

Is Human Rights Protection Good for Trade in Africa: Evidence from Proximity to Democratically ‘Good’ and ‘Bad’ Neighbouring Countries


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We study whether institutions supportive of human rights improve trade openness. Strengthening human rights institutions could reduce the adverse consequence of trade on consumers and labour rights. On the other hand, adherence could impose high transaction costs limiting the comparative advantage of many African countries. We study the effect of democratic and human rights institutions on trade openness for 40 African countries from 1960 to 2010. To address endogeneity concerns, we exploit the variation in democracy measurement among geographically proximate neighbours with similar political histories (i.e. an inverse distance-weighted average of democracy among ‘neighbours’). We find that human rights and democratic institutions increase trade in Africa. We find evidence supporting property rights, freedom of domestic movement and the political recruitment process as likely mechanisms.

Key Words: trade openness, Africa, human rights, political institutions

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Background

This paper seeks to answer the question: would trade openness among African nations benefit from robust human rights, and civil and political rights institutions? The rise in international trade flows and the liberalisation of trade policy in many developing countries is a primary component

of globalisation (Edwards 1998). As of 2014, the value of global merchandise exports as a share of GDP was 24.24 per cent, while the statistics for Africa stood at 24.26 per cent (Fouquin and Hugot 2016).

Human rights are the norms or standards that help protect people from social abuses. In many advanced states, human rights have been recognised as being an important condition for the fostering of mutually beneficial economic negotiations and trade agreements among nations (Horng 2003; Hafner-Burton 2005; 2011). They matter for trade in Africa because they could reduce the risk from predation, guard the rights of consumers and labour, and prevent ineffective trade public policies associated with many exporting states and developing countries (Anderson and Marcouiller 2002; Anderson 2008; Gansemans et al. 2017; Lin, Flachsbarth, and von Cramon-Taubadel 2020).

We test the hypothesis that improving civil and political rights and protecting human rights is an economically pragmatic option that encourages rather than reduces trade in Africa. Understanding the role of human rights in trade is particularly relevant for African countries wishing to take advantage of globalisation, while at the same time desiring to protect consumers and labour rights from the unintended consequences of trade reforms (Horng 2003; Hafner-Burton 2005; 2011). In comparative political economies, all states are committed to citizens' welfare and protection against all forms of direct and indirect aggression, victimisation and discrimination that can arise from international trade. Civil and political rights institutions help to protect people from victimisation and discrimination.

On the other hand, in developing countries, the requirement for human rights considerations could constitute political-economy obstacles to trade, due to poverty and population growth for example (Hayek 1976; Howse and Mutua 2000; Bal 2001). As evidence from nondemocratic countries suggests, democracy might not be favourable for economic reform as authoritarian governments may be more capable of initiating trade reforms (Geddes 1995). The repression of labour and civil rights may also provide a foundation for increased trade activity as they help in removing political economy obstacles to trade reform (Mitchell and McCormick 1988; Howse and Mutua 2000; De Soysa and Vadlammanati 2013). Furthermore, democratic, and legal institutions that allow for excessive lobbying, and costly and adversarial litigations could impose high transaction costs detrimental to the ease of doing business and trade.

Our study contributes to the growing awareness of the relevance of an

open trade policy as an essential vehicle for stimulating broad-based development in Africa (Rodrik 1998). To achieve trade openness in Africa, the fifty-five member states of the Africa Union (AU) recently launched the African Continental Free Trade Area (AfCFTA). The AfCFTA aims to create a single continent-wide market for goods and services and promote the movement of capital and persons to make this possible. Although trade agreement models often assume that countries are symmetric, in reality economies differ in terms of size and levels of economic diversification. Achieving efficient outcomes from trade liberalisation among asymmetric countries could imply unfair competition with socially undesirable outcomes (Atkin 2016; UNCTAD 2019).

Perhaps the greatest challenge, from an econometric perspective, is identifying whether political rights promote trade, because evidence built on cross-country regressions is likely to produce inconsistent results due to some endogeneity issues. First, countries could have some variables which drive both trade and institutions and have been omitted from the modelling. Second, 'institutions' are multifaceted, vaguely defined, and attempts at singling out the relevant ones for trade remain scarce in the literature (Méon and Sekkat 2008). We use an Instrumental Variable (IV) approach for 45 African countries from 1960 to 2010 to study the effect of democratic and human rights institutions on trade openness. To isolate the impact of human rights, we borrow from the literature that considers a country's proximity to politically strong or weak neighbours as an instrument for empirical identification (e.g. Acemoglu et al. 2019). Our IV approach plausibly ensures that idiosyncratic changes in a country's political regime do not bias our estimates.

