the influence of the labor practices within a state's primary trading partners on its own labor standards. I construct the *Aid Context* variable by multiplying the yearly labor rights score for each donor state by the percentage of the recipient's total bilateral aid that originated from that donor and then summing the resulting values. This captures the relative influence of aid flows from states with varying levels of interest in and respect for core labor standards. While the other aid variables include only OECD aid, I include all bilateral development aid in the construction of this variable in order to maintain consistency with the trade context variable.¹¹ While OECD states generally exhibit a relatively high level of respect for labor rights (at least compared to most LDCs), both their labor practices and their interest in promoting labor rights overseas vary significantly. For instance, in 2002 (the last year for which data is available) the United States received a labor practice score of 21.5. By contrast, Japan received a score of 23, Germany a score of 24.5, and Sweden 27.5. Moreover, the difference between non-OECD and OECD donors can be quite significant. The UAE, Saudi Arabia, and Kuwait have recently donated significant aid to various states (principally in the Middle East). For 2002 these states received scores of 7.25, 11.5, and 20.5 respectively. According to the argument above, a recipient state's respect for core labor standards should improve as a greater

share of its aid flows from donors that exhibit higher levels of respect for labor practices. As with the other aid measures, I use a three-year moving average of this measure.

I include several control variables to account for alternative influences on respect for labor rights. To account for the forces of economic globalization, I include measures of FDI flows (yearly inflows of FDI) and trade volume. As with the aid variables I scale *FDI* and *Trade* to the size a state's economy and include these measures as three-year moving averages. Data for these variables are taken from the World Bank's *World Development Indicators*. In order to account for the diffusion effect of labor rights through trade relations, I include Greenhill, Mosley, and Prakash's (2009) *Trade Context* measure. As with the aid context measure above, this indicator reflects a weighted average of the labor rights scores of a state's primary export destinations. For consistency with the other economic measures, I employ the three-year moving average of their indicator.

Past research suggests that a state's political institutions influence its respect for labor rights. Democracy is likely to have a beneficial effect on state respect for workers' rights because workers are able to punish leaders who fail to promote their interests (Cingranelli and Tsai, 2003; Mosley and Uno, 2007; Rodrik, 1999). In addition, left-leaning governments may exhibit better respect for human rights (Poe, Tate, and Keith, 1999) or labor rights (Mosely, 2008: 7-8). Leftwing parties (Socialist, Social Democrat, and Labor) often define themselves by their relationship to labor and work to increase its power relative to capital. Furthermore, left-leaning governments, which typically rely on support from labor to stay in power, are more likely to use state resources to provide protections to workers during periods of financial and trade opening. By contrast, rightist regimes are generally seen as promoting the interests of capital and relying on the market rather than the state to affect changes in respect for the rights of workers. *Regime*

Type is the combined 21-point autocracy-democracy score from the Polity IV scale (Marshall and Jaggers, 2012). *Left Government* is indicated by a binary variable coded “1” if the government in power was “left” and “0” otherwise. The measure is taken from *World Bank Database of Political Institutions* (Beck et al., 2010). Both measures are lagged for one year.

I also control for the state’s level of economic development. Intuitively, higher levels of economic development or economic growth should also positively influence respect for labor rights. However, recent studies have suggested that the relationship between economic development and respect for workers' rights is not necessarily linear and may not even be positive (Mosley and Uno, 2007; Rudra, 2005). Population size may also affect both domestic stability as well as supply and demand in the labor market (Mosley and Uno, 2007). I employ the log transformation of both *GDP* and *Population*. Data for both are from Gleditsch (2002). Previous research also suggests that preferential trade agreements (PTAs) between developed states and LDCs that contain clauses explicitly incorporate human rights conditions can improve respect for human rights (Hafner-Burton, 2005). I therefore include a binary variable accounting for the presence of so-called *Hard PTAs* (Greenhill, Mosley, and Prakash, 2009). Finally, I account for NGO presence in the recipient state. I include this measure for several reasons. First, a greater numbers of NGOs should potentially help promote positive changes in respect for human and labor rights in a state as a result of their activism and advocacy. Second, success in this area is likely to increase media coverage and awareness of abuses. Additional attention to rights issues could therefore contribute to a state receiving a “worse” score, not because more abuses are being committed but because more events are being record. The variable *NGOs* reflects the log-transformed value of the estimated number of human rights NGOs operating

within the recipient state in a given year according to information in the Human Rights Internet's list of human rights organizations.¹² Summary statistics are presented in Table 1.

