

Witkowska, Janina

Article

The role of FDI in the sustainable development of the European Union

Comparative Economic Research. Central and Eastern Europe

Provided in Cooperation with:

Institute of Economics, University of Łódź

Suggested Citation: Witkowska, Janina (2023) : The role of FDI in the sustainable development of the European Union, Comparative Economic Research. Central and Eastern Europe, ISSN 2082-6737, Lodz University Press, Lodz, Vol. 26, Iss. 1, pp. 21-43, <https://doi.org/10.18778/1508-2008.26.02>

This Version is available at:

<https://hdl.handle.net/10419/289725>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by-nc-nd/4.0/>

The Role of FDI in the Sustainable Development of the European Union

Janina Witkowska  <https://orcid.org/0000-0002-8698-4623>

Ph.D., Full Professor at the University of Lodz, Faculty of Economics and Sociology, Department of World Economy and European Integration, Lodz, Poland, e-mail: janina.witkowska@uni.lodz.pl

Abstract

This paper aims to examine the role of international business behavior in the sustainable development of the European Union (EU) and to answer two questions: (1) To what degree could international business contribute to the development of a “green economy” under the uncertainty caused by the COVID-19 pandemic?; (2) In what way could host countries attract “green” and socially responsible foreign direct investment (FDI)?

The statistical analysis of international business involvement in environmentally harmful sectors/industries of the EU economy indicates that the share of such investments in most member states did not exceed 20% of the total FDI stocks between 2015 and 2020. The structure of investments changed in half of the analyzed countries towards sectors/industries that were less harmful to the environment. These changes and high requirements for domestic and foreign companies within the framework of the EU’s environmental policy allow us to conclude that international business contributed to the ecological transformation of the EU.

On the other hand, changes in the structure of FDI stocks located abroad by the EU Member States in environmentally harmful sectors/industries were multidirectional. Six of the EU states remained net exporters of direct investment in these sectors/industries. The involvement of foreign direct investors in the new EU Member States in sectors that are important for implementing the Sustainable Development Goals (SDGs) of the 2030 Agenda was not very high. It was characterized by high volatility and did not play a significant role in their economies. Attracting “green FDI” and socially responsible investments requires changes in policy towards foreign investors. They should include facilitating foreign investment, including investments aimed at sustainable development, incentives for investors to engage in “green investments”, and making investment agreements more flexible to combat climate change.



© by the author, licensee University of Lodz – Lodz University Press, Poland.
This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution license CC-BY-NC-ND 4.0 (<https://creativecommons.org/licenses/by-nc-nd/4.0/>)

Received: 4.04.2022. Verified: 19.07.2022. Accepted: 13.01.2023

Keywords: foreign direct investment, sustainable development, European Union, ecological issues

JEL: F01, F23, F64

Introduction

The COVID–19 pandemic caused severe disruptions in global foreign direct investment (FDI) flows and other areas of international relations. They resulted in a decline in global and regional FDI flows, including those to and from the European Union (EU). At the same time, achieving ambitious goals for the implementation of sustainable development on a global scale (SDG 2030) and the reduction of greenhouse gas emissions, including the EU’s gradual achievement of climate neutrality and an inclusive social policy, require the involvement of both national and international corporations.

This article tries to answer the following questions:

1. To what extent can international business contribute to the sustainable development of the EU’s “green economy” under the uncertainty caused by the COVID–19 pandemic?
2. How can host countries attract “green” and socially responsible foreign investment?

Changes in FDI flows in the global economy and the EU during the COVID–19 pandemic

There was already a slowdown in international capital flows in the form of FDI in the pre-pandemic period. It was reflected in a decrease in the average growth rate of global FDI flows (only 1% in the last decade, compared to 8% between 2000 and 2007 and 20% before 2000) (UN/UNCTAD 2019, p. 5). Global FDI flows amounted to USD 1.5 trillion in 2019. The COVID–19 crisis reduced them to USD 1 trillion in 2020, i.e., by 35% compared to the previous year (UN/UNCTAD 2021a, p. X, 248). This decline particularly affected developed countries, where the inflow of FDI was reduced by 58% (UN/UNCTAD 2021b, p. X). The most significant declines were recorded in Europe – by 80%, and the EU – by 73%. At the same time, North America experienced a slightly smaller decrease, i.e., by 42% (UN/UNCTAD 2021b, p. X and own calculations). However, FDI inflows to developing countries decreased by 8%, although regional trends also show the diverse situation of individual groups of countries. It was particularly evident in Asia, which recorded an increase of 4% in 2020, while the coun-

tries of South America were affected by a decrease of as much as 45%. At the same time, Africa experienced a 16% decrease (UN/UNCTAD 2021b, pp. X–XI).

Uneven decreases in **FDI inflows** resulted in a change in the global geographical structure of FDI in favor of developing countries, which accounted for 2/3 of the annual global FDI inflow in 2020 compared to less than 1/2 in 2019.

The scale of changes in the size of FDI inflows in the world economy and selected regions between 2010 and 2020 is shown in Figure 1.