The resulting estimate shows that human rights institutions' effect on trade is significant and sizable irrespective of the level of economic development (lagged GDP), political instability (unrest), and after controlling for country, time and fixed effects. This ending is consistent with the literature on human rights as an important determinant of trade (Blanton and Blanton 2007), and Bojnec, Fertó, and Fogarasi (2014), which suggests that institutional quality (IQ) is important for exporting and importing countries in agro-food exports from the world's leading emerging economies. The remainder of this paper is organised as follows. The second section discusses the related literature, and the third section our identification strategy and dataset. In the fourth, we present the estimation results and the mechanisms through which democratic institutions could act as channels for trade openness. We conclude in the fifth section.

Literature Review

Much of the literature has different claims on the role of political institutions in inducing trade reforms and promoting the trade size of export commodities (e.g. see Geddes 1995; Mansfield, Milner, and Rosendorff 2000; Bojnec, Fertő, and Fogarasi 2014). Specifically, Bojnec, Fertő, and Fogarasi (2014) discuss the impact of institutional quality (IQ) in exporting and importing countries on agro-food exports from the world's leading emerging economies using the gravity trade model and econometric panel data analysis for the period 1998–2009. Their results show that agro-food exports are positively associated with IQ and the size of the gross domestic product in exporting and importing countries but negatively with distance. For fear of losing office to rival opponents, political agents under democracies are more likely to carry out economic reforms that liberalise and promote trade (Acemoglu et al. 2019). Others such as Geddes (1995) find that countries under fragile democracies have difficulty achieving economic liberalisation, while political rights supporters demand economic reforms (Acemoglu et al. 2019), albeit through legislative deadlocks and agitation from a pressure group; the demands for economic reforms may be countered by unproductive policies such as patronage.

We hypothesise that more political rights imply a greater incentive for trade reforms and export output, especially where populations are exposed to weak political and human rights. We therefore examine how the Trade Openness Index (import and export trade as a share of GDP) depends on the quality of human rights protection. Our main contribution is the Instrumental Variable (IV) strategy used for empirical identification. This identification method builds on Acemoglu et al. (2019), where regional waves in transitions to and away from democracy in countries with common political histories are used to investigate whether democracy causes growth. Unlike Acemoglu et al. (2019), our question examines whether human rights institutions promote trade. The political science literature emphasises the symbiotic relationship between democracy and human rights; therefore, promoting democracy as a system of government inevitably supports claims for universal human rights (Held 1992; Evans 2000, 2001). Based on this observation, our IV strategy supports the idea that the diffusion of political regimes across countries with common political histories strengthens country-level human rights institutions (Edwards et al. 2018).

We further investigate the channels through which human rights institutions promote trade. Consistent with the hypothesis that democratic institutions encourage a suitable business environment, we find support for property rights, domestic movement of goods and persons, and the quality of the executive recruitment process as potential mechanisms supporting the result. The trend towards free trade in developing countries is often tied to the rise in democratic institutions (Milner and Kubota 2005). Intuitively, political institutions such as human rights protection matter because they can help provide an investment-friendly environment for pooling resources and safeguarding investments. For instance, democratic and human rights institutions support property rights, freedom from forced labour, and free movement of goods and persons, providing incentives for economic activities, investment, innovation, and trade, leading to a more efficient market. Furthermore, political leaders in labour-rich countries may favour lower trade barriers as democracy increases to garner political support from pressure groups (Milner and Kubota 2005). Alternative channels that rely on external pressure from Western countries or international institutions support human rights as a condition for building trade relationships are plausible.

Methodology

To test the relationship between human rights and trade, it is necessary to have a measure of human rights and trade openness. In this section, we describe how this measure is built from secondary sources for 45 African countries¹ from 1960–2010. This section presents the data and the analytical framework employed for analysis. The main limitation of the investigation period is that it ignores the latest changes in most African nations' political climate, which have occurred post-2010. Nonetheless, we believe that the study period is wide enough to give us a general idea of the relationship between human rights and trade in Africa. From an econometric perspective, including later years may bring about spurious changes to the outcome since the shock to the political process in some parts of North Africa was not large enough relative to other African countries.

DEPENDENT VARIABLE: TRADE OPENNESS (IMPORT AND EXPORT TRADE AS A SHARE OF GDP)

In this study, we utilise Trade Openness, an economic metric calculated as the country's total trade (the sum of exports plus imports) to the country's gross domestic product. This metric captures all incoming and out-

going transactions, showing the influence of trade on domestic economic activities. The data source is from Acemoglu et al. (2019).