Table 1 about here

Results and Discussion

The results of the regression analyses are presented in Table 2. Models 1 and 2 show the results for the aggregate *ODA* and *CSO/NGO Aid* variables respectively. According to the results of the Generalized Least Squares models estimated here, aggregate ODA is positively related to state respect for core labor rights, but the result does not achieve statistical significance. By contrast, the coefficient on the variable accounting aid devoted to government-civil society and NGO related project is positive and attains a conventional level of statistical significance. Thus, these results fail to support Hypothesis 1a but provide some support for Hypothesis 1b. Models 3 and 4 include the additional *Aid Context* variable. In both models the aid context variable is positively signed and attains statistical significance, providing support for Hypothesis 2. Models 5 and 6 include aid flow and aid context variables as well as additional controls. In both models the aid context variable is significant, and in Model 6 the variable accounting for civil society and NGO-related aid retains significance. Consequently, the results suggest that while there is no evidence that aggregate aid levels augment labor standards, there is statistical evidence that higher levels of sector-specific aid can benefit labor standards in recipient states.¹³ Moreover, there is strong evidence that labor practices improve among states that received a higher proportion of their aid from donors with superior labor rights standards. This suggests that both the type of aid and its origins have important influences on the behaviors of recipient states.

Table 2 about here

These relationships are illustrated graphically in Figures 1 and 2. Figure 1 demonstrates the predicted value of a state's labor rights score at given values *CSO/NGO Aid* while holding other variables at their mean or median values. According to the figure, when aid to these sectors is approximately 0.15% of a recipient's GDP (the sample mean) its expected labor rights score is predicted to be approximately 20.75. At 1% of the state's GDP (two standard deviations above the mean) the expected value increases to about 21.25. While this reflects only a marginal positive change in a state's scores, it is important to note that civil society and NGO aid still reflects a relatively small (though growing) proportion of aid budgets. Indeed, for this sample aggregate aid represents on average only 4% of recipient GDP, and civil society aid is a fraction of that value. Consequently, even modest increases in aid devoted to promoting civil society groups and NGOs could lead to notable improvements in recipient respect for labor rights.

Figure 2 illustrates the substantive impact of the origins of aid to LDCs. As the figure illustrates, an increase in the *Aid Context* score (which reflects the weighted average of donor labor practices) leads to a notable increase in recipient labor rights performance. A state with an aid context score of 24 (one standard deviation below the mean) is predicted to have a labor practice score just over 20. However, increasing the context score to 27 (one standard deviations above the mean) increases the predicted labor practice score to 21. Again, while the absolute gain may appear marginal, it is important to remember that this effect is largely indirect and reflects the diffusion of norms over a relatively short period of time (a three-year window). Consequently, in both the case of sector-specific aid and the diffusion effect of superior labor practices in donor states, the cumulative influence could become substantial over time.

Figures 1 & 2 about here

These results have clear policy implications. If industrialized states seek to promote labor standards in LDCs, increasing foreign development assistance to labor unions, labor-related NGOs, and other civil society actors, offers one potentially effective strategy. However, these results suggest that using development aid as a strategy for the improvement of labor rights in LDCs would require a significant increase in aid flows on the part of OECD states, which is unlikely. Alternatively, re-prioritizing aid to sectors associated with the strengthening of civil society and NGOs might make aid a more efficient tool of rights promotion. However, that most OECD states have failed to meet the Millennium Challenge Goals of devoting 0.7% of total GNI to foreign development assistance casts some doubt on the likelihood of ODA alone in dramatically improving workers' rights in LDCs. It perhaps also is important to remember that ODA works synergistically with other domestic and international factors to augment rights in developing states (Carothers, 1999; Nelson and Dorsey 2003; 2007). As such, aid should be seen as one component of a larger equation for rights promotion; thus, it may be difficult to infer a specific dollars-to-rights relationship as such. One important caveat highlighted in this analysis is that the source of aid matters, and the returns are greatest when aid dollars flow from donors with the greatest demonstrated interest in promoting labor rights. It is likely, however, that selection effects play a role in this relationship in that those donors with the highest labor rights scores devote greater resources to the promotion of labor standards in recipient states. As such, the specific mechanism through which this diffusion effect occurs is not entirely clear. Future research may wish to clarify these relationships.

