Chapter 3. Historical Evolution of FDI and Sustainability

3.1 Evolution of FDI Practices

The concept of foreign direct investment (FDI) has undergone significant evolution over the past century, shaped by global economic trends, technological advancements, and shifts in international policy frameworks.

3.1.1 Early 20th Century to Post-World War II

In the early 20th century, FDI was primarily driven by European and North American companies seeking to exploit natural resources in Africa, Latin America, and Asia. These investments were often characterised by extractive industries such as mining and agriculture. The primary motive was resource extraction to fuel industrial growth in the home countries. During this period, FDI was mainly limited to colonial and semi-colonial relationships, with little consideration for the economic development of host countries (Graham, 1995).

Post-World War II, the landscape of FDI began to change significantly. The establishment of international institutions such as the International Monetary Fund (IMF) and the World Bank facilitated greater economic cooperation and reconstruction efforts. The Bretton Woods Agreement of 1944 laid the foundation for a new international economic order, promoting free trade and stable currencies, which in turn encouraged cross-border investments. The Marshall Plan, aimed at rebuilding war-torn Europe, is a notable example of this period's FDI initiatives, which also sought to prevent the spread of communism by fostering economic stability (Graham, 1995; Hymer, 1976).

3.1.2 1960s to 1980s

The 1960s and 1970s witnessed the rise of multinational corporations (MNCs) as major players in global FDI. Companies like General Motors, IBM, and Shell expanded their operations internationally, establishing subsidiaries in multiple countries to capitalise on new markets, labor arbitrage, and resource availability. The era also saw significant FDI flows into manufacturing and services, diversifying away from the traditional extractive industries (Jones, 2005).

During the 1980s, neoliberal economic policies gained prominence, particularly in the United States and the United Kingdom under leaders like Ronald Reagan and Margaret Thatcher. These policies promoted deregulation, privatisation, and the liberalisation of trade and investment. The adoption of these policies by many developing countries, often under the guidance of the IMF and World Bank, led to a surge in FDI as barriers to entry were reduced and markets were opened up to foreign investors (Scholte, 2005).

3.1.3 1990s to Present

The 1990s marked a significant increase in FDI flows, driven by globalisation, technological advancements, and the liberalisation of economies in Eastern Europe, Asia, and Latin America. The collapse of the Soviet Union and the subsequent transition of former communist countries to market economies opened up new opportunities for FDI (UNCTAD, 1999). China's economic reforms and its accession to the World Trade Organisation (WTO) in 2001 further boosted global FDI, making it one of the largest recipients of FDI.

In the 21st century, FDI has continued to grow, with emerging markets playing an increasingly important role as both recipients and sources of FDI. The rise of digital technologies and the globalisation of supply chains have further integrated FDI into the fabric of the global economy. Contemporary FDI practices now encompass a wide range of industries, including technology, finance, healthcare, and renewable energy, reflecting broader economic and technological trends (UNCTAD, 2013; 2020).

3.2 Early Initiatives in Sustainable Investment

The concept of sustainable investment has its roots in the broader movement towards corporate social responsibility (CSR) and ethical investment. These early initiatives laid the groundwork for integrating sustainability into FDI practices, addressing the need for economic development that also considers social equity and environmental stewardship.

3.2.1 Emergence of Ethical Investment

The notion of ethical investment emerged in the 1960s and 1970s, driven by social and political movements advocating for civil rights, environmental protection, and anti-war sentiments (Sparkes, 2002). One of the earliest examples of this was the refusal of some investors to support companies involved in the Vietnam War or those engaged in South Africa during the apartheid era. This period saw the development of ethical investment funds that excluded companies based on specific moral or ethical criteria.

The Pax World Fund, established in 1971, was one of the first socially responsible mutual funds (Keefe, 2021). It avoided investments in companies associated with military production and later expanded its criteria to include environmental and social factors. This initiative marked a significant shift towards considering non-financial criteria in investment decisions.

3.2.2 Rise of Corporate Social Responsibility (CSR)

The 1980s and 1990s witnessed the formalisation of CSR as a business strategy. Companies began to recognise the importance of addressing social and environmental issues as part of their corporate responsibilities. This period saw the development of various frameworks and guidelines aimed at promoting responsible business practices (Carroll, 2008).

The United Nations Global Compact, launched in 2000, is a notable initiative encouraging businesses worldwide to adopt sustainable and socially responsible policies. It provides a framework based on ten principles covering human rights, labor, environment, and anti-corruption. Companies participating in the Global Compact commit to integrating these principles into their operations and reporting on their progress (United Nations Global Compact, 2000).

