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Ethical Governance Of Investment Network Bulletin

Foreign Direct Investment: Not A Miracle Drug
By Lyuba Zarsky

It is with regret but little surprise that the Bali PrepCom, the final planning meeting ahead of the World Summit on Sustainable Development slated for Johannesberg in August, ended on a note of stalemate and failure. The core contested issue is nothing less than the fundamental purpose and governance of the global economy-a battle between "Markets Rule" and "Sustainability First."

But despite clashes on trade and aid, developing and developed country leaders generally agree on one thing: the beneficence and desirability of more foreign direct investment. Indeed, the notion that "FDI is central to poverty alleviation and sustainable development" has become somewhat of a mantra. The problem is defined as not getting enough of it.

There is little doubt that the global allocation of investment is highly and grossly skewed. Despite the explosion of international capital flows in the last decade, one figure hasn't budged: Africa-the entire continent-gets about one percent of global foreign direct investment. Rich countries, which are the major capital exporters, get close to eighty percent. And the gap is getting wider, not smaller. In a world committed to improving human welfare, a lot more investment would indeed be directed towards those who need it most.

Just more volume, however, will not deliver the sustainable development goods. Without proper governance and management, FDI can generate a high toll in environmental, health and other social costs, and maybe not even deliver much in longterm economic benefits.

High tech investment, for example, is much sought-after because it is considered a plum on all grounds-economic, social, and environmental. But few developing countries have the infrastructure to deal with the highly toxic and hazardous materials used in the manufacture and assembly of electronics goods. Even a successful, rich country like Taiwan faces widespread toxic water pollution, the legacy of a world-class high tech industry built without proper waste management, industrial regulation, or labor and human rights.

US companies haven't adequately grappled with the profound dilemmas presented in such a context-the lack of environmental and health monitoring, of worker willingness to report hazard, of community right-to-know, and more. . One environmental regulator in the Philippines, where industrial toxic wastes are not allowed to be stored on site, summed up the problem: "The companies call the waste haulers, the waste haulers take the waste away. But where it goes, nobody knows."

The past or future environmental, public health and occupational health costs of high tech growth haven't been calculated in Taiwan, or in Mexico, where electronics is now the leading sector for FDI. Or indeed in Silicon Valley. The industry continues to stonewall in providing worker health data which would allow much-needed epidemiological assessments.

Without proper governance, disclosure, and management, FDI can fail to deliver even on its economic promise-not just short-term "poverty alleviation" via jobs but sustained increases in long-term, productive capacities. If you want to end hunger, goes the old proverb, give a man (and a woman too) a fishing pole. Too often, FDI delivers a fish, but no pole.

Southeast Asia, which bet its future on FDI-led growth, is now seeing its large electronics sectors contracting dramatically as companies downsize and relocate to places with lower wages like China and Vietnam. Linkages to the local economy turn out to have been very shallow and as a result, companies can pull out their roots with little effort.

FDI, in short, is no miracle drug for sustainable development. On the other hand, 'quality' investment is the lifeblood of a better future. Mobilizing both domestic and foreign capital towards projects which really do promote environmental, economic, and social welfare is the centerpiece of a sustainable development strategy-whether in California or China. A good start would be global corporate minimum standards for environmental and social assessment and management, and for community consultation.

For the moment, it may be easier to promote such 'quality' investment via municipal or national initiatives than in regional or global policy arenas. The fight in Johannesberg, and in Mexico, where the WTO will meet in 2003, and everywhere where investment is on the agenda, must be to insist that sustainability and human rights be at the heart of an investment regime.

Without them, the world is better off without global rules-even if they do promote more FDI.

Lyuba Zarsky directs the Nautilus Institute's International Sustainable and Ethical Investment Rules Project and is co-author of Dodging Dilemmas? Environmental and Social Accountability in the Global Operations of California-Based High Tech Companies

Ex-RCA staffers get support in US for poisoning charges
By Charles Snyder
The Taipei Times

June 8, 2002

Workers' representatives from the former RCA TV plant in Taoyuan (Taiwan) have wound up a two-week visit to the US, gaining broad support from unions and environmental groups to get General Electric, RCA's parent company, to pay to clean up the site and compensate the victims for the pollution at the site.

Institutional Investors Press Largest Companies to Disclose Greenhouse Gas Emissions
Socialfunds.com
May 31, 2002

William Baue reports that the Carbon Disclosure Project, which represents a consortium of institutional investors with $4 trillion in assets, sent a letter to the world's 500 largest quoted companies by market capitalization asking them to disclose information on their greenhouse gas emissions. The correlation between corporate environmental performance and shareowner value has gained increasing validation, prompting investors to request greater transparency on environmental issues from their companies.

A new model for social auditing
By Elliot J Schrage
The Financial Times
FT.com site; May 27, 2002

US constitutional law produces strange bedfellows but it is hard to imagine a more unlikely combination than Nike, the sportswear business, and the American Civil Liberties Union. Yet both were outraged by the California Supreme Court's decision this month that Nike's trumpeting of the benefits of its corporate "code of conduct" was not political discourse protected by the US Bill of Rights but far less protected "commercial" speech. Nike's claims about improvements in conditions at its Indonesian factories, the court concluded, were little more than another form of advertising and public relations.

OECD Global Forum on International Investment releases mining report
The Rapporteurs' report has been released from the OECD Conference on Foreign Direct Investment and Environment: Lessons to be Learned from the Mining Sector, held in Paris on February 7-8, 2002. The report discusses the FDI-environment challenges the industry faces and provides recommendations for international policy and institutional responses.

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