It is perhaps important to note that the mechanisms discussed in this manuscript do not represent an exhaustive list of the potential ways in which aid might promote labor rights. It is

likely that additional aid-related mechanisms could work either independently or in conjunction with those proposed here to the benefit of workers in LDCs. For example, significant levels of aid flow directly or indirectly to the owners of capital. A portion of these funds is directed to programs such as legal training, enhancing conflict mediation and bargaining strategies, the promotion of workplace safety, and general improvements in production. While this aid flows to capital, which might be seen as labor's "enemies", it could nonetheless benefit labor rights. However, tentative analyses of other sectoral contributions failed to return statistically significant results.¹⁴ Interestingly, while the variable capturing aid to civil society and NGOs was significant in the analyses presented above, the variable reflecting combined aid to social infrastructure and services (of which government and civil aid is a subset) was not statistically significant. This suggests that further disaggregation of the sectoral data could produce greater insights into the mechanism through which aid contributes to changes in the behaviors of recipient states. Future research may therefore wish to further investigate the relationship between specific aid projects and rights outcomes in recipient states.

Turning to the controls, the trade context variable is positive and at least marginally significant across the specifications. Consistent with previous research and consistent with the diffusion influence of aid, when LDCs export a greater share of their goods to states with a high level of respect for labor rights, trade exerts a beneficial influence on their labor rights practices. This result is particularly interesting in light of previous arguments that trade erodes workers' rights. The measure of trade openness, however, is not statistically significant. These results validate previous findings by Greenhill, Mosley, and Prakash (2009). While trade appears to have no statistically significant influence on labor practices, this is not the case for FDI. Rather,

the measure of FDI inflows is consistently negatively correlated with labor practices and achieves conventional levels of statistical significance.

In line with other recent findings (e.g., Greenhill, Mosley, and Prakash, 2009; Mosley and Uno, 2007), these results demonstrate a negative relationship between economic development and labor rights respect, though the variable is not significant across the specifications. Thus, there is some evidence that more developed LDCs exhibit less respect for workers' rights. While the result is perhaps counterintuitive, previous analyses have argued that the relationship is driven by better reporting in more developed states. Other analyses suggest a nonlinear relationship between development and labor's standing, at least within the sample of developing states (Rudra, 2005). Also somewhat surprising, the regime type indicator fails to achieve statistical significance across the models, suggesting that among less developed states democracies are on average no better at protecting workers' rights than nondemocracies. By contrast, the variable accounting for leftwing governments suggests a positive and statistically significant relationship between labor rights practices and the government's ideological orientation. Thus, states in which left-leaning parties control government are more likely to exhibit better respect for core labor rights. Population size is negatively correlated with labor rights respect across the models and achieves consistent statistical significance. This result is not surprising given that large populations generally reflect a larger labor surplus, which can undercut the bargaining power of labor relative to capital. The variable accounting for the number of NGOs is also negative. As noted above, the basis for this finding is unclear as it could result from either a selection effect or from the greater attention that NGO presence can bring to abuses. However, its consistent significance suggests its importance as a control variable in the

analysis. Lastly, the binary indicator reflecting states that have signed “hard” PTAs is negative and not statistically significant.

Conclusions

While globalization may increase economic returns to labor in LDCs, changes in domestic labor markets and other economic structures in emerging economies undergoing trade and financial liberalization often hinder labor mobilization and undercut the relative bargaining power of workers, thereby limiting labor's ability to leverage states and the owners of capital to comply with international labor standards. Aid devoted toward civil society and NGOs increases labor's bargaining power by enhancing labor's capacity to mobilize, improving labor solidarity, strengthening labor's domestic allies, and developing linkages between foreign and domestic labor organization. Increased bargaining power permits labor to more effectively leverage governments to implement and enforce domestic labor laws that conform to international standards. Furthermore, labor practices appear to diffuse via the conduit of aid (as well as trade). Thus, aid from states that exhibit a high level of respect for labor rights domestically is more effective at promoting labor rights abroad.