INDEPENDENT VARIABLES

Human Rights Institutions

We use three measurements to define human rights institutions (HR).

First, we define human rights institutions (HR) as a dummy variable, observed ($HR = 1$) if Freedom House regards a country k in year $t - 1$ as 'Free' or 'Partially Free' in terms of the amount of electoral or political rights it grants her citizens. This study regards all free or partially free countries as having political rights (human rights institutions, $HR = 1$) with the following criteria. First, if they have a competitive and multi-party political system; second, if adult citizens without criminal convictions have the right to vote in public political elections (adult suffrage); third, if they hold regularly contested elections; and lastly, if there is public access to the media of political parties for campaigns. Our classification approach is widely used in the literature, see for instance Acemoglu et al. (2019).

Our second definition of HR is also a dummy variable if Freedom House regards a country k in year $t - 1$ as 'Free' or 'Partially Free' in terms of the amount of civil liberties the citizens enjoy. Therefore, a country is deemed to be free if it has a substantial array of civil liberties. In both cases, Freedom House averages the score of each pair of political rights and civil liberties ratings, and scores between 1.0 and 2.5 are classified as 'Free', 3.0–5.0 as 'Partially Free', and 5.5–7.0 as 'Not Free'.

Although using the 'Free' or 'Partially Free' classifications from Freedom House to define dichotomous political institutions is a relatively common practice in the literature (e.g. see Giavazzi and Tabellini 2005; Papaioannou and Siourounis 2008; Acemoglu et al. 2019), from a purely measurement perspective, attributing quantitative values to changes in human rights institutions is a challenge. An alternative way to do this could be to count the number of human rights treaties that countries ratify. However, in practice, the agreements reached under such ratifications are not legally binding, and government authorities rarely fulfil the agreements (Hafner-Burton and Tsutsui 2005). Also, such indices are likely to be biased if they do not incorporate changes arising from raising the standards of human rights protection over time (Fariss 2014). Such classifications may also ignore or understate the *changes to the standard of accountability* (Fariss 2014). Therefore, our third measurement of hu-

man rights protection is from the Fariss (2014) classification. The human rights protection score from Fariss's index is a variable that combines scores for the protection of the physical integrity of citizens using indicators of torture, government killing, political imprisonment, extrajudicial executions, mass killings and disappearances.

Gross Domestic Product per Capita

To measure the concept of economic development, we use the GDP per capita measured in constant 2000 dollars, which we obtained from the World Bank Development Indicators. The lag of GDP per capita summarises the impact of a range of economic factors that affect trade openness and human rights institutions, such as total factor productivity, political institutions and technology differences. Importantly, we could investigate a dynamic (linear) panel model by including variables of GDP per capita as regressors. The economic rationale for this is that, conditional on the lag of GDP and country fixed effects, countries with more significant trade per GDP are not on a different economic trend than those with less trade.

Additional right-hand side variables include the occurrence of events of unrest (from Acemoglu et al. 2019), the percentage of females of the total workforce and the percentage of the population within the active age range of 15 to 64 years, log of population density, the log of urbanisation index, and oil and gas rents per population in constant 2000 USD.

INSTRUMENTAL VARIABLE: THE REGIONAL DEMOCRACY SCORE

The regional democracy score variable is sourced from the replication dataset of Acemoglu et al. (2019). It utilises the advantages of historical, cultural, and political commonalities among countries in one region as important for mediating the spread of democracy and political discontent. The adoption of democratic institutions often takes place in regional waves (Markoff 2015; Acemoglu et al. 2019). Also, sudden shifts in global power often result in domestic reforms at the regional level. For instance, the second wave of democracy in Europe followed World War II, democratic reforms in the Middle East and North Africa followed the Arab Springs, and the democratic revolution in Africa followed the decolonisation drive in Sub-Saharan Africa. Social unrest and instability often led to regime change and the regional transition into democracy in all these instances.

TABLE 1 Summary and Descriptive Statistics

Variable	(1)	(2)	(3)	(4)	(5)
Log Trade Openness (trade exports plus imports as a share of GDP \times 100)	1,916	404.58	50.17	214.45	531.7
Civil Liberties, Freedom House	1,704	0.17	0.38	0	1
Political Rights, Freedom House	1,704	0.20	0.40	0	1
Log Human Rights (Fariss 2014)	947	-0.87	1.07	-7.27	0.76
GDP per capita (constant 2000 USD)	1,969	613	95.59	405.67	905.89
Unrest dummy (dummy variable)	1,879	0.28	0.45	0	1
Proportion within Age bracket 15–64 as a percentage of total population	2,070	52.67	3.31	46.97	68.81
Female labour as a percentage of total labour force	1,936	40.99	8.36	16.34	54.12
Log Population Density	2,107	0.03	0.01	-0.003	0.06
Oil and Gas rents per population	2,115	151.44	875.48	0	18769
Log Urbanisation index	1,891	0.25	0.13	0.02	0.61
Average democracy index in the region	2,295	0.21	0.24	0	1

NOTES Column headings are as follows: (1) observation, (2) mean, (3) standard deviation, (4) minimum, (5) maximum.