3.2.3 Development of Sustainability Reporting Standards

The late 1990s and early 2000s saw the establishment of standards and frameworks for sustainability reporting, helping companies measure and communicate their environmental and social impacts. The Global Reporting Initiative (GRI), founded in 1997, played a pivotal role in this regard. The GRI provides a comprehensive framework for sustainability reporting, enabling companies to disclose their impacts on issues such as climate change, human rights, and governance (Adams *et al.*, 2022).

Similarly, the Sustainability Accounting Standards Board (SASB), a non-profit organisation established in 2011, has developed industry-specific standards for reporting on sustainability issues that are likely to affect financial performance. These initiatives have been instrumental in promoting transparency and accountability, allowing investors to make more informed decisions based on a company's sustainability performance (IFRS Foundation, 2024).

3.2.4 Integration of Environmental, Social, and Governance (ESG) Criteria

The integration of ESG criteria into investment decisions represents a significant advancement in sustainable investment practices. ESG investing considers environmental, social, and governance factors alongside financial performance, reflecting a more holistic approach to evaluating investments.

The Principles for Responsible Investment (PRI), launched in 2006, is a leading initiative in this area. Supported by the United Nations, PRI provides a framework for investors to incorporate ESG factors into their investment and ownership decisions. Signatories to the PRI commit to adhering to six principles that promote responsible investment practices, including integrating ESG issues into investment analysis, being active owners, and seeking appropriate disclosure on ESG issues from entities in which they invest (PRI, 2024).

3.2.5 Growth of Green Finance

Green finance has emerged as a critical component of sustainable investment, focusing on mobilising capital for projects that have positive environmental outcomes. This includes investments in renewable energy, energy efficiency, sustainable agriculture, and green infrastructure.

Green bonds, which are debt instruments specifically earmarked to raise funds for environmentally friendly projects, have become increasingly popular. The first green bond was issued by the European Investment Bank in 2007, and the market has since grown exponentially. Green bonds provide a mechanism for investors to support sustainable projects while potentially earning competitive returns (European Investment Bank, 2024).

3.2.6 Socially Responsible Investment (SRI) Funds

The establishment of socially responsible investment (SRI) funds has further propelled the integration of sustainability into investment practices. SRI funds actively select investments based on social and environmental criteria, often excluding companies involved in activities such as tobacco, firearms, and fossil fuels (Forbes, 2023).

One prominent example is the Domini Social Equity Fund, launched in 1991, which screens investments based on a range of social and environmental criteria. The success of SRI funds has demonstrated that it is possible to achieve competitive financial returns while adhering to ethical and sustainable investment principles (Domini, 2021).

3.2.7 Sustainable Development Goals (SDGs)

The adoption of the United Nations Sustainable Development Goals (SDGs) in 2015 provided a comprehensive framework for addressing global challenges such as poverty, inequality, and climate change. The SDGs have significantly influenced the sustainable investment landscape, encouraging investors to align their portfolios with the 17 goals (United Nations, 2015a,b).

Investment funds and initiatives that explicitly support the SDGs have gained traction, highlighting the growing importance of sustainability in investment decisions. The

SDGs have also fostered greater collaboration between governments, businesses, and civil society to achieve shared sustainability objectives.

3.3 Key Milestones and Historical Case Studies

The integration of sustainability into foreign direct investment has seen numerous key milestones and landmark case studies over the years. These developments highlight the progressive shift towards recognising the importance of balancing economic growth with environmental protection and social responsibility. This section provides an overview of significant milestones and examines notable historical case studies that have shaped the landscape of sustainable FDI.

3.3.1 The 1972 United Nations Conference on the Human Environment

One of the earliest milestones in the global recognition of environmental issues was the 1972 United Nations Conference on the Human Environment held in Stockholm, Sweden. This conference marked the first major international gathering to discuss environmental issues and led to the establishment of the United Nations Environment Programme (UNEP). The Stockholm Declaration emphasised the need for sustainable development and laid the groundwork for future international environmental agreements (United Nations, 1972).

3.3.2 The Brundtland Report (1987)

The 1987 publication of the Brundtland Report, formally titled "Our Common Future," was a pivotal moment in the history of sustainable development. Prepared by the World Commission on Environment and Development (1987), the report introduced the concept of sustainable development, defining it as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This report significantly influenced global policies and strategies, emphasising the integration of economic, social, and environmental considerations in development planning.