Because limitations on available data prohibit explicitly testing the roles played by mechanism outlined herein, these relationships should be regarded as plausible rather than definitive. Finer grained data on the relative strength of unions and other civil society actors as well as more thoroughly disaggregated aid data could further provide support for this theory. In addition, future researchers should also examine the effect of ODA on the institutional capacity of governments and how this influences state-capital relations, both of which arguably play a significant role in determining domestic labor rights. It would therefore be particularly useful to

examine each of the mechanisms discussed herein individually in order to determine which strategies and which programs are most effective in augmenting labor rights standards in recipient states.

The finding that aid promotes better labor practices in some contexts is of significant value to policy makers, human rights and labor activists, and labor unions in developing states as it suggests one strategy through which developed states can help improve labor standards in LDCs. At the least, it provides an additional counterargument against claims that foreign aid fails to produce any tangible benefits to citizens in developing states and may additionally serve as a counterweight to arguments in favor of significant aid reductions. Foreign aid—especially non-military development assistance—represents an extremely small percentage of the budgets of most developed states. Yet, the reduction or termination of foreign aid frequently emerges as a popular deficit reduction strategy among voters in the United States and Europe. Arguments for reducing aid to poorer countries gain traction in part from negative evaluations of aid programs' effectiveness in producing positive changes in governance, poverty alleviation, and economic growth in recipient states (e.g., Brautigam and Knack 2004; Easterly 2006). Indeed, some research suggests that aid dependence may incentivize or create the conditions for violent conflict (Maren 1997; Grossman 1992). However, more recent analyses suggest that rapid, significant decreases in aid flows increase the probability of civil war (Nielsen et al., 2011) while increased aid flows following economic shocks may reduce the risk of civil war (Savun and Tirone, 2012). These results as well as other recent research suggest that aid policies have substantial impact on the lives of citizens in recipient states. Consequently, policy makers in OECD should carefully consider the ramifications of drastic reductions in aid flows given the relatively low costs of the beneficial programs aid dollars help fund.

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Table 1: Summary Statistics

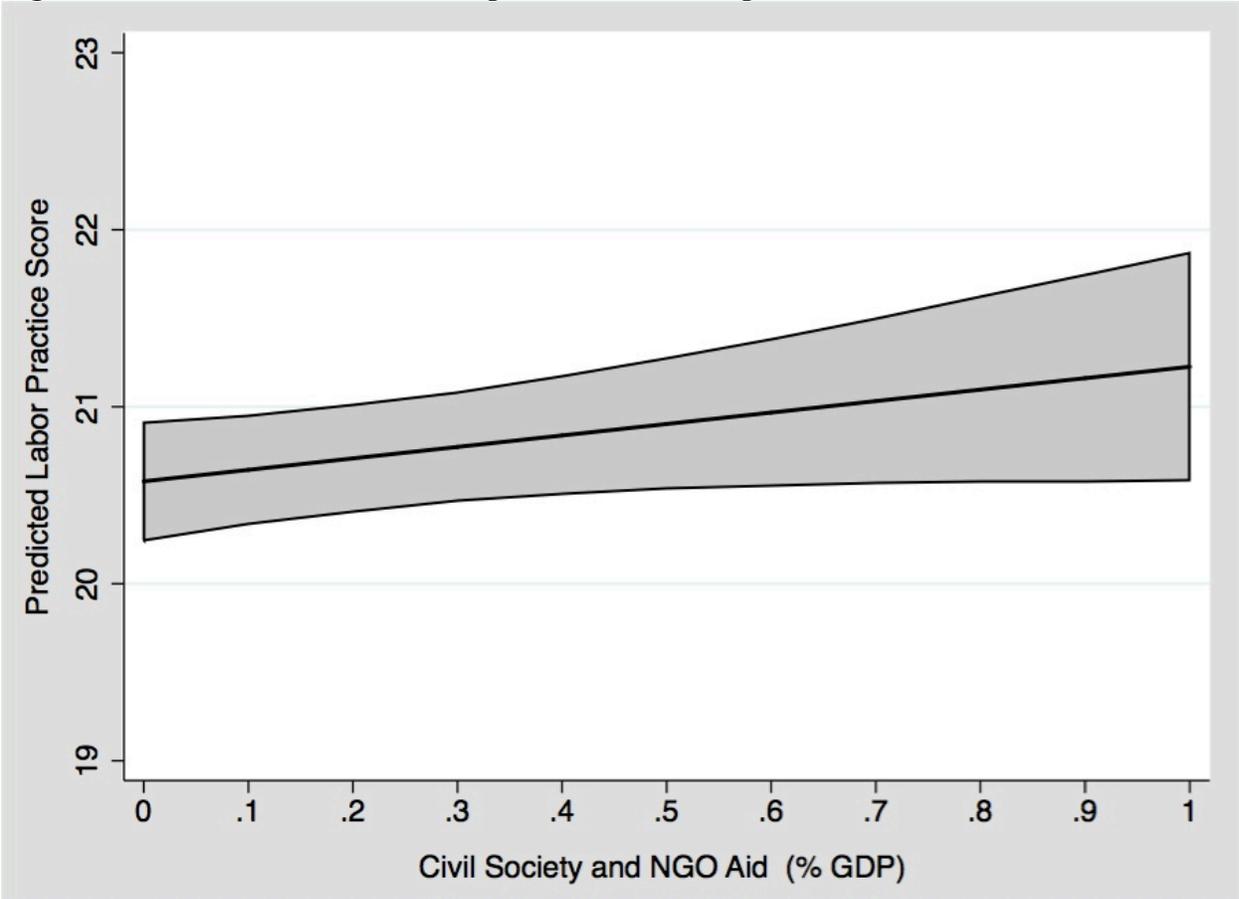
	Mean	Std. Dev.	Min, Max
Labor Practice	21.298	4.617	0, 27.5
ODA	3.976	4.111	0.0004, 40.187
CSO/NGO Aid	0.139	0.235	0, 2.016
Aid Context	25.457	1.272	15.25, 27.5
Trade Context	23.624	1.765	17.00, 27.25
FDI	2.117	5.116	-27.62, 78.71
Trade Openness	67.139	38.227	10.93, 275.232
Population_(ln)	16.042	1.618	12.624, 20.969
GDP per Capita_(ln)	7.739	0.969	5.043, 10.289
Regime Type	0.228	6.663	-10, 10
Left Government	0.269	0.444	0, 1
Hard PTA	0.020	0.140	0, 1
NGOs	2.011	1.259	0, 5.451

