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Sincerely,

Jose Noronha Rodrigues
ELP Editor in Chief

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Effect of External Debt Service on Foreign Direct Investment Inflows in Kenya

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Abstract

Foreign direct investment has an important role in fixed capital formation of a host country. FDI inflows are of great importance to developing economies than the developed economies since most of the developing economies experience inadequate savings. Further, these economies have incomplete access to advanced technology. In Kenya, fixed capital formation stands at about 21 % of GDP of which about 7% is contributed by foreign direct investment inflows.

Economic theory postulates that external debt service is one of the key determinants of foreign direct investment inflows. The theory stipulates that an increase external debt service results to higher taxes which discourage foreign direct investors. This study therefore sought to investigate the effect of external debt service on foreign direct investment inflows in Kenya using time series data running from 1980 to 2014. The study adopted gross fixed capital formation, inflation rate, exchange rate and real GDP as the control variables.

The study estimated long run cointegrating equation and the findings showed that external debt service have a negative impact on country's foreign direct investments. The study recommends that the government should not heavily rely on external borrowing to finance economic growth but should rather cut her programs to avoid higher budget deficit. This recommendation is premised on the fact that lower external debt service will attract foreign direct investment that will eventually result to a more reduced budget deficit. This is because foreign direct investment inflows result to employment and thus increase in tax collection.

Keywords: Foreign direct investment (FDI), external debt service, Kenya.

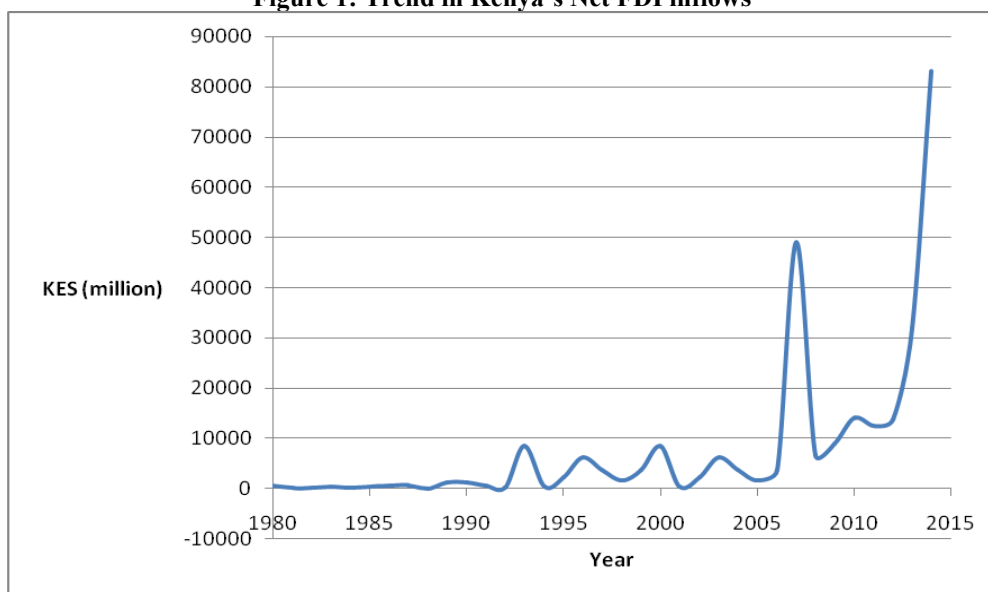
Introduction

Foreign direct investment inflows refer to capital that originate from the investor country to a host country. The foreign investor invests in assets of the host country. The foreign investor in such arrangement takes financial responsibility of the investment and also manages the assets in the host country (Ostadi & Ashjaa, 2014). World Bank defines FDI as an investment which allows foreign investor to acquire 10 percent of voting rights in business enterprise based in a foreign country. If the foreign investor commands less than 10 percent voting rights, then such FDI is referred to as a portfolio investment.

Most developing countries use foreign direct investment inflows as a source of capital for their industrialization because foreign direct investors usually place a long term commitment to host countries. Further, foreign direct investment inflows have significant contribution to a host country's fixed capital formation (Abala, 2014). For instance, Kenya's fixed capital formation was about 21 % of Gross Domestic Product where foreign direct inflows accounted for about 7 per cent (World Bank, 2016).

World Bank shows that Kenya's net FDI inflows increased from KES 586 million in 1980 to KES 83027.3 million in 2014. The trend in Kenya's FDI inflows is shown in figure 1.

Figure 1: Trend in Kenya's Net FDI inflows



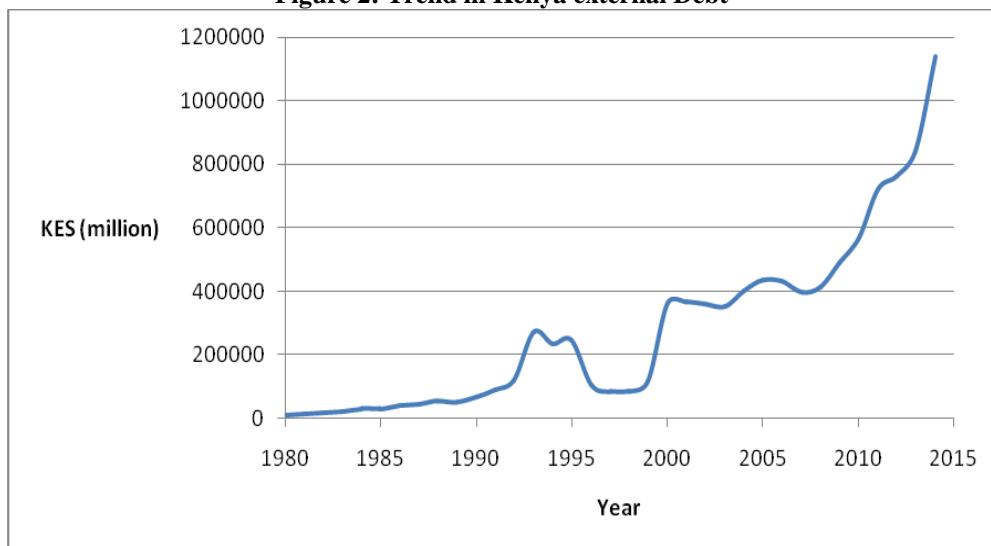
Source: World Bank data base, 2016

From figure 1, it is evident that Kenya's net FDI inflows were not stable for the period running from 1980 to 2014. The period is characterized by increases and decreases in net FDI inflows volumes.

Kenyan government has been involved in the provision of public goods since her independence in 1963. The public goods which include infrastructure, education, healthcare and security are important for the economic growth in the country. However, the government's fiscal supply cannot meet all the requirements of the country's needs, an indication that foreign debt is important in bridging the gap. For instance, Kenya has relied on foreign debt to finance her agricultural and industrial sectors. These sectors are important for the country since they are the main producers of exports which attract foreign currency that is used to finance the external debt (Were, 2001).

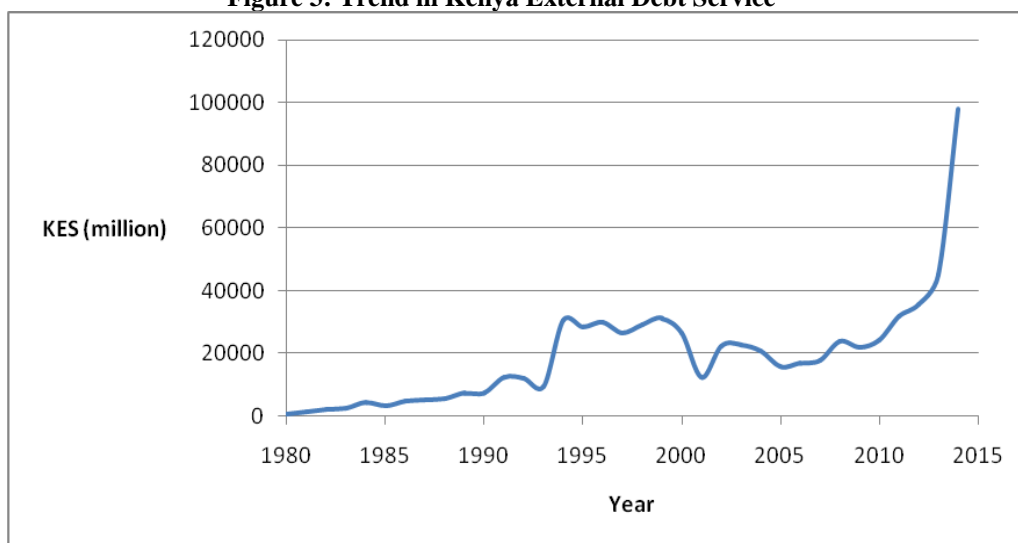
Kenyan economy showed an impressive growth in 2014 by registering a growth of 5.3 percent. However, despite the impressive growth, budget deficit widened from Kenya shillings (KES) 182.0 billion in 2013 to KES 213.9 billion in 2014. In addition, debt service increased from KES 1533 billion in 2013 to KES 1924.9 billion in 2014 (National Treasury, 2016). An increase in external debt has serious macroeconomic problems which can result to poor social, economic and political status of a country (Government of Kenya, 2012). Generally, Kenya recorded an increase in external debt as depicted in figure 2.