3.3.3 The Rio Earth Summit (1992)

The 1992 United Nations Conference on Environment and Development (UNCED), commonly known as the Rio Earth Summit, was another landmark event that further solidified the global commitment to sustainable development. The summit resulted in several critical documents, including the Rio Declaration on Environment and Development, Agenda 21, and the establishment of the United Nations Framework Convention on Climate Change (UNFCCC). Agenda 21 provided a comprehensive action plan for sustainable development, encouraging countries to incorporate environmental and social considerations into their economic policies and practices (United Nations, 1992).

3.3.4 The Kyoto Protocol (1997)

The Kyoto Protocol, adopted in 1997, was a significant international treaty aimed at reducing greenhouse gas emissions to combat climate change. The protocol set binding emission reduction targets for developed countries, recognising their historical responsibility for the bulk of greenhouse gas emissions. The Kyoto Protocol also introduced mechanisms such as emissions trading, the Clean Development Mechanism (CDM), and Joint Implementation (JI), which facilitated investment in sustainable projects and technologies to reduce emissions globally (UNFCCC, 1998).

3.3.5 The Launch of the United Nations Global Compact (2000)

The United Nations Global Compact, launched in 2000, is one of the world's largest corporate sustainability initiatives. It encourages businesses worldwide to adopt sustainable and socially responsible policies, based on ten principles covering human rights, labor, environment, and anti-corruption. By joining the Global Compact, companies commit to integrating these principles into their operations and strategies, thereby promoting sustainable FDI practices (United Nations Global Compact, 2000).

3.3.6 The Johannesburg World Summit on Sustainable Development (2002)

The 2002 World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa, aimed to review and build on the progress made since the Rio Earth Summit. The summit emphasised the importance of partnerships between governments, the private sector, and civil society in achieving sustainable development goals. The Johannesburg Declaration and Plan of Implementation highlighted the need for integrating sustainable development into all aspects of decision-making, including trade and investment (United Nations, 2002).

3.3.7 The Paris Agreement (2015)

The Paris Agreement, adopted in 2015 under the UNFCCC, represents a landmark achievement in the global fight against climate change. The agreement aims to limit global warming to well below 2 degrees Celsius above pre-industrial levels, with efforts to limit the increase to 1.5 degrees Celsius. It requires countries to set and achieve ambitious national targets for reducing greenhouse gas emissions, known as Nationally Determined Contributions (NDCs). The Paris Agreement has galvanised efforts to integrate sustainability into FDI by promoting investments in renewable energy, energy efficiency, and low-carbon technologies (UNFCCC, 2015).

3.3.8 The Adoption of the Sustainable Development Goals (SDGs) (2015)

The adoption of the United Nations Sustainable Development Goals (SDGs) in 2015 marked a significant milestone in the global effort to promote sustainable development. The 17 SDGs provide a comprehensive framework for addressing a wide range of global challenges, including poverty, inequality, climate change, environmental degradation, peace, and justice. The SDGs encourage businesses and investors to align their strategies and investments with these goals, fostering sustainable FDI practices that contribute to achieving these targets (United Nations, 2015a,b).

3.4 Historical Case Studies

3.4.1 Case Study 1: Grameen Bank and Microfinance in Bangladesh

In 1983, Muhammad Yunus established Grameen Bank with the goal of empowering the poorest individuals through accessible loans. Unlike traditional banks, which typically require collateral, Grameen Bank operates on the belief that even the most impoverished can manage their financial affairs when given appropriate support. The bank pioneered the concept of microcredit - small, long-term loans with favorable terms - targeting primarily women, who accounted for over 95% of borrowers. This approach has not only ensured a high repayment rate but also maximised the positive impact on borrowers' families.

By 2006, Grameen Bank had extended loans to over seven million people, with an average loan size of $100. Its success has served as a model for microfinance institutions in over one hundred countries, illustrating the potential of sustainable investment to foster social and economic development at the grassroots level. Grameen Bank's innovative approach earned Yunus the Nobel Peace Prize, highlighting its global significance (The Nobel Prize, 2006).

3.4.2 Case Study 2: Kenya's Lake Turkana Wind Power Project

The Lake Turkana Wind Power Project in Kenya is one of the largest wind farms in Africa and a significant example of sustainable FDI in renewable energy. Commissioned in 2017, the project boasts an installed capacity of 310 megawatts, featuring 365 wind turbines, each generating 850 kilowatts, significantly enhancing Kenya's energy supply.The wind farm has helped reduce the country's reliance on fossil fuels, decrease greenhouse gas emissions, and promote energy security. Additionally, the project has created jobs and supported local infrastructure development, contributing to both economic growth and environmental sustainability (Lake Turkana Wind Power, 2024).