Based on this observation, we use regional waves in transitions to and transitions away from democracy as an instrument for country-level human rights measurement. Following Acemoglu et al. (2019), the instrumental variable (1v) exploits the diffusion of political institutions across countries in the same region and with shared political histories by calculating an inverse distance-weighted average of democracy among ‘neighbours’. Unlike Acemoglu et al. (2019) however, we utilise this insight to answer a different research question regarding the effect of political institutions on trade openness. Our IV strategy is important to alleviate identification concerns arising from human rights institutions and the endogenous selection of rich countries into human rights institutions.

A summary of the data is presented in table 1.

IDENTIFICATION STRATEGY

This section describes the identification strategy. We estimate the effect of human rights and political institutions on trade openness using the variation in democracy measurement among geographically proximate neighbours as the instrument.

The estimating equations are:

$$T_{k,t} = \delta_0 + \delta_1 HR_{k,t-1} + \delta_2 GDP_{k,t-1} + \delta_3' R_{k,t} + \lambda_k + \omega_t + \varepsilon_{k,t}, \quad (1)$$

$$HR_{k,t-1} = \varphi_0 + \varphi_1 Z_{k,t-1} + \varphi_j' X_{k,t-1} + \alpha_k + T_t + \mu_{k,t}, \quad (2)$$

where $T_{k,t}$ is the log of the trade openness index, which is the share of trade (exports plus imports) in GDP (in logs) in country k at time t , and $HR_{k,t-1}$ is the measure of the quality of human rights institutions in country k at time $t-1$ (one year lag). The specification in equation (1) includes one year lag of log GDP per capita $GDP_{k,t-1}$ on the right-hand side to control GDP dynamics; this helps to remove the mechanical effect of higher GDP on the outcome variable. This strategy allows us to remove the confounding influence of the GDP as richer countries could likely trade more than poorer countries.

$R_{k,t}$ is a vector of additional right-hand side variables that include the occurrence of events of unrest dummy, the percentage of females of the total workforce and the percentage of the population within the active age range of 15 to 64 years, log of population density, the log of the urbanisation index, and oil and gas rents per population in constant 2000 USD. The country fixed effects, λ_k , absorbs the impact of any time-invariant country characteristics and ω_t denotes the time fixed effects to absorb any seasonal changes in trade outcomes each year. The error term $\varepsilon_{k,t}$ includes all other time-varying unobservable shocks to trade share per GDP.

Trade share of GDP and human rights institutions co-vary at the national level for various reasons. Therefore, simple correlations would be unlikely to reveal the causal effect. Even with the inclusion of fixed effects and GDP controls, fixed effects (FE) estimates in equation (1) are likely to be biased (Eichengreen and Leblang 2008; Decker and Lim 2009). Also, trade policy could impact political regimes. Although we lag all of our independent variables, there could be a much longer-term effect. In addition to measurement errors (Ndikumana and Baliaoune-Lutz 2007), threats to the validity of the estimates in equation (1) were reported from the presence of time-varying economic and political factors that simultaneously impact human rights institutions and trade per GDP (country fixed effects will absorb other time-invariant factors).

To consistently estimate the effect of human rights on trade, we exploit the value of regional democratisation to explain the variation in the differential movements in human rights values across the region in

equation (2). $HR_{k,t-1}$ is the human rights score, which is the endogenous regressor and $Z_{k,t}$ is the instrumental variable measured as the average democracy in a region excluding own country. $x_{k,t-1}$ is a vector of covariates that includes other time-varying characteristics of the countries' socio-demographics in equation (1). These include the lagged GDP per capita, occurrence of events of unrest, the percentage of females of the total workforce and the percentage of the population within the active age range of 15 to 64 years, log of population density, the log of the urbanisation index, and oil and gas rents per population in constant 2000 USD. α_k and τ_t denote the country and time fixed effects respectively to absorb any unobserved country and seasonal changes to trade outcomes.