Figure 2: Trend in Kenya external Debt



Source: Various Kenya National Bureau of Statistics economic Surveys

From figure 2, Kenya's external debt increased from KES 9948 million in 1980 to KES 1138504.71 million. The figure further shows that there was a smooth increase in external debt from 1980 to 1993 and started to decline to 1996 and remained stable up to 1999. From 2000 to 2014 there was a positive trend but with fluctuations. This increase in external debt translated to an increase in external debt service as shown in figure 3.

Figure 3: Trend in Kenya External Debt Service

Source: Various Kenya National Bureau of Statistics economic Surveys

From figure 3, it is evident that there was an increase in external debt service from 1980 to 2014 but with fluctuations. The figure further illustrates a sudden increase in external debt service from 2009 to 2014.

Problem Statement

The public debt of Kenya is about 53 percent of GDP of which about 30 percent of the GDP is external debt (Government of Kenya, 2015). The subject of public debt has received tremendous attention both in theory and practice. This is largely due to the effect of external debt on country's economic growth. Empirical investigation gives contradictory findings. Proponents of external debt indicate that external debt is important in bridging budget deficit thus enabling governments to provide public goods which are good for economic growth of countries. On the other hand, scholars indicate that external debt is bad for economic growth. According to them, higher external debt results to increased external debt service which discourages foreign investors. According to them, level of external debt service enters into the objective function of foreign investors. This is because high external debt service translates to higher taxes in the economy which eats into their profits.

The subject of external debt service and FDI inflows has not been widely investigated in Kenya. For instance, Musyoka (2011) studied effect of external debt service and economic growth using OLS model. Fosu (2010) studied external debt servicing constraint and public expenditure composition in Sub-Saharan Africa using panel data. Elbadawi et al. (1997) studied the impact of debt service on investment in Sub Saharan Africa using panel regression model. This study therefore bridges the existing knowledge gap by

investigating the effect of external debt service on FDI inflows in Kenya. This study therefore sought to respond to the following questions;

- What is the effect of external debt service on FDI inflows in Kenya?
- What policy recommendations can arise from the study findings?

Objective of the Study

The study's objective is to estimate the effect of external debt service on Kenya's FDI for the period running from 1980 to 2014.

Literature Review

Abala (2014) studied the relationship between economic growth and FDI in Kenya using OLS model. One of the study objectives was to estimate the determinants of FDI in Kenya. The findings showed the coefficients of external debt service and openness of the economy to be negative and insignificant. This implies that external debt service and openness of the economy are not important determinants of FDI in Kenya. The coefficients of real GDP and infrastructure were revealed to be positive and significant implying that the two variables are important determinants of FDI in Kenya. The study further showed the coefficients of market size, return on investment and real interest rate to be negative and insignificant meaning market size, return on investment and real interest rate are not important determinants of FDI in Kenya.

Ostadi and Ashja (2014) investigated the effect of external debt service on FDI in Development cooperation among 8 Developing Countries using panel regression model. The coefficients of external debt service and government size were revealed to be negative and significant an indication that external debt service and government size are important determinants of FDI. On the other hand, the findings revealed the coefficient of government size to be negative and significant.

Khrwash and Siam (2010) studied the determinants of FDI in Jordan using OLS model. The results revealed the coefficients of debt service share in GDP, current account share in GDP and exchange rate to be positive and significant. This implies that debt service GDP, current account and exchange rate are important determinants of FDI in Jordan.

Udo and Obiora (2006) studied the effect of FDI on economic growth among the West African Monetary zone using panel regression model. One of the objectives of the research was to determine the factors which affect FDI. The results revealed the coefficient of political instability and external debt service share in GDP to have a negative and significant. On the contrary, coefficient of government spending on infrastructure and GDP were found to be positive and significant.

Elbadawi et al. (1997) probed the effect of debt service on investment in Sub-Saharan Africa using panel regression model. The results showed the coefficient of debt service to be negative and significant. This implies that debt service is an important determinant of investment in the region.

Methodology and Estimation

Theoretical Framework

The study of the effect of external debt service on FDI inflows is anchored on basic traditional investment model. The general form of the traditional investment model was given by:

$$k = f(y, r) \dots\dots\dots 1$$

Where *k* is the preferred capital stock, *y* is the output and *r* is the real cost of capital in a host country. The basic traditional investment model refers to the traditional determinants of investment for domestic investors (Udo & Obiora, 2006).

Empirical Model

As foreign investors make decision on where to invest, other factors apart from the ones in the basic investment model become important. According to literature, these factors include openness of the economy, inflation rate, exchange rate, political stability and infrastructure. With this modification, we arrived at an augmented foreign direct investment model specification as follows:

$$fdi = f(ext, exch, inve, inf, gdp) \dots\dots\dots 2$$

Where *fdi* shows FDI inflows, *ext* shows external debt service, *exch* shows exchange rate, *inve* shows gross fixed capital formation, *inf* shows inflation rate and *gdp* shows GDP. An assumption is made of linear relationship between FDI inflows and external debt service. In this case the estimated model was specified as follows:

$$fdi = \beta_0 + \beta_1 ext + \beta_2 exch + \beta_3 inve + \beta_4 inf + \beta_5 gdp \dots 3$$

Results

In the study, data on FDI inflows and external debt service was obtained from various economic surveys published by the Kenya Bureau of Statistics. Data on inflation rate, exchange rate, GDP and gross fixed capital formation was obtained from World Bank World Development Indicators. Descriptive statistics and pre-estimation tests are discussed below.

Descriptive Statistics

Descriptive statistics of the variables used in the study is illustrated in Table 1. Distribution of a series can be obtained by evaluating diverse measures as illustrated in Table 1.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Fdi	35	7962.1	16333.6	7	83027.3
Ext	35	19740.7	17892.9	838.8	98014.3
inve	35	18.5	1.9	15.4	22.9
Inf	35	12.6	8.8	1.6	46.0
Exch	35	51.8	28.6	7.4	88.8
gdp	35	18213.4	15616.7	5751.8	60990.6

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database

A total of 35 observations were considered with six variables of which five are independent variables. Range is the difference between the maximum value and minimum value. In this case, FDI inflow has a maximum of KES 83027.3 million and a minimum of KES 7 million which gives a range of KES 83020.3 million. The standard deviation illustrates the spread of the values from the mean and is used for comparison purposes. From Table 1, external debt service has a bigger spread as compared to other variables. FDI inflows have a spread of 16333.6, gross fixed capital formation has 1.9, inflation rate has 8.8 and exchange rate has 28.6.

Testing for Serial correlation

The study applied Breusch Godfrey test to test for presence of serial correlation. The outcome is illustrated in Table 2.

Table 2: Serial correlation

Breusch-Godfrey test for autocorrelation			
lags(p)	chi2	Df	Prob> chi2
1	0.507	1	0.4764
H ₀ : no serial correlation			

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database

Since the probability (p) value is insignificant at 10%, 5% and 1% significance level, we do not reject the null hypothesis an indication that there is no serial correlation.

Stationarity Test

Stationarity test is performed so as to avoid spurious regression and also ensure the estimates are consistent. Augmented Dickey Fuller test was used in testing for stationarity of the variables used in the study. Stationarity results are as shown in Table 3.

Table 3: Testing for Stationarity at levels

Variable	Test statistic	1% critical level	5% critical level	10% critical level
Foreign Direct Investment Inflows	-1.995	-3.689	-2.975	-2.619
External Debt Service	1.702	-3.689	-2.975	-2.619
Gross Fixed Investment(% of GDP)	-2.063	-3.689	-2.975	-2.619
Exchange Rate	-0.942	-3.689	-2.975	-2.619
Inflation rate	-3.341	-3.689	-2.975	-2.619
GDP	5.408	-3.689	-2.975	-2.619

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database

From Table 3, it is evident that all variables are not stationary at levels. This implies that the variables have at least one unit root. To ascertain the number of unit root(s) for each of the variables, the series was subjected to first differencing. The results are shown in Table 4

Table 4: Test for Stationarity at First Difference

Variables	Test statistic	1% critical level	5% critical level	10% critical level
D1 Foreign Direct Investment Inflows	-5.812	-3.696	-2.978	-2.620
D1 External Debt Service	-2.259	-3.696	-2.978	-2.620
D1 Gross Fixed Capital Investment(% GDP)	-5.663	-3.696	-2.978	-2.620
D1 Exchange Rate	-5.438	-3.696	-2.978	-2.620
D1 Inflation Rate	-6.540	-3.696	-2.978	-2.620
D1 GDP	-2.322	-3.696	-2.978	-2.620

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database

From Table 4, the figures illustrate that all variables except GDP have one unit root. To confirm the number of unit roots for GDP, second differencing was carried out and the results are shown in Table 5.