Table 2: Generalized Least Squares Results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
ODA[†]	0.047 (0.019)		0.044 (0.019)		0.026 (0.019)	
CSO/NGO Aid[†]		0.488* (0.144)		0.557* (0.149)		0.660* (0.194)
Aid Context[†]			0.165* (0.042)	0.178* (0.042)	0.170* (0.041)	0.181* (0.041)
Trade Context[†]	0.208** (0.034)	0.220** (0.034)	0.153* (0.040)	0.163* (0.040)	0.133* (0.040)	0.149* (0.040)
FDI[†]	-0.026* (0.007)	-0.028* (0.007)	-0.028* (0.007)	-0.029* (0.007)	-0.037** (0.007)	-0.037** (0.007)
Trade Openness[†]	0.001 (0.002)	0.002 (0.002)	0.003 (0.002)	0.003 (0.002)	0.005 (0.002)	0.005 (0.002)
Population_(ln)	-0.438** (0.058)	-0.462** (0.056)	-0.423** (0.059)	-0.442** (0.058)	-0.230* (0.064)	-0.227* (0.60)
GDP per Capita_(ln)	-0.267 (0.095)	-0.347* (0.081)	-0.285 (0.097)	-0.352* (0.082)	-0.240 (0.100)	-0.241 (0.083)
Regime Type[‡]	-0.013 (0.011)	-0.014 (0.011)	-0.012 (0.011)	-0.013 (0.011)	0.009 (0.011)	0.008 (0.011)
Left Government[‡]					0.842** (0.113)	0.869** (0.112)
Hard PTA[‡]					-0.273 (0.287)	-0.322 (0.287)
NGOs					-0.401** (0.061)	-0.409** (0.062)
Labor Practices[‡]	0.534** (0.014)	0.535** (0.014)	0.532** (0.014)	0.532** (0.014)	0.510** (0.014)	0.509** (0.014)
Constant	13.744** (1.687)	14.559** (1.572)	10.679** (1.775)	10.998** (1.775)	8.559** (1.872)	7.908** (1.756)
R2 (Overall)	0.51	0.51	0.51	0.51	0.50	0.50
Wald X2	818.57	822.77	793.08	792.71	740.10	734.34
Prob > X2	0.000	0.000	0.000	0.000	0.000	0.000
N	1450	1450	1450	1450	1333	1333

