UNCTAD/DITC/TED/9(OVERVIEW)

Making FDI Work for Sustainable Development

(Executive Summary)

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Message from the Secretary-General of UNCTAD

The subject matter of this study is at the heart of two key policy objectives of our times: promoting foreign direct investment (FDI) in developing countries, and achieving sustainable development.

Cross-border environmental management by transnational corporations (TNCs) plays a decisive role in pursuing these objectives. However, this role is perceived in different, and sometimes opposite, ways. Pessimists keep testing the “pollution haven” hypothesis; optimists tend to put a premium on TNCs as a vehicle for promoting environmentally sound technologies and management systems. The truth lies somewhere in-between. The various private and public interests in economic development and environmental protection are far from converging. At the same time, there is no doubt that TNCs have great – and largely unexplored – potential to contribute to sustainable development in “host countries”.

It is important to realize that environmental management is not just about traditional concerns over pollution. It is also about scale. A lot of environmental problems, actual and potential, have to do with the sheer size of TNCs’ operations rather than merely the way they conduct their business. For the developing countries, the issue of environmental protection is also about time, or rather the lack thereof. The pressure of delivering high growth rates and securing FDI means that policy decisions often have to be taken in response to immediate output and employment objectives. The lack of resources and expertise in monitoring and enforcement, and sometimes the inability to work collaboratively with TNCs, adds to the problem.

Cross-border environmental management tends to be seen as a difficult balancing act for TNCs and host countries, an act that requires the right mix of policies and goals in terms of investment, output, job creation and environmental protection. It is nonetheless important not to lose sight of the fact that home countries, too, have an important role to play through their laws, regulations, policies and guidelines.

Regulatory and ethical considerations are, and always will be, important. However, they are no longer the only major determinants of the interface between FDI and the environment. The focus of attention – and action – has shifted to market-based approaches and measures. Simple strategies of compliance are giving way to eco-performance considerations, a lifecycle approach to products and production processes, and the internalization of environmental costs.

Managing environmental risks has become a standard feature of corporate behaviour as TNCs seek to improve their competitiveness and environmental performance. How responsible – and how successful – are TNCs in cross-border environmental management and the transfer of environmentally sound technologies? What lessons can we learn from their success stories and failures? Does ownership matter? What can policy makers do to accentuate the positive contribution of TNCs and reduce their negative effects? Finding answers to these questions is important if we are to make an assessment, or reassessment, of the approaches that Governments and TNCs take to the links between environment and development.

Since this study focuses on TNCs with a high level of environmental sophistication, the answers are, predictably, optimistic. One can argue that the success stories are too few to allow for generalized conclusions. Be that as it may, taken together with a survey of transborder environmental management practices of TNCs conducted under a parallel project by UNCTAD and the Copenhagen Business School, with financial support from the Danish International Development Agency (DANIDA), the stories do provide useful insights leading to some positive conclusions.

The “greening” of consumption and production is changing the way of life and the way of doing business not just in the industrialized countries, but increasingly in developing countries as well. Consumers are becoming more environmentally conscious. TNCs find considerable competitive advantages in being “green” and are increasingly concerned about their environmental image. Environmental policies and regulations of the command and control type give way to economically adjusted measures, such as "green" procurement.

There is an enormous potential for improving environmental performance along the supply chain, making full use of the purchasing power of consumers, businesses and the public sector – the latter often being the biggest, and sometimes the only, customer of TNCs. "Supply chain management" makes suppliers part of what can be called the "environmental footprint" of firms. In this case, it is not the ownership that matters, but the creation of "green" business and consumer networks across national borders.

"Greening" the supply chain is a matter of shared responsibility and cooperation. There are encouraging signs of TNCs offering their suppliers in developing countries training courses and supporting them in the implementation of environmental management systems. Expanding this practice could greatly improve the environmental impact of FDI. Cooperation between TNCs and their suppliers in the developing countries is also necessary, if only to ensure that introducing environment-related conditions for suppliers does not erect new barriers to trade or detract from the objectives of setting up environmental management systems.

The efficiency of markets depends on transparency, which is also crucial for environmental performance. Environmental reporting by TNCs – internal and external, voluntary and mandatory – can go a long way towards improving management practices and, in turn, environmental performance. In fact, reporting back to stakeholders creates a strong incentive to improve environmental performance. It also makes it easier for civil society to maintain a spotlight on environmental performance, for instance through awards and publicity, as opposed to more conventional regulatory approaches.

"Best practices" bring life to binding legal and administrative regimes. The examples provided in the study show that while there is a general trend towards managing corporate environmental responsibilities, including reporting, on an international scale, there is no single "best practice" describing how to do that. What constitutes "best practice" in one company or country is not necessarily the best, or even good, for another company with a different organizational make-up, or in a country with a different environmental profile and priorities.

Although most “best practices” tend to be rather specific, they do provide a point of reference for companies operating in a particular industry and country. They also constitute a good starting point for dialogue between government, industry associations, companies, and civic and professional organizations, dialogue that can do a lot for clarifying and sharing expectations concerning environmental performance in terms of guidelines, codes of conduct and standards. Such voluntary measures can be instrumental in ensuring that the operations of TNCs are in harmony with policies in the “home country”, as well as in building mutual confidence between TNCs and “host countries”.

Whether and under what conditions a particular measure or policy is justified depends on circumstances. The challenge is to find an appropriate policy mix capable of reducing environmental tensions without diminishing the opportunities FDI provides to countries to exploit their competitive advantage. Context-specific analysis is therefore required in each and every case to determine whether a response to environmental concerns will be welfare-enhancing or welfare-reducing. This study deals with the issues that need to be taken into account in this type of analysis.

Since some environmental issues defy economic and political geography, it is only natural that measures at the company level and policy action at the national level are accompanied or driven by international initiatives. The concept of cross-border environmental management has already found its way into international commitments. The best example is the 1992 United Nations