3.4.3 Case Study 3: Patagonia's Sustainable Business Model

Patagonia, an American outdoor clothing company, is renowned for its commitment to sustainability and responsible business practices. Founded in 1973, Patagonia has implemented numerous initiatives to reduce its environmental footprint, including using organic cotton, recycled materials, and promoting fair labor practices. Since 1985, the company's "1% for the Planet" program donates 1% of sales to environmental causes, and its "Worn Wear" program encourages customers to repair, reuse, and recycle their clothing. Patagonia's business model demonstrates how integrating sustainability into core operations can enhance brand value, customer loyalty, and long-term profitability (Patagonia, 2024).

3.4.4 Case Study 4: IKEA's People & Planet Positive Strategy

IKEA, the Swedish furniture giant, has been a leader in integrating sustainability into its business operations through its "People & Planet Positive" strategy. Launched in 2012, the strategy focuses on sustainable sourcing of materials, energy efficiency, and social responsibility. IKEA has committed to using 100% renewable energy in its operations and ensuring that all wood and cotton used in its products come from sustainable sources. The company also invests in renewable energy projects, such as wind farms and solar installations, to achieve energy independence. IKEA's approach highlights the importance of sustainability in enhancing corporate reputation and driving innovation (IKEA, 2023).

3.4.5 Case Study 5: The Equator Principles in Project Finance

The Equator Principles, launched in 2003, are a set of voluntary guidelines adopted by financial institutions to ensure that project financing is conducted in a socially and environmentally responsible manner. These principles apply to projects with capital costs above $10 million and require rigorous assessment of environmental and social risks. Financial institutions adopting the Equator Principles commit to not providing loans to projects that do not comply with these guidelines. This initiative has significantly influenced the financing of large-scale infrastructure and industrial projects, promoting the integration of sustainability considerations into global project finance (Equator Principles, 2024).

3.5 Conclusion

The evolution of FDI practices underscores the dynamic nature of international investment and its critical role in shaping global economic development. As we move forward, the focus is increasingly shifting towards sustainable investment practices that balance economic growth with social and environmental considerations.

The early initiatives in sustainable investment have laid a strong foundation for integrating sustainability into FDI practices. From ethical investment and CSR to the development of sustainability reporting standards and the rise of green finance, these efforts have collectively contributed to a more sustainable and responsible investment landscape. As we move forward, building on these initiatives will be crucial for addressing the complex challenges of sustainable development and fostering a more inclusive and resilient global economy.

The historical evolution of FDI and sustainability is marked by numerous key milestones and landmark case studies that highlight the progressive shift towards integrating environmental and social considerations into investment practices. From the early recognition of environmental issues at the Stockholm Conference to the adoption of the SDGs and the Paris Agreement, these milestones reflect the growing global commitment to sustainable development. Historical case studies, such as the Grameen Bank, Lake Turkana Wind Power Project, Patagonia, IKEA, and the Equator Principles, provide practical examples of how sustainable investment can drive positive social, economic, and environmental outcomes. These developments underscore the importance of continuing to promote and support sustainable FDI practices to achieve a more inclusive and resilient global economy.

3.6 References

Adams, C. A.; Alhamood, A.; He, X.; Tian, J.; Wang, L.; Wang, Y (2022). "The development and implementation of GRI Standards: practice and policy issues". In Adams, C. A. (ed.). *Handbook of accounting and sustainability*. Cheltenham, UK Northampton, MA, USA: Edward Elgar Publishing.

Carroll, A. B., "A History of Corporate Social Responsibility: Concepts and Practices", in A. Crane, and others (eds), *The Oxford Handbook of Corporate Social Responsibility* (2008; online edn, Oxford Academic, 2 Sept. 2009), https://doi.org/10.1093/oxfordhb/9780199211593.003.0002

Domini (2021). *The Original Influencers.* Accessed August 24, 2024. https://domini.com/insights/the-original-influencers/

Dunning, J.H. (1993). *Multinational Enterprises and the Global Economy*. Addison-Wesley.