Table 5: Test for Stationarity at First Difference

Variables	Test statistic	1% critical level	5% critical level	10% critical level
D2GDP	-7.971	-3.702	-2.980	-2.622

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database

From Table 5, it is evident that GDP has two unit roots since the series became stationary after second differencing. Since all variables are non-stationary, there was need to investigate whether there was long-run relationship or not meaning the study could employ Vector Error Correction Model (VECM) or Vector Autoregressive (VAR) model respectively. To obtain this, cointegration test was done using Johansen Cointegration test. However, before proceeding to Johansen Cointegration Test, there was need to identify the number of lags. The results for the number of lags is illustrated in Table 6.

Lag length Selection

To ascertain the number of lags to be used, an unrestricted VAR lag length selection criterion was employed. The results are shown in Table 6.

Table 6: Vector Autoregressive (VAR) Lag Selection Criteria

Selection-order criteria								
Sample: 1987 - 2014								
Number of Observation = 28								
Max rank	LL	LR	Df	Prob	FPE	AIC	HQIC	SBIC
0	-1304.1		.		2.1e+29	84.5	84.6147	84.8
1	-1142.3	323.7	36	0.000	6.4e+25	76.4	76.4054	77.0
2	-1104.5	75.6	36	0.000	7.6e+25	76.3	76.2909	77.5
3	-1060.5	88.0	36	0.000	1.1e+26	75.8	75.7749	77.5
4	-790.3	540.42*	36	0.000	3.7e+20*	60.7*	60.7*	62.9*

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database.

From Table 6, LR criteria indicated that 4 lags should be considered. FPE criterion showed that 4 lags should be chosen. Regarding AIC, HQIC and SBIC, the principle is that the least value gives better the model. In this case, AIC, HQIC and SBIC showed that we choose 4 lags. The five criteria suggested choice of 4 lags implying that the study considered 4 lags in the Johansen test of cointegration and VAR or VECM framework.

Johansen Test of Cointegration

After identifying the lag length, presence or absence of cointegration was investigated using Johansen Cointegration test. The results are as shown in table 7.

Table 7: Johansen Test for Cointegration (Trace statistics Model)

Trend: Constant		Number of observation = 31			
Sample:1984-2014		lags = 4			
Maximum rank	parms	LL	eigenvalue	Trace statistic	5% critical Value
0	114	-1079.8	.	579.1	94.2
1	125	-889.6	1.0	198.6	68.5
2	134	-837.6	0.96	94.7	47.2
3	141	-814.0	0.8	47.5	29.7
4	146	-797.5	0.7	14.4*	15.4
5	149	-791.3	0.3	1.9	3.8
6	150	-790.3	0.06		

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database.

From Table 7, it is evident that there is at least a cointegrating vector between the variables. This is because at maximum rank 0, the null hypothesis of no cointegration is rejected because trace statistic of 579.1 is greater than 5% critical value of 94.2. The results revealed presence of four cointegrating vectors since it is at this point that null hypothesis of four cointegrating vectors is not rejected since the trace statistic of 14.4 is less than 5% critical value. Having identified presence of cointegration, VECM framework was adopted and the results are as shown in Table 8.

Table 8: Regression Results for Vector Error Correction Model

	Coefficient	Standard Error	z	P>z
D_fdi				
_ce1 L1.	2.66	2.29	1.16	0.245
Fdi				
LD.	-3.72***	2.02	-1.85	0.065
L2D.	-2.95**	1.41	-2.08	0.037
L3D.	-1.19***	0.65	-1.81	0.070
Ext				
LD.	-1.83	1.14	-1.60	0.110
L2D.	-2.21**	1.12	-1.97	0.049
L3D.	-0.99	0.77	-1.28	0.200
Exch				
LD.	-211.92	1180.89	-0.18	0.858
L2D.	-2028.88	1369.92	-1.48	0.139
L3D.	-1566.68	1084.86	-1.44	0.149
Gdp				
LD.	3.55	3.93	0.90	0.367
L2D.	-0.25	4.21	-0.06	0.952
L3D.	-13.37*	4.42	-3.02	0.002
Inf				
LD.	535.94	946.79	0.57	0.571
L2D.	676.15	625.74	1.08	0.280

L3D.	555.78	394.66	1.41	0.159
Inve				
LD.	2951.23	2825.48	1.04	0.296
L2D.	1071.58	2171.86	0.49	0.622
L3D.	315.59	2067.42	0.15	0.879
R-Squared = 0.8718 P>chi2 = 0.0001*				

Source: Author's Computation based on various Economic Surveys published by KNBS and World Bank Database.

Interpretation and Discussion of the Results

From Table 8, *, **, *** implies 1%, 5% and 10% level of significance respectively. The findings showed that regression performed well in terms of goodness of fit and overall significance with an R-squared of 0.8718 and probability value of 0.0001. The coefficient of determination (R-Squared) indicates that the variables considered in the model explain 87.18% of the variation in FDI inflows in Kenya. The Probability value shows that explanatory variables are jointly significant in explaining FDI inflows at 1% level of significance.

The coefficient of the error correction term (2.66) is positive and insignificant meaning that there is no long run causality running from the explanatory variables to dependent variable.

However, the results showed significant short run causality running from individual explanatory variables to the dependent variable. The results revealed coefficient of lag one of FDI inflows to be negative and individually significant at 10 percent level of significance an implication that the variables are important in determining foreign FDI inflows in the short run. The coefficient of lag three of FDI inflows is negative and individually significant at 10 percent level of significance implying that the variable is important in influencing FDI inflows in the short run. The coefficient of lag two of FDI inflows is positive and in isolation significant in determining FDI inflows. Further, the coefficient of lag two of external debt is negative and individually significant at 5 percent level of significance meaning lag two of external debt service is important determinant of FDI inflows in Kenya. This finding conforms to economic theory since high external debt servicing increases the cost of doing business through increased taxes in the economy. Since the cost of doing business is factored in investment decision by foreign investors, they consider destination with low cost of doing business. This finding is also in agreement with earlier studies for instance, that of Abala (2014), Ostadi and Ashja (2014), Udo and Obiora (2006) and Elbadawi et al. (1997). This finding however contradicts that of earlier study by Khrwash and Siam (2010) who found the coefficient of external debt service to be positive and significant in

determining FDI inflows. Lastly, the coefficient of lag three of GDP is negative and individually significant at 1 percent level of significance in determining FDI inflows in Kenya. This implies that lag three of GDP is important in determining FDI inflows in Kenya. This finding contradicts that of earlier study by Abala (2014) who showed the coefficient of real GDP to be positive and significant in determining FDI inflows in Kenya.

Conclusion and Recommendations

Kenya registered an impressive economic growth in 2014 where the economy grew by 5.3 per cent. Country's budget increased from KES 182 billion in 2013 to KES 213.9 billion in 2014. The increase in budget deficit resulted to an increase external debt which translated to an increase in external debt service by KES 391.9 billion during the same period.

FDI inflows are important for any developing country's economic growth. This is because most of the developing countries lack adequate savings for investment and they therefore rely on FDI inflows as source of funds for investment. Kenya's FDI inflows fluctuated between 1980 and 2014. Economic theory indicates that high debt service is harmful to an economy since it results to an increase in taxes which discourage foreign investors. Empirical investigation on this area has shown contradicting findings. This study therefore sought to investigate the effect of external debt service on FDI inflows in Kenya for the period running from 1980 to 2014.

The control variables used in the study were: gross fixed capital formation, inflation rate, exchange rate and real GDP. The study applied OLS in estimating long run cointegrating equation. The findings revealed that the coefficient of lag one and lag three of FDI inflows are negative and significant at 10 percent. In addition, the coefficient of lag two of external debt service was revealed to be negative and significant at 5 percent level of significance. This implies that external debt service is important in determining country's FDI inflows. Further, the coefficient of lag three of GDP was revealed to be negative and significant at 1 percent level of significance implying that real GDP is important determinant of country's FDI inflows. The study recommends that Kenyan government should not heavily rely on external debt which leads to high external debt service. The government should instead reduce her expenditure programs so as to reduce external debt service hence attracting FDI inflows.

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The Existing Forms of Permanent Establishment Under Vietnam Double Tax Agreements: A Comparative Approach

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Abstract

Permanent establishment is a standard for distribution of taxing rights over business profits of a foreign enterprise in international taxation context. As dated to 10/8/2016, Vietnam has concluded Double Taxation Agreements with 76 countries and territories which contained the permanent establishment under Article 5. In order to assist relevant countries in drafting double tax treaties, the OECD and the United Nations (UN) have contributedly released Model of Tax Conventions (the Models) which also included the permanent establishment article therein. Additionally, both OECD and UN have individually published the Commentaries of the Model Tax Conventions which have been accepted as international customary law for interpretation of tax treaties. This study aims to analyze several existing forms of permanent establishment under Vietnam Double Tax Agreements and Circular 205/2013/TT-BTC of the Ministry of Finance as the implementing guidance for these treaties. Further, the study explored different approaches of Vietnam Double Taxation Agreements in comparison to the Model Tax Conventions of OECD and UN in respect of permanent establishment existing forms. The results showed that Vietnam DTAs substantially supported the UN Model rather than the OECD Model. Moreover, a number of recommendations were proposed for amending and modifying the Circular 205/2013/TT-BTC to catch up with modern businesses.