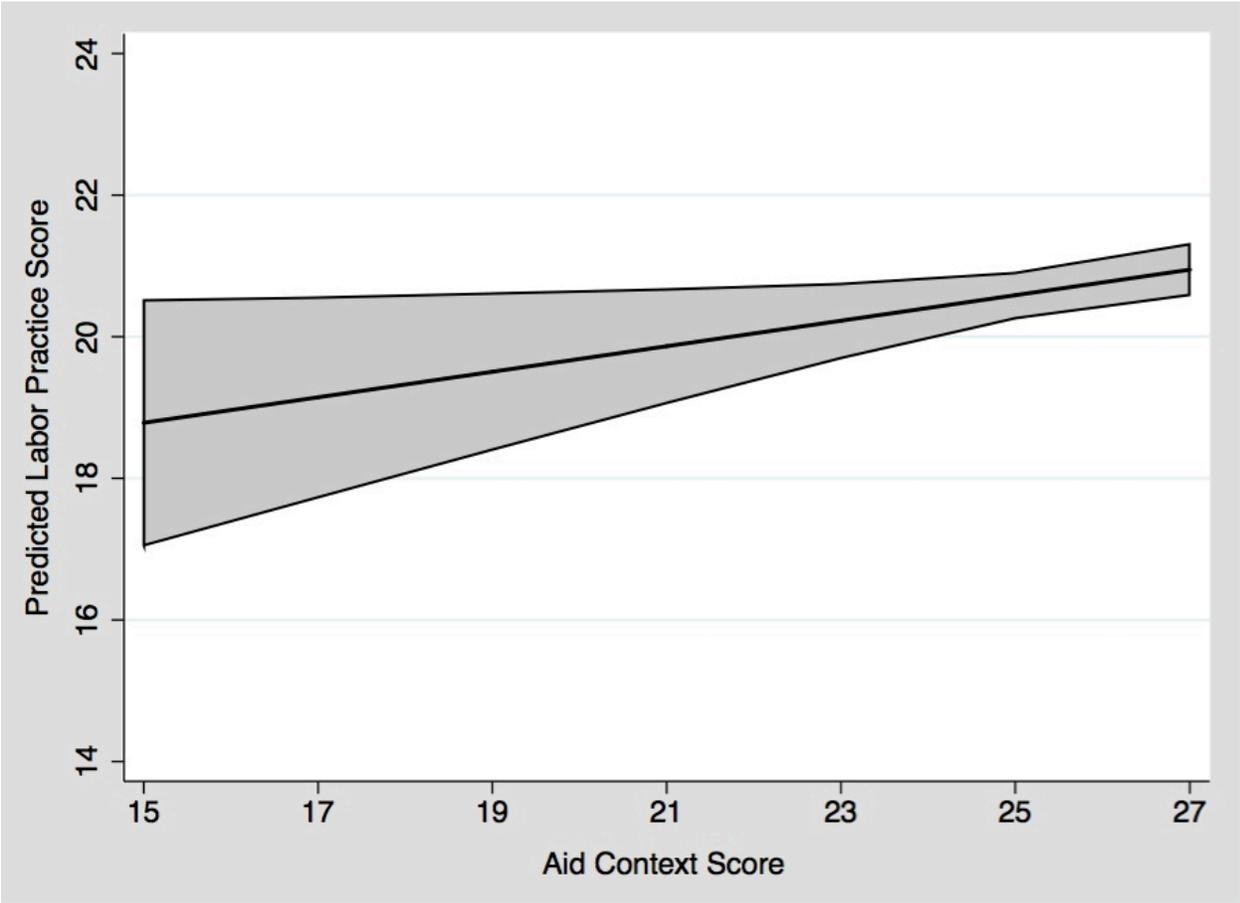
Dependent variable in all models is respect for core labor practices. [†]=Three-year moving average; [‡]=One-year lag; ODA = Official Development Assistance (as % GDP); FDI = foreign direct investment; GDP = gross domestic product. **=P ≤ 0.01, *=P ≤ 0.05 (one-tailed test). Robust standard errors cluster on country. Conducted using Stata 12 (Stata, 2011).

Figure 1: Predicted Effect of Development Aid on Recipient Labor Practices



Predicted effect of OECD development aid toward Government and Civil Society and NGO projects (as a percentage of GDP) on labor rights practices in developing states. 95% confidence intervals shown by shaded areas.