Equator Principles (2024). The *Equator Principles*. Accessed August 24, 2024. https://equator-principles.com/

European Investment Bank (2024). *Climate Awareness Bonds*. Accessed August 24, 2024. https://www.eib.org/en/investor-relations/cab/index.htm

Forbes (2023). *Socially Responsible Investing (SRI).* Accessed August 24, 2024. https://www.forbes.com/advisor/investing/sri-socially-responsible-investing/

Graham, E. M. (1995). Foreign Direct Investment in the World Economy. *IMF Working Papers*, *1995*(059). https://doi.org/10.5089/9781451847901.001

Hymer, S. (1976). *The International Operations of National Firms: A Study of Direct Foreign Investment*. MIT Press.

IFRS Foundation (2024). *SASB Standards connect business and investors on the financial effects of sustainability.* Accessed August 24, 2024. https://sasb.wpengine.com/about/

IKEA (2023). *IKEA Sustainability Strategy - People & Planet Positive.* Accessed August 24, 2024. https://www.ikea.com/global/en/images/IKEA_PPP_updated_2023_20231109_5dce3a2de5.pdf

Jones, G. (2005). *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century*. Oxford University Press.

Keefe, J. (2021). The Pax Sustainable Allocation Fund turns 50, Impax Asset Management. Accessed August 24, 2024. https://greenmoney.com/50-years-of-sustainable-investing-at-pax-world/

Lake Turkana Wind Power (2024). *Powering Kenya with affordable and clean energy.* Accessed August 24, 2024. https://ltwp.co.ke/

Patagonia (2024). *A History of Our Environmental and Social Responsibility.* Accessed August 24, 2024. https://eu.patagonia.com/cy/en/our-footprint/corporate-social-responsibility-history.html?srsltid=AfmBOopn6pnFCychAvMz9dFq8MUYZaEjMlH5bCasgeqCNUGOgpV_t-4Z

PRI (2024). *What are the Principles for Responsible Investment?* Accessed August 24, 2024. https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment

Scholte, J. A. (2005). *The sources of neoliberal globalization*. UN Research Institute for Social Development. Accessed August 24, 2024. from https://digitallibrary.un.org/record/559983?ln=en

Sparkes, R. (2002). *Socially Responsible Investment: A Global Revolution*. John Wiley & Sons.

The Nobel Prize (2006). *Grameen Bank: The Nobel Peace Prize 2006.* Accessed August 24, 2024. https://www.nobelprize.org/prizes/peace/2006/grameen/facts/#:~:text=By%20establishing%20Grameen%20Bank%20in,in%20over%20one%20hundred%20countries.

UNCTAD (1999). *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*. United Nations Conference on Trade and Development. Accessed August 24, 2024. https://unctad.org/en/PublicationsLibrary/wir1999_en.pdf

UNCTAD (2013). *World Investment Report 2013: Global Value Chains: Investment and Trade for Development*. United Nations Conference on Trade and Development. Accessed August 24, 2024. https://unctad.org/system/files/official-document/wir2013_en.pdf

UNCTAD (2020). *World Investment Report 2020: International Production Beyond the Pandemic*. United Nations Conference on Trade and Development. Accessed August 24, 2024. https://unctad.org/webflyer/world-investment-report-2020

UNFCC (1998). *Kyoto Protocol on the United Nations Framework Convention on Climate Change*. United Nations Framework Convention on Climate Change. Accessed August 24, 2024. https://unfccc.int/resource/docs/convkp/kpeng.pdf

UNFCC (2015). *The Paris Agreement. What is the Paris Agreement?* Accessed August 24, 2024. *https://unfccc.int/process-and-meetings/the-paris-agreement*

United Nations (1972). *United Nations Conference on the Human Environment, 5-16 June 1972, Stockholm.* Accessed August 24, 2024. https://www.un.org/en/conferences/environment/stockholm1972

United Nations (1992). *United Nations Conference on Environment and Development*, Rio de Janeiro, Brazil, 3-14 June 1992. Accessed August 24, 2024. https://www.un.org/en/conferences/environment/rio1992

United Nations (2002). *World Summit on Sustainable Development, 26 August-4 September 2002, Johannesburg.* Accessed August 24, 2024. *https://www.un.org/en/conferences/environment/johannesburg2002*

United Nations (2015a). *The 17 Goals.* UN. Accessed August 24, 2024. https://sdgs.un.org/goals

United Nations (2015b). *Transforming our world: the 2030 Agenda for Sustainable Development*. Accessed August 24, 2024. https://sdgs.un.org/2030agenda

United Nations Global Compact. (2000). The Ten Principles of the UN Global Compact.

World Commission on Environment and Development (1987). *Our Common Future*. Oxford: Oxford University Press.