Keywords: Permanent establishment, Model Tax Convention, Vietnam Double Tax Agreements.

1. Introduction

Pursuant to Article 7 of Vietnam Double Taxation Agreements (DTAs), the profits of an enterprise of a Contracting Party (foreign enterprise) shall be taxable only in that Party unless the enterprise carries on business in

the other Contracting Party through a permanent establishment situated therein. In this circumstance, the term “permanent establishment” means a fixed place of business through which the business of an enterprise is wholly or partly carried on (Li, 2013, p. 210). This definition is enshrined under Article 5(1) of Vietnam DTAs and Article 11 of Circular 205/2013/TT-BTC as the guiding document. Besides, these treaties are also to regulate the existing forms of a permanent establishment in the remains of Article 5. Particularly, the existing forms of a permanent establishment could be classified (Harris and Oliver, 2010, p. 136-152):

- “Fixed-place” businesses like a branch, an office, a factory, a workshop, a place of extraction of natural resources (Article 5(2));
- A building site, a construction, assembly or installation project (Article 5(3));
- Furnishing services (Article 5(3));
- Dependent agent (regularly Article. 5(5))
- Independent agent (regularly Article 5(6) or Article 5(7))

The existing forms of a permanent establishment are mostly similar under Vietnam DTAs since they have been essentially negotiated based on the Model Tax Conventions of OECD and UN. However, both of the Models did contain a few discrepancies, therefore, they would considerably impact the current Vietnam DTAs. The subsequent parts of this study planned to discuss comparatively several existing forms of permanent establishment. The statistics were conducted upon 68 in-forced tax agreements of Vietnam up to 10/8/2016.

2. Analysis of Several Existing Forms of Permanent Establishment under Vietnam Double Taxation Agreements

2.1 Natural Resources Extraction site and Exploration activities

Natural resources extraction site is included in all of Vietnam DTAs, for instance, Article 5(2f) of Vietnam - Singapore DTA stated: “The term permanent establishment includes especially:... (f) A mine, an oil or gas well, a quarry or any other place of **extraction of natural resources**” (Vietnam General Department of Taxation, 2013). However, in regard to exploration of natural resources, there are 48/68 DTAs¹ (70.5%) to stipulate this matter. For example, Article 5(2h) of Vietnam - Cuba DTA specified: ““The term permanent establishment includes especially:... (h) An installation structure or equipment used for **exploration of natural resources**” (Vietnam General

¹ Vietnam DTAs included exploration activities: (with) Austria, Bangladesh, Belarus, Brunei, Bulgaria, Canada, Cuba, Czech Republic, Finland, Hong Kong, Iceland, Indonesia, Ireland, Israel, Kazakhstan, North Korea, Kuwait, Morocco, Myanmar, Oman, Pakistan, Philippines, Qatar, Romani, Saudi Arabia, Seychelles, Spain, Sri Lanka, Tunisia, Ukraine, Uzbekistan, Venezuela, Uruguay, Malta, San Marino, and Azerbaijan.

Department of Taxation, 2013). Comparatively, both OECD Model and UN Model did not contain this kind of businesses in the recommended text, however, in their Commentaries, the natural resources exploration activities could be recognized as a form of permanent establishment if the Contracting Parties agreed to designate. OECD (Commentaries section, 2010) read: "... Since, however, it has not been possible to arrive at a common view on the basic of questions of the attribution of taxation rights and of the qualification of the income from exploration activities, the Contracting States may agree upon the insertion of specific provisions" p. 99.

It is acceptable to enumerate a number of extraction locations like a mine, a quarry or gas well in the Article 5(2), however, it is also necessary to elucidate the phrase "any other place of extraction of natural resources" in this Article. It is assumed that this Article aimed to recognize the in-situs forms of resources extraction activities, however, a place of natural resources extraction could actually be extended as sizable as thousands hectare of forest or a large maritime zone used for marine exploitation. A few Vietnam DTAs also contained explicitly other types of nature extraction activities like a farm or plantation (Brunei, Indonesia, Qatar, Romania); a farm or plantation or place of extraction of timber/forest products (Myanmar, Malaysia); an agricultural, pastoral, and forestry property (Australia). Therefore, the phrase "any other place of extraction of natural resources" should be extended to all types of natural extraction activities instead of "permanent" character like the current Vietnam DTAs mentioned (OECD, Commentaries section, 2010, p. 98-99).

Additionally, it is observable that the foreign enterprise has to establish or acquire a building site or a construction project (regulated subsequently by Article 5(3) of Vietnam DTAs) before operating the exploitation or exploration businesses. Consequently, there are three possible scenarios that could be envisaged such as: (1) the construction project and the extraction activities are carried by the foreign enterprise itself; (2) the extraction business is carried by the foreign enterprise but the construction project was conducted by other enterprises; and (3) the extraction activities are carried through a leased extracting site of other enterprises. Thus, it is critical to contain the guidance for these circumstances in terms of determination of permanent establishment under Circular 205/2013/TT-BTC.

2.2 Building Site, Construction or Installation Project

Building site, construction or installation project of a foreign enterprise has actually posed a question for original concept of permanent establishment as an in-situs form (Keith R. Evans, 2002, p. 506). Conceptually, these kind of businesses could be conducted across numerous of working locations which are geographically distributed for a whole construction project (e.g. road construction) (OECD, Commentaries section, 2010, p. 101). As a result, it is

necessary to rule the building site, construction or installation project under a specific paragraph of Article 5 of DTAs. For instance, Article 5(3a) of Vietnam – Netherlands DTA states: “The term "permanent establishment" likewise encompasses: ... a building site, construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than six months” (Vietnam General Department of Taxation, 2013). The Circular 205/2013/TT-BTC was texted similarly to this Article but the required period for constituting a permanent establishment would particularly depend on individual DTA (6 months or 3 months accordingly). There are several legal aspects for determination of building site or construction project as a permanent establishment.

First, the regulatory objects of the mentioned regulation are building site, construction or installation project and supervisory activities which marginally varies among Vietnam DTAs. Statistically, 6/68 DTAs (9%) (with Laos, Singapore, South Korea, France, Germany, and the UK) ruled that a building site, construction, assembly or installation project of a foreign enterprise could be recognized as a permanent establishment in a Contracting State while the remained DTAs (62/68 – 91%)² did include **supervisory activities**. In comparison to the Models, OECD approach was likewise to the minor group while UN approach supported the overwhelming one. However, both Vietnam DTAs and the Circular 205/2013/TT-BTC did not envisage the future maintenance or repairing activities for previous building site, construction or installation project. In this situation, OECD recommended that these after-sale organisations perform an essential and significant part of the services of an enterprise vis-à-vis its customers, their activities are not merely auxiliary ones (OECD, Commentaries section, 2010, p. 103). It means that if the foreign enterprise backed to previous building site or construction project to provide maintenance services, this type of businesses could expectedly constitute a permanent establishment of the foreign enterprise.

Second, the existing period to constitute a permanent establishment for a building site or construction or installation project is slightly deviated among Vietnam DTAs. Accordingly, 65/68 (95.5%)³ DTAs accepted six months

² Vietnam DTAs included supervisory activities: (with) Australia, Austria, Bangladesh, Belarus, Belgium, Brunei, Bulgaria, Canada, China, Cuba, Czech Republic, Denmark, Finland, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italia, Japan, North Korea, Kuwait, Luxembourg, Malaysia, Mongolia, Morocco, Myanmar, Netherlands, New Zealand, Norway, Oman, Pakistan, Palestine, Philippines, Poland, Qatar, Romani, Russia, Saudi Arabia, Seychelles, Slovak, Spain, Sri Lanka, Sweden, Switzerland, Taipei, Thailand, Tunisia, U.A.E, United Kingdom, Ukraine, Uzbekistan, Venezuela, Uruguay, Malta, San Marino, Iran, Serbia, Kazakhstan, Mozambique, Azerbaijan

³ Vietnam DTAs regulated six months period (or above 183 days) for a building site or construction or installation project: (with) Australia, Austria, Bangladesh, Belarus, Belgium,

period (or above 183 days) while three of the DTAs specified different formula: above three months (Philippines) and above 60 days of a twelve months period (Sri Lanka); and above 6 months of a twelve months period (Palestine). In relation to this aspect, OECD Model and UN Model did contain different requirements: twelve months and six months period respectively. Thus, it is perceptible that all of the Vietnam DTAs have approached in favor of UN Model or a less time-demand criteria.

Third, it is regulatory that a building site, construction or installation project could be conducted by a general contractor – subcontractor relationship. The Vietnam DTAs certainly did not contain this very specific case while the Circular 205/2013/TT-BTC clarified: “... a subcontractor of a Contracting Party participates to a building site, construction or installation project [which a foreign enterprise of a Contracting Party conducted as a general contractor], such subcontractor could constitute a permanent establishment if the conditions specified in 2.1.1.1 are fulfilled”.