Importantly, the instrumental variable leverages the assumption that changes in the average democracy in a region (excluding own country) have no direct effects on the aggregate trade of each country. The effect can only operate through the transition to human rights (including the country fixed effects helps absorb any other regional factors, e.g. geography, that could affect trade). We relate our approach to the one used in Acemoglu et al. (2019) and Persson and Tabellini (2009), where the regional democratisation waves are used as an exogenous source of variation in a country's likelihood of transitioning to democracy. More specifically, as in Acemoglu et al. (2019), the study exploits the variation in regional democracy score (among countries in the same region and having the same initial political regime) to identify human rights institutions.

Acemoglu et al. (2019) divide the list of countries into seven regions to compute this variable. To formalise, first a set of countries that may influence the demand for democracy in a given country is defined. For each country k , D_{kt} denotes whether the country was a democracy or a nondemocracy at the start of the sample. The idea behind our instrumental variable is that human rights values in country k are influenced by democracy in the set of countries (M_k) surrounding k , which includes countries in the same region that share a similar political history.

Following Acemoglu et al. (2019), we define our instrument as:

$$Z_{k,t} = \frac{1}{|M_k|} \sum_{t=1}^n D_{k,t}, \quad (3)$$

where $Z_{k,t}$ is the average of democracy in a region \times initial regime cell excluding own-country observation.

Limitations of the Study

There is no perfect strategy for estimating the causal effect of human rights on trade openness. Although cross country regressions will give inconsistent results, our approach employing the instrumental variable (IV) strategy is equally not free from inconsistencies. As is often the case with the IV estimator, there are no perfect instruments that will completely isolate the mechanism we are interested in. Similarly, given the limitations regarding our investigation's time frame, location, and scope, we cannot claim to have exhausted all possible mechanisms through which human rights contribute to growth. Exploring a larger time frame and incorporating interactions among political regimes that offer richer heterogeneous effects is another critical area of future inquiry.

Results and Discussion

This section is divided into three parts. The first part (table 2) examines whether human rights institutions defined as civil liberties, political rights and human rights protections significantly translate into an improvement in trade openness (share of exports and imports of GDP) in Africa. The identification strategy exploits the within-country variation and one-year lags of the independent variables to identify the effect.

In the second part (table 3), we instrument the human rights variables with the regional democracy score to causally identify the impact of human rights on trade openness.

In the third part (table 4), we examine the channels of mechanisms by replacing trade openness with property rights, freedom of domestic movement of goods and persons and the quality of the executive government recruitment process to identify the plausible channels of human rights effects on trade openness.

HUMAN PROTECTION AND TRADE OPENNESS

Table 2 reports coefficients corresponding to equation (1) and reports the within-country fixed effects (FE) estimates for 40 African countries from 1960 to 2010. All models include controls for one-year lagged GDP per capita and time dummies as well as controls for the number of years we have valid observations in each country. Column (I) is the FE regression in which the human rights variable is defined as a dummy variable of Civil Liberties from Freedom House. Column (II) replaces the human rights variable with a dummy for political rights from Freedom House. Column (III) essentially utilises the log of human rights protection scores

TABLE 2 Fixed Effects Estimates: Human Rights and Trade Openness for 45 African Countries from 1960–2010

Item	I	II	III
Human Rights ^a	10.20 (7.12)	14.92* (7.42)	3.82* (1.95)
Unrest dummy	-6.99** (3.36)	-6.23* (3.31)	0.86 (3.38)
GDP per capita	0.30*** (0.13)	0.30** (0.12)	0.13 (0.11)
Ages 15–64 of population	-2.32* (1.31)	-2.23 (1.32)	-0.71 (0.98)
Females of total labour force	1.17 (2.55)	1.51 (2.4)	-2.49 (2.37)
Population density	-7133* (3953)	-6771* (3636)	-10762** (3835)
Urbanisation index	19.75 (93)	30.28 (87.03)	-197.63** (76.67)
Oil and Gas rents per population	-0.0008 (0.002)	-0.001 (0.002)	-0.002* (0.001)
F-stat	60.76***	1543***	
Number of Countries	40	40	32
Observations	1091	1091	654
Country and Time Fixed Effect?	Yes	Yes	Yes

NOTES Dependent variable: Trade Openness (Trade Exports plus Imports as a share of GDP multiplied by 100). ^a Human Rights measured as Civil Liberties based on Freedom House in Model I, as Political Rights based on Freedom House in Model II and as Log Human rights protection based on Fariss (2014) in III. Standard errors are robust and in parenthesis. *P*-values at less than 0.01, 0.05 and 0.1 are indicated as ***, ** and * respectively.

from Fariss's (2014) paper to define human rights institutions, which involves accounting for the changes in the way human rights are accounted for over the years. All specifications in table 2 indicate a weak (columns II and III) and statistically insignificant association (column I). The estimated weak coefficient on human rights variables suggests that the models reported in table 2 may be mis-specified.