Figure 2: Predicted Effect of Development Aid Context on Recipient Labor Practices



Predicted effect of OECD development aid context (aid flows weighted by donor labor practices) on labor rights practices in developing states. 95% confidence intervals shown by shaded areas.

¹ The United States used this strategy to check the power of communist-socialist labor organizations and to strengthen pro-Western labor unions (Carothers, 1999: 24-25, 244-246; Cox, 1971: 551; Heaps, 1955; Windmuller, 1956). Some human rights activists and scholars have argued that the labor building activities conducted by the West—particularly the US—during Cold War actually constrained labor’s power by undermining left-leaning labor organization, which were arguably the most committed to and most capable of promoting workers’ rights (Scott, 1978; Simms, 1992).

² In Spain, for example, NGOs manage and distribute roughly one-third of the nation's bilateral development aid, helping to compensate for the institutional weakness of many recipient governments and ensuring the "social character" of the country's aid activities. Furthermore, Spanish trade unions are active in that country's overseas aid policy and work directly to promote labor in recipient states (Alonso, 2005).

³ Ideally it would be possible to test both the direct (aid to unions and labor organizations) as well the indirect effects of aid (aid to other civil society organizations) on labor practices. However, data limitations prevent such a test. As a result, I only examine the influence of sector-specific aid to civil society and NGO groups relative to aggregate aid flows and do not generate more specific hypotheses to examine the direct versus indirect influence of aid.

⁴ I therefore exclude the former Soviet states of Easter Europe as well as Israel even though they received ODA during the sample period.

⁵ A list and full description of each is provided in Appendix 1 of Greenhill, Mosley, and Prakash (2009).

⁶ Available: <http://www.aiddata.org/content/index>.

⁷ It is important to note that ODA differs from foreign aid generally in that it is provided specifically for the economic development and welfare of recipient states and does not include military assistance.

⁸ While disbursements would perhaps serve as a more exact measure of aid arriving in the recipient, the Aid Data (2.1) creators caution against using disbursements for statistical analyses because reporting of disbursements has only become common since the early 2000s. As such, for the majority of the years of the sample employed in this analysis, the disbursement figures exhibit a high degree of missingness that is likely to skew the results. Regardless, the correlation between the commitment and disbursement figures is quite high (Neumayer, 2003: 43; Nielson and Tierney, 2005: 789).

⁹ AidData (2.1) reports commitment amounts in constant USD (2009). I therefore include GDP in constant USD (2005) as the denominator in the creation of the GDP-scaled aid measure. This data is taken from the Penn World Tables (7.1) dataset. It is worth noting that measures substituting GDP in current USD as the denominator correlate quite highly with this measure and do not alter the results when employed in the analysis.

¹⁰ This distinction is finer than simply relying on the broader Social Infrastructure sector category. Specifically, I include only aid explicitly listed as related to government and civil society promotion, legal judicial development, and NGO activities (coalesced purpose codes 15100-15150 and 92000-92030). See <http://www.aiddata.org/content/index/Research/research-datasets> for additional information.

¹¹ This leads to the inclusion of a handful of additional states, including Taiwan, the UAE, Saudi Arabia, and Kuwait. Including these states is important principally because several Middle Eastern and African states received significant aid from non-OECD states. Excluding the share of aid contributed by these states would therefore artificially inflate the measure, suggesting that the states primary donors exhibited a greater respect for labor rights than was actually the case.

¹² Available: <http://www.hri.ca/hri-publications-and-documentation/database/>. The Human Rights Internet list of human rights NGOs reports data for 1986, 1991, 1994 and 2000; intervening years are interpolated; data for 2001 and 2002 are extrapolated. The measure used here is taken from Mosley and Uno's (2007) replication dataset.

¹³ In alternative specifications I substituted per capital ODA for the GDP-scaled measures. While the signs on the coefficients remained the same, the variable accounting for NGO and civil society aid typically did not attain conventional significance levels.

¹⁴ I reran the analyses substituting the CSO/NGO variable with variables reflecting commitments to other sectors. Specifically, I estimated separate models using variables for aid to social infrastructure and services, economic infrastructure and services, production sectors, debt-related aid, and commodity aid. Aid variables failed to achieve statistical significance in any model.