“The existing period to determine a permanent establishment for a general contractor would be the cumulative time of the subcontractors and the general contractor”. However, it is questionable that if the operation of a building site, construction or installation project does not recognize between a general contractor and subcontractors, how could the existing period for permanent establishment be calculated?

2.3 Dependent Agent

A foreign enterprise could practically conduct its businesses in Vietnam through a dependent agent which does not fulfill the “in-situs” criteria for constituting a permanent establishment. For example, an employee could, on behalf of the foreign enterprise, negotiate and conclude contracts or representatively delivers goods or merchandises. Vietnam DTAs did regulate these business activities but there are different approaches among Vietnam tax treaties. Comparatively, Article 5(5) of OECD Model just included the activity of concluding contracts on behalf of foreign enterprise while the UN Model contained both concluding contracts and delivering goods or merchandises on behalf of the foreign enterprise. Statistically, 11/68 (16.1%)⁴ Vietnam DTAs

Brunei, Bulgaria, Canada, China, Cuba, Czech Republic, Demark, Finland, France, Germany, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italia, Japan, North Korea, Kuwait, Lao RDP, Luxembourg, Malaysia, Mongolia, Morocco, Myanmar, Netherlands, New Zealand, Norway, Oman, Pakistan, Poland, Qatar, Romani, Russia, Saudi Arabia, Seychelles, Singapore, Slovak, South Korea, Spain, Sweden, Switzerland, Taipei, Thailand, Tunisia, U.A.E, United Kingdom, Ukraine, Uzbekistan, Venezuela, Uruguay, Malta, San Marino, Iran, Serbia, Kazakhstan, Mozambique, Azerbaijan

⁴ Vietnam DTAs supported OECD Model: (with) China, France, Germany, Lao RPD, Singapore, South Korea, Taipei, Thailand, the UK, Venezuela, and Iran.

followed the OECD Model; 48/68 (70.5%)⁵ Vietnam DTAs approached as UN Model; the remained agreements indicated several different approaches⁶.

In terms of the representative entities, a foreign enterprise could carried its businesses in Vietnam by a physical person and another enterprise. In case of physical person, it is necessary to clarify several aspects for constitution of a permanent establishment as a dependent agent.

First, it is essential to emphasize that the dependent agent could be an employee of the foreign enterprise or not. In other words, the formal employmentship with the foreign enterprise is not a matter if an agent representatively concluded contracts or delivers goods or merchandises on behalf of the foreign enterprise (OECD, Commentaries section, 2010, p. 105). In this circumstance, it is also unnecessary to require the residential status of this agent in Vietnam if the agent could finish his or her representative tasks. The Circular 205/2013/TT-BTC does not mention these issues, therefore, such clarifications are useful to suggest.

Second, a dependent agent is actually entitled to conclude contracts or deliver goods or merchandises on behalf of the foreign enterprise. All of Vietnam DTAs similarly use the term “conclude contracts” in the Article 5, however, the Circular 205/2013/TT-BTC does contain “**negotiate**, conclude contracts”. Thus, it can be debatable whether the dependent agent has to complete all stages of contract completion including drafting, negotiating, and concluding with business partners or just simply conclude these contracts?

As guidance by OECD, an agent who has already negotiated all aspects and details of the contracts is deemed to be on behalf of the foreign enterprise although such contracts are concluded by other designated entities (OECD, Commentaries section, 2010, p. 106). In addition, Committee of Experts on International Cooperation in Tax Matters (UN) likewise explained that the representative criteria is fulfilled if an agent has already negotiated the main

5 Vietnam DTAs supported UN Model: (with) Austria, Bangladesh, Belarus, Belgium, Brunei, Bulgaria, Canada, Cuba, Czech Republic, Denmark, Finland, Hong Kong, Hungary, Iceland, India, Ireland, Israel, Italia, Japan, North Korea, Luxembourg, Mongolia, Morocco, Myanmar, Netherlands, Norway, Oman, Pakistan, Palestine, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Seychelles, Slovak, Sweden, Switzerland, Tunisia, Ukraine, Uzbekistan, Uruguay, Malta, San Marino, Serbia, Kazakhstan, Mozambique, Azerbaijan

6 Vietnam DTAs with **Indonesia, Malaysia, Palestine and New Zealand** approached similarly to UN Model but included the manufacturing or processing for foreign enterprise; **Kuwait** approached like four mentioned DTAs but included maintaining orders exclusively or almost exclusively for foreign enterprise; **UAE and Sri Lanka** also approached likewise to UN Model but included maintaining orders exclusively or almost exclusively for foreign enterprise; **Australia** supported OECD Model but included the manufacturing or processing for foreign enterprise; and **Spain** approached similarly to UN Model but the activities of delivering goods or merchandises have to combine with another sale-related activity (such as advertising, promotion, or after-sales services).

features of contracts regardless to supplementary matters (Committee of Experts, 2008, p. 20). Comparatively, the text of Circular 205/2013/TT-BTC is to meet the OECD and UN recommendations but more extensive than the Vietnam DTAs. However, it is questionable that whether this clarification from Circular 205/2013/TT-BTC legally contradicts to the Vietnam DTAs or not?

Third, a dependent agent is demanded to exercise its businesses in a regular basis. However, the current question is how to determine the regularity character? It could be the frequency of contracts' conclusion on behalf of the foreign enterprise or the available period of the representative in Vietnam? It is acceptable that both the Vietnam DTAs and the Circular 205/2013/TT-BTC do not mention this issue because the regularity character should specifically depends on the nature of the contracts and the business of the principal (OECD, Commentaries section, 2010, p. 106). For example, an agent (from a Contracting State) who has concluded seasonal-lychees exporting contracts on behalf of the foreign enterprise in Vietnam. Since such special fruit has been seasonally harvested, the representative tasks could be vacant in the non-lychees period. As a result, such vacancy could not be realized as the intermittent while determining a permanent establishment.

Fourth, the representative tasks are to conclude contracts or deliver goods or merchandises. OECD recommends that the representative tasks should be limited to the business contracts of the foreign enterprise. In other words, the representative tasks have to support the foreign enterprise for market penetration purposes (P. McGill and D. Yoder, 2003, p.146). Consequently, if the business-irrelevant contracts are concluded by an agent on behalf of the foreign enterprise, such activities should not be countable for determination of a permanent establishment. For instances, a training contract of an UK steel production enterprise is concluded by a representative in Vietnam. Because such contract is irrelevant to steel production business, this representative could not formally constitute a permanent establishment in Vietnam as a dependent agent.

Finally, it is possible to include on-spot import/export activities as a dependent agent of foreign enterprise in Vietnam. Article 2(4) of Circular 196/2012/TT-BTC defined on-spot import/export is a domestic enterprise (exported enterprise) delivers their exporting goods or merchandises to other domestic enterprises by the authorization of a foreign enterprise (an imported enterprise). Observably, the activities of delivering goods or merchandises on behalf of a foreign enterprise do exist in this circumstance, therefore, this agent of the foreign enterprise could constitute a permanent establishment in Vietnam. Similarly, as a guidance document, Circular 205/2013/TT-BTC ruled that a Vietnam joint venture company or 100% foreign-capitalized

company could be a permanent establishment if they carry on-spot import/export in Vietnam on behalf of a foreign enterprise.

Practically, an Official Correspondence No.2581/CT-TT&HT (28/3/2012) from Vietnam General Department of Taxation to Department of Taxation of Binh Duong Province about tax duties of Chin Hsin Limited Company explained that: "... in case of the Company (Chin Hsin) bought products from a foreign enterprise but these goods or merchandises are regularly delivered by another Vietnam Company on behalf of the foreign enterprise. This Vietnam Company deems legally to be a permanent establishment of such foreign enterprise in Vietnam...".

In conclusion, an agent who on behalf of the foreign enterprise concluded contracts or representatively delivers goods or merchandises in Vietnam could constitute a dependent agent of this enterprise which is characterized as an existing form of permanent establishment pursuant to Vietnam DTAs.

2.4 Furnishing services

Pursuant to Article 3(1) of Vietnam Commercial Law 2005, services is a type of commercial activities, therefore, a permanent establishment definitely deems to exist if a foreign enterprise has furnished its services in Vietnam. Article 5(4) of Vietnam – Sweden DTA read: "Notwithstanding paragraphs 1 and 2 the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, always constitutes a permanent establishment where activities of that nature continue (for the same or a connected project) within the country for a period or periods aggregating more than six months within any twelve month period." (Vietnam General Department of Taxation, 2013)

OECD Models (2003, 2008, and 2010) did not contain any regulations relating to furnishing services as well as the existing period of this commercial activity for constitution a permanent establishment. OECD mentioned that furnishing services should be characterized as other existing forms of permanent establishment if it meets all criteria of Article 5(1) of the DTAs (OECD, Commentaries section, 2010, p. 113). There are 18/68 (26.5%)⁷ Vietnam DTAs regulated as OECD Model. In contrast, the UN Model (2001, 2011) did include furnishing services as a form of permanent establishment in Article 5(3b) in which the existing period is specified as "The furnishing of services, including consultancy services, by an enterprise through employees

7 Vietnam DTAs supported OECD Model: (with) Australia, Austria, Bangladesh, Bulgaria, France, Germany, India, Lao RDP, Malaysia, Morocco, Pakistan, Palestine, South Korea, Sri Lanka, Taipei, Thailand, United Kingdom, Venezuela

or other personnel engaged by the enterprise for such purpose, but only if activities of that nature continue (for the same or a connected project) within a Contracting State for a period or periods aggregating more than 183 days in any 12-month period”. There are 47/68 (69.1%)⁸ Vietnam DTAs agreeing with the UN Model. The remained tax agreements did comprise furnishing services but in different time period requirements - 3 months in any 12-months period (Indonesia); more than 12 months (Russia); and 180 days in any 12-months period (Hong Kong).