Nevertheless, an important finding indicates that the effect of the human rights variables is broadly consistent across models (especially

columns II and III). As expected, countries with better human rights tend to have better political institutions, be more productive, have higher income and engage more in trade (table 2). This supports our hypothesis that human rights institutional development displays some state dependence and is likely to exhibit bi-directional causality with trade openness.

EFFECT OF HUMAN RIGHTS PROTECTION ON TRADE OPENNESS

Table 3 (panel A) reports the main instrumental variable results (equations (1) and (2)). In panel B, we report the corresponding first stage estimates and the diagnostic tests. The previous estimates reported in table 2 do not correct for the potential endogeneity. Throughout, the reported coefficients on human rights institution variables are multiplied by 100 to ease its interpretation, and we report standard errors robust against heteroscedasticity. Across the three models in table 3, the resulting estimates of human rights impact on trade share of GDP are similar. In essence, conditioning trade on human rights institutions increases trade share of GDP irrespective of GDP per capita and other controls.

Table 3 supports the positive and significant contribution of human rights to trade in Africa. All estimates are positive and significant at the 5 per cent level (or below). Specifically, in column (IV), we find that the effect of human rights is (defined as a dummy that measures civil liberties) positive and highly significant, with a coefficient of 71.23. In column V, we find that human rights defined with political rights positively affect trade with a coefficient of 32.17. In columns IV and V, countries with civil liberties and political rights will experience a 71 per cent and 32 per cent increase in trade as a share of GDP. In column VI, we find that trade openness improves by 47.54 per cent with a 1 per cent increase in the log of human rights protection. The broad similarity of these results (table 3) and the difference with estimates presented in table 2 reflects, in part, the concerns regarding the endogeneity of institutions. As shown in panel B of table 3, the first-stage results and diagnostic tests for weak instruments fail to reject the null hypothesis of weak identification. Also, the instrument performs reasonably well in improving the estimates.

MECHANISMS: DEMOCRATIC INSTITUTIONS AS CHANNELS FOR TRADE OPENNESS

The substantial effect of civil liberties, political rights and the protection of human rights on trade openness in table 3, though not surprising, is in-

TABLE 3 FE 2-SLS Estimates of the Effect of Human Rights on (Log) Trade Openness for 45 African countries from 1960–2010

	Panel A: FE 2-SLS Estimates		
	IV	V	VI
Human Rights ^a	71.23*** (26.22)	32.17** (14.8)	47.54*** (17.97)
Unrest dummy	-2.29 (2.8)	-4.45* (2.29)	6.91 (6.94)
GDP per Capita	0.23*** (0.05)	0.31*** (0.04)	-0.04 (0.13)
Ages 15–64 of population	-3.21*** (0.7)	-2.29*** (0.54)	0.28 (1.35)
Females of total labour force	2.93** (1.27)	2.25** (1.06)	3.56 (4.21)
Population density	-4318** (2104)	-5809*** (1666)	-9287** (3645)
Urbanisation index	91.64* (48.05)	56.33 (38.47)	-48.45 (121.9)
Oil and Gas rents per population	-0.001 (0.002)	-0.002 (0.002)	-0.01** (0.004)
Under-identification test (Kleibergen-Paap rk LM statistics)	16.41***	36.95***	8.388**
Cragg-Donald Wald F statistic	19.12	40.5	5.64
Kleibergen-Paap rk Wald F-stat	15.34	40.48	8.03
Number of Countries	40	40	32
Observations	1091	1091	654
Country and Time Fixed Effect?	Yes	Yes	Yes

NOTES Dependent variable: Trade Openness (trade exports plus imports as a share of GDP multiplied by 100). ^a Human Rights measured as Civil Liberties based on Freedom House in Model IV, as Political Rights based on Freedom House in Model V and as Log Human Rights protection based on Fariss (2014) in VI. Standard errors are robust and in parenthesis. *P*-values at less than 0.01, 0.05 and 0.1 are indicated as ***, **, and *, respectively.

