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Capital market pressures on FDI and environmental standards

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Can you attract FDI and have Sustainable Development?

- Economic benefits
  - Expand production base
  - New skills & technologies
  - New jobs
  - Spillover effects on local business
- Environmental & Social costs?
  - ‘Race to the bottom’/’regulatory chill’
  - Is the ‘pollution haven’ idea correct?

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Is FDI attracted by low environmental and social standards?

- ‘Pollution haven’
  - Will competition move FDI towards countries with low environmental standards?
- Evidence
  - Certainly cases where FDI damages environment
  - Certainly some governments fear loss of competitiveness if they raise standards
  - But little evidence that companies relocate production to countries with low standards

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Environmental costs are only one of many FDI drivers

- OECD estimate environmental costs are just 2-3% of total production costs
- More important are:
  - quality of infrastructure
  - access to inputs
  - wage costs and labour productivity
  - political risk
  - size & growth potential of markets
- Looking for consistent not weak enforcement

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International investors increasingly looking for good corporate governance

- Not just business ethics
- Hard commercial benefits too
  - ENRON and other corporate governance failures
  - Evidence of equity premium for high standards
  - Reputation matters when intangibles make up 80% of market values
  - Regulatory pressure to disclose
  - Capital markets pressure from SRI and indices such as FTSE4Good and the DJSI

The rise of SRI in Europe and its impact on FDI

- Not ethical but focus on 'non-financial risks'
  - Corporate governance, social & environmental performance
- Driven by
  - Disclosure regulations
  - Environmental regulations creating value (carbon)
  - Evidence that good CSR pays
- Causes investor pressure on MNEs to ensure FDI environmenral & social performance OK

So can you attract FDI and have sustainable development?

- Little evidence that FDI is attracted by low standards
  - Environmental costs only 2-3% of total costs
  - Looking for consistent not weak enforcement
- International investors looking for good corporate governance i.e. FDI with decent standards
  - For hard commercial reasons of reputation and capital market pressure
  - Pressure from SRI to manage ‘non-financial’ risk