The Circular 205/2013/TT-BTC interpreted this issue similarly to UN Model, however, it also included the flexibility in determination of permanent establishment as: “... however, according to the nature of the services furnished, the existing period of these services can be less than six months in a twelve months period, in this circumstance, the permanent establishment still deems to exist if the general criteria are fulfilled as regulated by paragraph 1.2.1 (of Article11)”

3. Conclusion and recommendations

Regulations of existing forms of permanent establishment are divergent under Vietnam DTAs. The main reason is assumed that all of Vietnam DTAs have been drafted significantly based on both OECD and UN Model Tax Convention; and they visibly comprised different approaches. There are also some inconsiderable regulatory changes in a few of Vietnam DTAs. Statistically, Vietnam DTAs have significantly approached in favour of UN Model rather than OECD Model with regard to existing forms of permanent establishment. The text of Vietnam DTAs somewhere incurred ambiguity while the guidance document - Circular 205/2013/TT-BTC - did not contain appropriate clarifications. A number of recommendations for amending and modifying Circular 205/2013/TT-BTC should be as follow:

First, in respect of natural resources extraction site, since constructing activities have to be included at the beginning stage of the extraction operation, therefore, the Circular 205/2013/TT-BTC should clarify this kind of preparatory works. If the constructing activities was conducted by other enterprises, the permanent establishment deems to exist as a natural resources extraction site since the extracting activities actually took place. In case of the exploiting enterprise conducted both constructing and extracting activities, the constructing time would be deductible while identifying as a permanent

⁸ Vietnam DTAs supported UN Model: (with) Belarus, Belgium, Brunei, Canada, China, Cuba, Czech, Denmark, Finland, Hungary, Iceland, Ireland, Israel, Italia, Japan, North Korea, Kuwait, Luxembourg, Mongolia, Myanmar, Netherlands, New Zealand, Oman, Philippines, Poland, Qatar, Romania, Saudi Arabia, Seychelles, Slovak, Spain, Sweden, Switzerland, Tunisia, U.A.E, Ukraine, Uzbekistan, Norway, Uruguay, Singapore, Malta, San Marino, Iran, Azerbaijan, Serbia, Mozambique, Kazakhstan.

establishment because of preparatory or auxiliary activities as stipulated under Article 5(4) of Vietnam DTAs.

Second, in respect of building site, construction or installation project, the Circular 205/2013/TT-BTC did not envisage the case of the non-distinction between general contractor and subcontractors within a project. In this situation, the Circular should stipulate that if the building or constructing project does not legally recognize between a general contractor and subcontractors, all of participating contractors deems to be a partnership as a whole. As a result, the attributable time for constitution of permanent establishment for every contractor would be the aggregate time of the whole building or constructing operation (OECD, Commentaries section, 2010, p. 100)

Third, in respect of dependent agent, some aspects of Circular 205/2013/TT-BTC should be revised or modified:

- It is necessary to review the phrase “**negotiate and conclude** contract” (Article 11(1.2.2đ)) in case of identifying a dependent agent. The arising question here is whether or not this guiding text contradicts to Vietnam DTAs since all of the DTAs does contain “**conclude** contract” only.

- The Circular 205/2013/TT-BTC should limit the representative scope of a dependent agent to the business contracts only. In other words, a permanent establishment deems to exist if a representative conclude or execute business contracts on behalf of foreign enterprise. Otherwise, non-business contracts like concluding training or professional exchange contracts on behalf of the foreign enterprise should not be characterized as a permanent establishment.

In case of determination of on-spot export/import as permanent establishment, besides requirements of delivering of goods or merchandises on behalf of foreign enterprise and the frequency character, it is essential to examine the exclusiveness of such conducts. It means the dependent agent have to represent exclusively for the foreign enterprise in delivering goods or merchandises. In addition, the dependent agent should extend to all forms of company which have de jure or de facto carried their businesses in Vietnam instead of only 100% foreign-capitalized and joint venture companies as regulated by Circular 205/2013/TT-BTC.

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The Network Matters: Social Media Networks and Political Expression

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Abstract

Political engagement on social media is an important way for many individuals to express their political opinions and beliefs. Research has not fully explained the mechanism by which individuals use social media for political purposes. The 2012 U.S. Presidential Election provided a useful context to understand this mechanism. Thus, the study uses a representative survey sample of U.S. adults to examine the importance of the social media network on individuals' political expression on these sites. After controlling for a host of demographic and attention to news media variables, the results suggest the more individuals' social media network expresses themselves politically on social media, the more likely individuals express themselves too.

Keywords: Social Media, Political Participation, News.

Introduction

Although individual attributes contribute to engagement in political behavior, with which individuals exchange information and opinions about politics is also important (Huckfeldt & Sprague, 1991). As Granovetter (1973) argues, weak ties can play an indispensable role in integrating individuals into a social structure. The broader their social networks, the more likely they expose themselves to larger environments of public opinion; therefore, individuals' social network construction filters information about news and politics (Huckfeldt, Beck, Dalton, & Levine, 1995). People oftentimes do not randomly choose their networks from which they obtain information; rather, they seek out social environments that correspond with their personal attitudes and opinions about politics. However, individuals cannot always completely control the networks from which they receive information and opinions (Huckfeldt & Sprague, 1987). In general, the more individuals connect with others, the more they will seek out political information (Chaffee & McLeod, 1973).

A host of factors explains the extent to which social networks affect political engagement. For example, the level of respect one has for someone in his or her network as well as the frequency with which he or she receives information from someone is important. In addition, social networks' distribution of information and opinions will affect individuals differently depending on the political issue (Kenny, 1993). Moreover, the types of information individuals' social networks share and the timing of sharing information during political campaigns or events contribute to its influence (MacKuen & Brown, 1987).

This study considers the role of the social media network on political expression online during the 2012 United States Presidential Election. Specifically, a survey of United States individuals examines whether exposure to their social media networks' political expression fosters individuals' own political expression on these sites. Knowing social networks play an important role in peoples' political engagement, examining these relationships on social media is worthwhile. These online networks and the resources they provide refer to individuals' social capital, a concept that has received much scholarly attention. The following sections define social capital and then examine the relationships between social media and social capital production.

Literature Review

Robert Putnam's social capital definition emphasizes the connections among individuals—the social networks and norms of reciprocity and trustworthiness from them (Putnam, 2000). “Bonding” social capital includes close-knit groups and “bridging” social capital occurring through looser networks but with the potential to produce broader connectedness and reciprocity. Information is a key resource of social capital; the current study notes the importance of information exchange on social media.

The relationship between social capital and civic engagement is positive, and these relationships can represent a “virtuous” or “vicious” cycle (Brehm & Rahn, 1997). Individuals who are connected to social groups likely benefit the most from social capital, and the social groups to which these people belong likely influence their civic behavior (Portes, 1998). Resources from individuals' social networks have a positive influence on the ways in which individuals gather and make sense of information (Lin, 1999). The more individuals connect with others and the more those social connections can foster information exchange, the more likely individuals will participate in civic and political activities. Online communication, more specifically social media, affords individuals immersive ways to exchange information with their network; therefore, scholars have examined the implications of this phenomenon.

Social media afford individuals distinct ways to communicate and establish social connections with others. A networked public sphere, largely comprised on online social networks, allows individuals the opportunity to be reflective about communication in which they engage (Friedland, Hove & Rojas, 2006). These social networks (facilitated by social media) significantly alter the ways in which we understand communicative behavior. Individuals connect with those with whom they already have a relationship or encounter individuals they do not know well.

In this online space with social connections, individuals will present themselves in ways that invites others to connect with them. Individuals have control over their online social networks, so they will seek out and try to connect with certain people. Although individuals may not greatly increase the number of strong ties (bonding social capital), they are more likely to develop weak tie relationships (Donath & boyd, 2004). Merely visiting social media may not be good at enhancing proximal relationships but helpful in expanding individuals' network diversity (Hampton, Lee & Her, 2011).

Scholars have examined the social capital benefits of Facebook in depth, primarily because it is a popular social medium. Young people using Facebook report high levels of social capital (Ellison, Steinfield, & Lampe, 2007). The more individuals use Facebook, the more Facebook friends they have, and the more they feel emotionally connected to the site, the more likely they develop loose ties and networks associated with bridging social capital (Steinfield, Ellison & Lampe, 2008). Importantly, their methodological approach suggests individuals' social media engagement influences or affects their reported social capital.