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triguing. By citing the case of some Latin American countries, e.g. Chile, this evidence indicates that autocratic and nondemocratic governments are both likely to liberalise trade (Geddes 1995). External pressures could

TABLE 3 *Continued from the previous page*

Instrumental Variable	Panel B: First Stage Estimates		
	(1)	(2)	(3)
Regional Democracy	0.51*** (0.13)	0.79*** (0.12)	1.59** (0.56)
F-test of Excluded instruments	15.84***	40.49***	8.03**
Underid (sw Chi-sq)	16.47***	42.05***	8.75**
Weak id (sw F)	15.84	40.49	8.03

NOTES Instrumented variable: Human Rights. Column headings are as follows: (1) Civil liberties, (2) political rights, (3) human rights protection. P-values at less than 0.01, 0.05 and 0.1 are indicated as ***, **, and *, respectively.

explain this, for example, the influence of Western countries in general, or international agencies like the World Trade Organization (WTO) that force countries to reform human rights and political institutions in order to partake in trade. Other contrasting arguments suggest that democratic institutions were not necessarily promising for economic reform. This implies that we need to look for alternative explanations to explain the relationship.

The first channel we investigate is improving the quality of the executive recruitment process associated with human rights reforms. Human rights reforms could provide incentives for democratisation, measured by the quality and transparency of the recruitment of executives into public offices. How could political leaders in many developing countries choose to lower their trade barriers when citizens have more liberties and freedom? The standard political economy models predict that if power is concentrated in the hands of a few interest groups, they will likely resist any move towards reforms that lower barriers to trade if they fear that such reforms will diffuse benefits to a larger group. On the other hand, human rights reforms are likely to usher in a new era of democratisation and improve political competition. With constraints to reduced political participation, politically-minded leaders will recognise the strength of the previously disenfranchised groups and use favourable trade policy to appeal for votes to ensure political survival (see Milner and Kubota 2005). Human rights reforms can alter the political calculus and induce a shift in the optimal choice of trade reforms that benefit a larger segment of the voters.

The second channel that we explore is the improvement in property

rights due to progress in human rights. Since the time of Adam Smith, economists have long been aware that property rights are crucial for economic development (Knack and Keefer 1995). A potential investor may choose not to invest in any productive activity that requires a substantially fixed capital outlay in the absence of any protection on investment. The implication is a reduction in economic investments, tradeable exports, and labour and capital relocation to areas with greater property rights and investment protection. However, any government strong enough to institute property rights is also likely to have the power to abrogate those rights as well (North and Weingast 1989). This is where human rights reform could be essential for safeguarding property rights and ensuring governments' commitment to upholding the requirements.

The third channel we explore is the freedom of domestic movement of factors of production. Policies that restrict the movement of persons and goods will reduce economic freedoms and the freedom of individuals to engage in international exchange. With domestic freedom, individuals will produce a larger output and achieve a higher income level than would otherwise be possible. Because freedom of movement and international exchange promotes entrepreneurial and innovative activities, one should expect individuals with greater human rights, civil liberties, and political rights to have higher levels of freedom of local and international exchange and improvement in trade.

We put these three mechanisms to the test in table 4. We estimate equation (4) after the first stage of equation (2).

$$M_{k,t} = \delta_0 + \delta_1 HR_{k,t-1} + \delta_2 GDP_{k,t-1} + \delta_3 R'_{k,t} + \lambda_k + \omega_t + \varepsilon_{k,t}, \quad (4)$$

where $M_{k,t}$ is one of the three mechanisms of quality of the executive recruitment process, property rights and freedom of goods and persons in country k at time t , and $HR_{k,t-1}$ is the measure of the quality of human rights institutions in country k at time $t - 1$ (one year lag). The specification in equation (4) includes the one-year lag of log GDP per capita $GDP_{k,t-1}$ as a regressor to control for GDP dynamics; it helps to remove the mechanical effect of higher GDP on the outcome variable. $R'_{k,t}$ is a vector of additional right-hand side variables that include the occurrence of events of unrest dummy, the percentage of females of the total workforce and the percentage of the population within the active age range of 15 to 64 years, log of population density, the log of the urbanisation index, and oil and gas rents per population in constant 2000 USD. The country fixed effect, λ_k absorbs the impact of any time-invariant country