Social media offer a variety of social capital enhancing activities; thus, considering specific activities is important. Facebook's social capital benefits are most likely do to the ways in which individuals use the site, not users' demographic characteristics, suggesting a direct relationship (Valenzuela, Park & Kee, 2009). For example, joining groups is one popular activity that Facebook users can participate in, and doing so results in creating social connections (Park, Kee & Valenzuela, 2009). These activities allow individuals to connect with people they know well and those with whom they are only acquainted. The extent to which using sites like Facebook contribute to individuals' social capital depends on more than their established online social network on the site (e.g., friends). Users must continuously monitor and engage with their connections and attempt to interact with connections of connections (Ellison, Vitak, Gray & Lampe, 2014).

Social-mediated social capital contributes to political expression online. People can view their online social networks behavior, such as sharing news information and expressing opinions about current affairs. In turn, individuals can use that information and opinion expression to share their

own information and opinions about news and politics. The more people interact with others online and feel connected to them, the more likely they are to participate politically online (Skoric, Ying, & Ng, 2009). Viewing online political discussions on political blogs and socially connecting with other blogs users encourages individuals' own political expression on blogs (Greuling & Kilian, 2014) as well as other forms of online engagement, including emailing others to vote during elections, signing online petitions and giving money online (Gil de Zúñiga, Puig-I-Abril & Rojas, 2009). The more individuals attend to news and information sharing via social media, the more likely they are to engage in their own political expression online (Gil de Zúñiga, Jung, & Valenzuela, 2012). The relationship holds true for participating politically on social media specifically, as engaging with online social networks is strongly related to displaying political preferences, friending candidates, joining a cause or political and other activities on social media (Bode, Vraga, Borah and Shah, 2013).

In summary, the relationship between social media use and social capital is positive, suggesting the more individuals use social media, the more they acquire benefits associated with social connections and norms of reciprocity. Social media afford individuals opportunities to connect with others with whom they already have a strong connection as well as people and organizations with whom they are not intimately connected. Social media users can view their online networks engaging in sharing behavior, including posting about news and politics and sharing opinions about current events. Individuals coming across this shared information via online social networks tend to engage in online political expressive behaviors themselves.

In addition to social capital predicting online expressive political behavior, motivations for using social media in certain ways also relates to online expression. For example, the more individuals fulfilling motivations for using social media to share information, the more they tend to post links to news media. Other motivations, including entertainment and passing time, are not related (Baek, Holton, Harp & Yaschur, 2011, Lee & Ma, 2012). Attention to traditional news media also plays a role in social media expression, but their effects may not be universal. For example, attention to a variety of news sources relates to online monetary contributions to campaigns and signing up online to volunteer for campaigns and issues (Gil de Zúñiga, Jung, & Valenzuela, 2012). In some situations, attention to online news predicts political expression online, but attention to newspapers and television news does not (Gil de Zúñiga, Puig-I-Abril & Rojas, 2009; Skoric, Ying, & Ng, 2009; Gil de Zúñiga, Veenstra, Vraga & Shah, 2010). Considering political behavior on social media specifically, for some users, attention to television news may be negatively related to posting links to

political news stories, but attention to print news may be positively related to status updates including political content (Macafee, 2013).

Overall, previous literature suggests individuals fulfilling information seeking and sharing motivations for using social media tend to engage in online expressive behavior on these sites. Individuals' with other motivation for using social media, such as to be entertained and to pass time, are unrelated online political expression. Regarding attention to news, those who seek information online are also those who engage politically online. The relationship between attention to traditional news sources, such as newspapers and television, and online political expression may be less clear.

Hypotheses

Therefore, this study builds on previous literature surrounding the relationships between information exchange motivations for using social media, attention to news and social capital and individuals' social media political expressive behavior. The current study uses individuals' exposure to their online social networks' expressive political social media behavior as a proxy of social capital. The resources individuals obtain from their online social networks sharing information and opinions about politics provides a unique approach to examine the influence it has on their own social media political expression.

H1: Attention to online news is positively related to individuals' social media expressive behavior

H2: Individuals' information exchange motivation for using social media is positively related to individuals' social media expressive behavior

H3: Exposure to individuals' social media networks expressive behavior is positively related to individuals' own social media expressive behavior

Methods

Sample

To build the study's measures, the study first administered an online pilot survey of U.S. adults ($N = 75$), asking open-ended questions about reasons they use social media, activities in which they participate on social media, and in what ways they express themselves politically, offline and online. Using the pilot data as well as previous established measures, the study used Qualtrics to survey a more representative sample of U.S. adults ($n = 501$) shortly after the 2012 U.S. Presidential Election. Qualtrics collaborates with market research companies that recruit individuals to take surveys for compensation, and the study established quotas to match the demographic characteristics of U.S. citizens (e.g., sex, education).⁹ The

⁹ U.S. census bureau survey information taken from

survey was funded by a grant from the Journal Foundation used to compensate Qualtrics for fielding the survey.

Measures

Demographics

The study uses common demographic characteristics as control variables, including age, gender, race, education, income and political ideology. The survey asked respondents to list their age, and I coded responses into the following categories: 1 = 17 to 24; 2 = 25 to 34; 3 = 35 to 44; 4 = 45 to 54; 5 = 55 to 64 ($M = 39.66$ years old; $SD = 12.89$ years. Half (i.e., 50.1 percent) of the respondents were female, and a large majority of the current study's respondents reported themselves as Caucasian (79.2 percent). The remaining respondents comprise individuals of all other races (20.8 percent). Respondents' education used a common scale: 1 = high school incomplete; 2 = high school graduate; 3 = technical, trade or vocational school after high school; 4 = some college, no four-year degree; 5 = college graduate; 6 = post-training/professional school after college ($M = 3.62$; $SD = 1.33$). Respondents in the current study also reported in what annual household income bracket they fell: 0 = less than \$10,000; 1 = \$10,000 to under \$20,000; 2 = \$20,000 to under \$30,000; 3 = \$30,000 to under \$40,000; 4 = \$40,000 to under \$50,000; 5 = \$50,000 to under \$75,000; 6 = \$75,000 to under \$100,000; 7 = \$100,000 to under \$150,000; 8 = \$150,000 and more ($M = 4.19$; $SD = 2.04$). Lastly, respondents reported being slightly more conservative in their political ideology: 1 = very conservative; 5 = very liberal ($M = 2.80$; $SD = .95$).

Social media motivations

The survey asked respondents 10 questions regarding their agreement (0 = strongly disagree; 5 = strongly agree) regarding their reasons about why they used social media, including to keep in touch with family and friends, to get information and news, to share opinions and information, because of boredom, convenience and habit-formation, and to be entertained. Initially, the study hoped to create several variables measuring different motivations for using social media, resembling motivation variables used in studies examining similar phenomenon. These variables included motivations for social connection, information gathering and self-presentation. Exploratory and confirmatory factor analyses suggest motivations for using social media may not be distinct. Specifically, items measuring motivations to gather and share information loaded on one factor, while the items measuring a social connection motivation do not load strongly on any factor.

In addition, although items associated with a passing time motivation may suggest a second factor, the study chose to eliminate that motivation due to the “messiness” of individuals’ motivations for using social media. Specifically, people can visit social media to fulfill different motivations all at once. The interactive features social media afford can fulfill users’ motivations associated with social connections, information exchange, and entertainment and leisure simultaneously. For example, users can post social media status updates to fulfill motivations to share information at the same time hoping to fulfill motivations to seek information from their online social networks. Likewise, individuals can read Facebook or Twitter news feeds to fulfill motivations to seek information and be entertained. Previous research has demonstrated a significant relationship between motivations associated with information exchange and attention to online news; therefore, the study attempts to build on these findings.

Thus, the study uses a single social media motivation variable comprising four items tapping an information exchange motivations for using these media: get information; get news; share opinions; share information ($M = 13.44$; $SD = 5.52$; $\alpha = .92$). These four items load cleanly on one factor, with all factor loadings over .78. Table 1 presents the initial confirmatory factor analysis.

Table 1: Motivation Factor Analysis

<i>Pattern Matrix</i>		
To keep in touch with family and friends	.412	.219
To connect with others socially	.587	.217
To get information	.708	.123
To get news	.749	.052
To share opinions	.952	-.047
To share information	1.025	-.119
Because of boredom	-.028	.703
Because it is convenient	.244	.623
Because it is habit-forming	-.027	.840

Note: Maximum-likelihood with promax rotation for confirmatory analysis

Attention to news

The study also included attention to news, broadcast, print and online. Attention to TV news is an additive index of two items asking respondents how often (0 = never; 5 = frequently) they received news from local news and national television news broadcasts ($M = 7.39$; $SD = 2.72$; $r = .77$). Attention to print news is an additive index of three items using the same scale for receiving news from print versions of local newspapers, national newspapers and news magazines ($M = 6.26$; $SD = 4.40$; $\alpha = .84$). Attention to online news is an additive index of five items using the same scale for

receiving news from local, national and cable TV news websites, portal news websites and prominent news weblogs ($M = 14.30$; $SD = 6.44$; $\alpha = .81$).

Social media political participation

The study wanted to measure respondents' perceptions about other social media users' political behavior and respondents' own social media political activity. To do so, this survey asked how often (0 = never; 5 = frequently) respondents saw other social media users participate in five activities (i.e., post political comments; post political news; post political pictures; "like" something political; sign a political petition) of expressive social media behavior during the 2012 elections ($M = 14.84$; $SD = 7.50$; $\alpha = .94$). Similarly, respondents answered the same set of questions for their own political behavior during the 2012 elections ($M = 10.42$; $SD = 8.06$; $\alpha = .94$). The study did not want to include any information-seeking behavior to avoid conflating online information seeking behavior with social media political engagement. Table 2 presents the variables of interest descriptive statistics, and Table 3 presents the correlations among the variables.

Table 2: Variables Descriptive Statistics

	Mean	Standard Deviation	Cronbach's Alpha
<i>Social Media Political Expression</i>			
Networks'	14.84	7.50	.94
Self	10.42	8.06	.94

Table 3: Variable Correlations

	Networks' Expressive Behavior	Self's Expressive Behavior
Age	-.18*	-.30*
Gender	-.02	.05
Race	-.07	-.24*
Education	.09	.04
Income	.08	.02
Ideology	-.04	-.06
TV News	.15*	.22*
Print News	.31*	.47*
Motivation	.45*	.54*
Online News	.36*	.54*
Networks' Expression	-	.57*

Note: * $p < .01$

Results

To answer H1-3, the current study used regression analyses with four variable blocks. The model is significant ($F = 54.05$; $p < .001$; $df = 11$),

explaining about 54 percent of the variance in the dependent variable. The first block includes control variables, including individuals' demographic characteristics and attention to television and print news. The second variable block includes the information exchange motivation variable, and the third block includes attention to online news. The fourth and final block includes the extent to which respondents' viewed their social media networks engage in political expression on the sites.

Considering the controls block, age ($\beta = -.23$; $p < .001$) and attention to television ($\beta = .11$; $p < .01$) and print ($\beta = .38$; $p < .001$) news is related. When adding the information exchange motivation variable, age and attention to print news retain their significance. Notably, gender becomes significantly related ($\beta = .11$; $p < .01$), and attention to television news loses its significance. The information exchange motivation variable shows a strong, positive relationship ($\beta = .43$; $p < .001$). For the third block, age, gender, attention to print news and the motivation variable all retain their significance. Attention to online news is also positively related ($\beta = .24$; $p < .001$). In the fourth and final block, age and gender along with the motivation and attention to news variables retain their significance. In addition, the more respondents' see their social media networks engaging in political expression, the more likely they are to do the same ($\beta = .32$; $p < .001$).

Overall, the results suggest certain factors lead people to use social media to engage with politics. Namely, these individuals are slightly younger than their older counterparts are and perhaps more likely to be male. In addition, they visit social media to fulfill motivation to seek and share information with others, and they pay attention to different types of news media. Lastly, respondents' social media networks tend to express themselves politically on these sites, and exposure to this expressive behavior has a significant impact on their own political expression on social media.

The results support H1, with attention to online news positively related to respondents' social media political expression. The results also support H2, as individuals who visit social media to fulfill motivations involving information exchange are also those who used the sites to engage with politics during the 2012 elections. Lastly, individuals who came across political expression and information sharing via their social media networks were more likely to use the sites themselves to participate politically, providing support for H3. Table 4 presents the regression results.

Table 4: Self Social Media Political Expression Regression

	Model 1	Model 2	Model 3	Model 4
	<i>B</i>	<i>B</i>	<i>B</i>	<i>B</i>
Age	-.23***	-.18***	-.15***	-.12***
Gender	.06	.11**	.11**	.10**
Race	-.08	-.07	-.07	-.08*
Education	-.06	-.01	-.03	-.05
Income	.02	.06	.04	.01
Ideology	-.05	-.04	-.03	-.03
TV News	.11**	.02	-.02	-.01
Print News	.38***	.27***	.19***	.15***
Motivation		.43***	.35***	.23***
Online News			.24***	.21***
Networks' Expression				.32***
<i>Adj. R</i> ²	.28	.43	.46	.54

Note: * p < .05; ** p < .01; *** p < .001

Discussion

Scholars have largely determined the importance of social media in contemporary U.S. politics. However, research has not robustly explained the underlying mechanisms that facilitate individuals' social media political expression. The 2012 U.S. Presidential Election provided a useful to help explain this socio-political phenomenon, and the current study demonstrates important relationships between news, motivations, networks, and political expression on social media.

The more people pay attention to print and online news and fulfill information exchange motivations when visiting social media, the more they participate in social media political expression. Individuals who are in tune with what is happening in their community and beyond likely have the knowledge and interest to take up opportunities to express themselves politically via social media. The results compliment previous research illustrating a relationship between attention to news media and online participation, including that which takes place on social media (Gil de Zúñiga, Puig-I-Abril & Rojas, 2009; Gil de Zúñiga, Veenstra, Vraga & Shah, 2010; Macafee, 2013). In addition, the study supports scholars who suggest information seeking and sharing motivations spur engaging in political expression on social media (Baek, Holton, Harp & Yaschur, 2011; Lee & Ma, 2012). Social media afford users numerous opportunities to share political

news and opinions with their social networks and show support for political actors and issues. Thus, it makes sense that people who are motivated to use social media to exchange news and information with others would use these web sites to express themselves in politically.

However, similar to these studies, the medium through which individuals watched news may matter. The results suggest attention to print and online news relates to social media political participation, but watching television news does not. The current study suggests scholars should continue to consider the role of attention to news with distinct types of news, considering medium as well as partisan news sources (see Gil de Zúñiga, Puig-I-Abril & Rojas, 2009; Gil de Zúñiga, Veenstra, Vraga & Shah, 2010, Macafee, 2013). Furthermore, the current study supports these studies suggesting individuals turn to online sources to spur their political expression online. People can read news articles on the New York Times' website, Huffington Post, or Google, or watch a news clip from NBC news' website or their local network affiliate, and then share and oftentimes post a comment about the news via their social media accounts. Thus, it seems reasonable that this information seeking behavior would predict political expression on social media.

Lastly, and most importantly, this model considered the role respondents' online social networks play in encouraging social media political engagement. Individuals who visit social media can connect with those with whom they are already close as well as acquaintances or friends of friends. On sites like Facebook and Twitter, (two of the social media respondents reported using the most) users can easily see the activity their "friends" and other users who "follow" them are engaging in. Some of this activity during the 2012 U.S. elections may have included posting political updates and sharing viewpoints about candidates and the election.

The more individuals' reported seeing their social media network express themselves politically, the more they themselves reported doing so. In other words, the more respondents reported seeing their online networks post political comments, news, and pictures, "like" something political, and sign a political petition, the more likely they did similar things. This supports a long history of research suggesting the resources obtained from individuals' social connections plays a positive role in encouraging civic and political activity (for examples, see Huckfeldt & Sprague, 1991; Brehm & Rahn, 1997; Newton, 1997). More specifically, the findings in this model support scholars suggesting online networks begets online activity (Shah, Kwak & Holbert, 2001; Huysman & Wulf, 2004; Ellison, Steinfield & Lampe, 2007; Valenzuela, Park & Kee, 2009; Vergeer & Pelzer, 2009; Ellison, Vitak, Gray & Lampe, 2014).

As with all studies, the current one includes limitations the reader should consider when interpreting results. The study does not explore the characteristics of respondents' social media networks that influence their political participation on these websites. Therefore, the study cannot claim whether the relationships were "bridging" or "bonding" connections. In addition, this study does not fully examine the extent to which respondents' social media networks are politically engaged on these websites. Thus, few (or many) respondents' online connections may have encouraged their own social media engagement. These methodological limitations provide opportunities for future research.

Individuals' online social networks can share a wealth of information, an important component of social capital. The information people share with their social networks is usually timely and relevant. For example, someone in an individuals' social network could read a news article on Google News or watch a news clip on his or her network affiliate's local news station and post it to social media. Included in this post could be a comment or opinion about the news story. An individual when seeing his or her online social media feed may feel compelled to respond to the post or engage in other expressive behavior to demonstrate political affiliations or opinions. The same interaction can take place when someone in a social media network "likes" a candidate or issue or "favorites" a post from a candidate or organization. The effect of this exposure on individuals is not trivial. As the results suggest, viewing this behavior on social media encourages individuals' own behavior, supporting research probing similar phenomenon (Gil de Zúñiga, Puig-I-Abril & Rojas, 2009; Skoric, Ying, & Ng, 2009; Gil de Zúñiga, Jung, & Valenzuela, 2012; Bode, Vraga, Borah and Shah, 2013; Greuling & Kilian, 2014).

Overall, this study provides strong empirical support for theoretical claims suggesting a largely direct relationship between the resources associated with social capital via social media and civic and political engagement online. Social media continues to be an important place for political expression, and the role of information exchange via the social media network is vital for this engagement.

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