TABLE 4 Effects of Human Rights Institutions on Potential Mechanisms

	Panel A: Channels and Mechanisms									
	VII	VIII	IX	X	XI	XII	XIII	XIV	XV	
Human Rights ^a	1.06*** (0.26)	0.64*** (0.1)	0.49* (0.26)	0.49*** (0.12)	0.32*** (0.06)	0.07** (0.04)	0.76*** (0.19)	0.49*** (0.09)	0.17*** (0.08)	
GDP per capita	-0.003 (0.0005)	0.0002 (0.0002)	0.001 (0.001)	-0.001*** (0.0002)	-0.001*** (0.0001)	-0.0006** (0.0002)	-0.0003 (0.0003)	-0.05 (0.1)	-0.03 (0.4)	
Ages 15-64 of population	-0.007 (0.006)	0.005 (0.005)	-0.017 (0.012)	0.007 (0.003)	0.007*** (0.002)	-0.001 (0.002)	-0.005 (0.004)	0.005* (0.003)	-0.004 (0.004)	
Females of total labour force	-0.019 (0.01)	-0.02** (0.008)	0.01 (0.04)	0.007 (0.006)	0.006 (0.004)	0.003 (0.007)	0.014* (0.008)	0.01** (0.005)	0.01 (0.01)	
Under-identification test (Kleibergen-Paap rk LM statistics)	18.38***	40.49***	4.4**	17.31***	30.73***	5.44**	17.31***	30.73***	5.44**	
Cragg-Donald Wald F statistic	20.91	46.1	3.6	18.43	35.39	4.49	18.44	35.39	4.49**	
Kleibergen-Paap rk Wald F-stat	16.64	46.18	4.19	15.9	33.34	5.2	15.94	33.39	5.2	
	Panel B: First Stage Estimates									
Regional Democracy	0.54*** (0.13)	0.89*** (0.13)	1.29** (0.63)	0.48*** (0.12)	0.74*** (0.12)	1.44** (0.63)	0.48*** (0.12)	0.74*** (0.12)	1.43** (0.63)	
F-test of Excluded instruments	16.64***	46.18***	4.19**	15.94***	33.34***	5.24**	15.94***	33.34***	5.24**	
Underid (sw Chi-sq)	17.32***	48.05***	4.57**	16.55***	34.61***	5.7*	16.55***	34.61***	5.7**	
Weak id (sw F)	16.64	46.18	4.19	15.94	33.34	5.24	15.94	33.34	5.24	

NOTES ^a Human Rights measured as: Civil Liberties based on Freedom House in Models VII, X, and XIII, Political Rights based on Freedom House in Models VIII, XII and XIV, and Human Rights protection based on Fariss (2014) in Models IX, XI and XV. All models control for country and Time fixed Effects. Additional controls include population density, urbanisation index, oil and gas rents per population and unrest dummy. Standard errors are robust and in parenthesis. P-values at less than 0.01, 0.05 and 0.1 are indicated as ***, ** and * respectively. Column headings are as follows: (1) civil liberties, (2) political rights, (3) human rights protection, (4) civil liberties, (5) political rights, (6) human rights protection, (7) civil liberties, (8) political rights, (9) human rights protection.

characteristics and ω_t denotes the time fixed effects to absorb any seasonal changes in trade outcomes each year. The error term $\varepsilon_{k,t}$ includes all other time-varying unobservable shocks to trade share per GDP.

In all the channels (table 4), we find that human rights institutions defined by civil liberties, political rights and human rights protection increase the quality of the executive recruitment process, property rights and the freedom of domestic movement of goods and services. Overall, these results suggest that human rights institutions might be working these channels to improve trade.

Several other arguments could be proposed. For instance, a focus on external pressures, mainly from the US, the EU or multinationals like the IMF and WTO, could be investigated. These countries and organisations can make human rights a condition for international trade. A counter-argument to this would be the rise of the countries in South Asia and China. They have been able to utilise trade to bolster economic development despite having relatively weaker human rights records. Besides, the rise of competition between the US and China for trading partners provides suitable alternative trading partners for countries who do not wish to improve their human rights records. Therefore, this channel might seem less capable of explaining how human rights reforms can make developing countries improve trade.

Conclusion

We investigate whether human rights and democratic institutions promote trade and understand some of the mechanisms of 45 African countries using data from 1960 to 2010. We argue that this is an important and timely question given the lack of clarity and support for the economic importance of human rights institutions, especially in developing countries.

To address the endogeneity concerns, we exploit the source of variation in regional waves of democratic transition (excluding own country) to identify the effect of human rights institutions on trade openness. Our first stage results show that regional waves in democratic transition support adopting human rights standards: a country surrounded by countries practising democracy is more likely to adopt human rights institutions. We show a statistically significant positive impact of human rights institutions (civil liberties, political rights, and protecting human rights from abuse and indiscriminate arrests) on trade (import and export as a share of GDP per capita). Our results are consistent with related literature like Blanton and Blanton (2007), and Bojnec, Fertó, and Fogarasi

(2014) who show the importance of human rights on trade and institutional quality on food exports respectively but illustrate these ideas for the first time using data from African countries.

Our evidence also suggests that human rights foster trade. The channels we identify include improving the quality of executive recruitment, property rights and the freedom of movement of goods and persons. These channels promote trade because they are likely to induce greater investment by guaranteeing the protection of factors of production. Taken together, our results suggest that human rights institutions are not a hindrance to trade, but instead, there are many complementarities between favourable political institutions, investment climate and economic development.

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