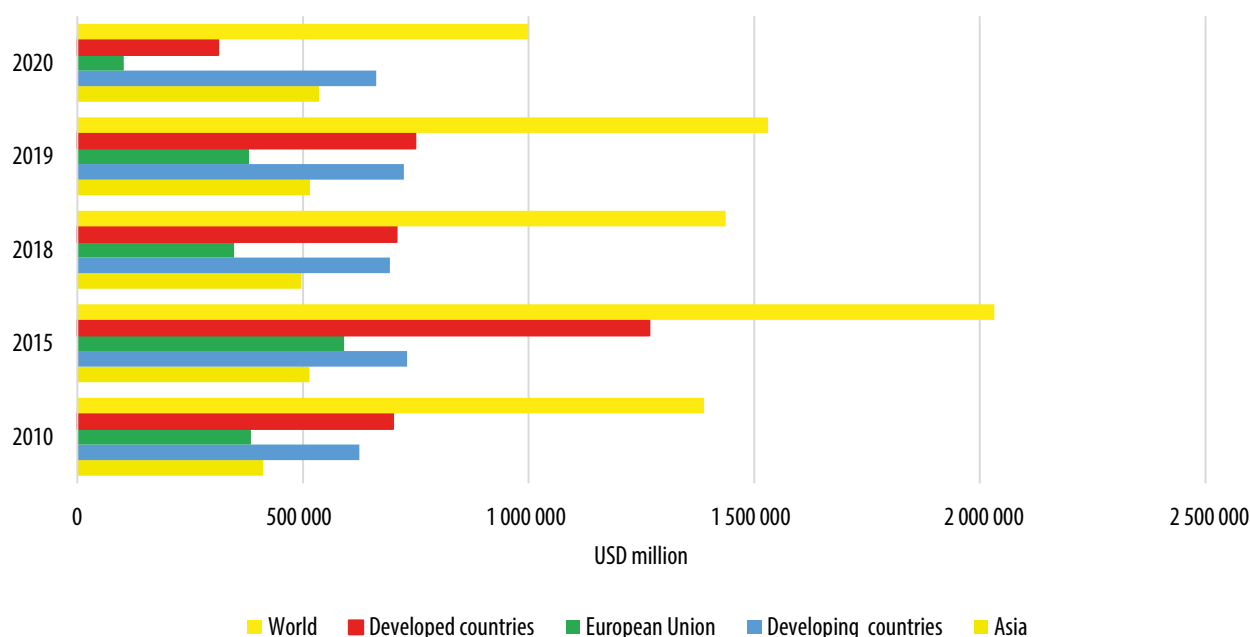


Figure 1. FDI inflows, the world economy and its regions, 2010–2020, USD million

Source: UN/UNCTAD 2016, pp. 196–197; 2021a, pp. 248–249 and own elaboration.

The data on the change in global and regional FDI flows presented above reflect the reactions of foreign investors to economic shocks caused by the pandemic. The decline in FDI flows in the global economy was deeper than the decline in global GDP and trade. According to UNCTAD’s early forecasts, global FDI in 2021 was expected to increase moderately, i.e., from 10% to 15%, compared to the difficult year of 2020 (Zahn 2021). However, UNCTAD data for 2021 indicate a relatively rapid rebound of global FDI flows. It is estimated that global FDI flows increased by 77% in 2021 to USD 1.65 trillion, exceeding the size of these investments before the crisis (UNCTAD 2022, p. 1).

Preliminary data on the sectoral structure of FDI in 2021 indicate that foreign investors were interested in investments in infrastructure, i.e., a sector supported by favorable long-term financing, measures under economic recovery packages and foreign investment programs. In contrast, the propensity to invest in industry and global value chains (GVCs) was low. *Greenfield* investments were 30% below pre-pandemic levels in all industries. The exception was the information technology (IT) sector, which fully

recovered. The boom observed in cross-border mergers and acquisitions in the services sector was also noted in the IT sector (UNCTAD 2022, p. 1).

Factors that will determine the further activity of foreign investors in the post-pandemic period include how quickly economies emerge from the economic crisis caused by the pandemic, the possibility of further outbreaks of COVID-19 infections, the potential impact of economic recovery support packages on FDI flows, the political situation and related international tensions, and conditions for international business determined by national regulations. It should be borne in mind that the FDI cycle is delayed in relation to the economic cycle (Zahn 2021, p. 3). Furthermore, the war in Ukraine and the associated uncertainty will negatively impact FDI in 2022, especially in Central and Eastern Europe.

FDI and sustainable development during the pandemic

The relationships between the activities of international corporations, FDI flows, and sustainable development, including ecological and social aspects, have been the subject of research (Budnikowski 1998; OECD 1999; UNCTAD 1999; Wysokińska and Witkowska 2004; Witkowska 2011).

FDI can have both negative and positive effects on the environment. The negative impact is associated with investors' use of land and natural resources and the potential increase in consumption and change of consumption models in the host countries in a direction that is harmful to the environment. Hypotheses about the possibility of creating *pollution havens* have been formulated. The creation of *pollution havens* results from differences in environmental protection standards between investors' home countries and the host countries. There may also be a problem of *cascading pollution havens*, when companies invest abroad to contract their "dirty" production processes with other companies, thus creating an image of an environmentally friendly company (OECD 1999, p. 14).

In turn, the positive impact of FDI on the environment is associated with investors using more advanced and cleaner technologies in their subsidiaries abroad. They also transfer knowledge and good management practices, including environmental management. In this way, the level of environmental protection in the host country becomes more like that in developed countries (the *pollution halo effect*) (OECD 1999, p. 14).

In addition to the factors mentioned above, the impact of FDI on the environment depends on the sector/industry structure of these investments, corporate social responsibility (CSR) in the sphere of environmental protection, and the environmental policy of the host country. **Economic activities classified as environmentally harmful** are: mining and quarrying, the textile industry, the leather industry, pulp and paper production, the production of chemical products, the production of rubber and plastic products, the production of cement, glass and ceramics, the production of metals and metal

products, large-scale plant cultivation, and animal husbandry. From the point of view of FDI recipient countries, it is important whether the incoming investments are located in areas of economic activity considered to be harmful to the environment or if they are “green FDI”, i.e., investments that help achieve environmental goals and, in particular, reduce greenhouse gas emissions (Sauvant, Stephenson, and Kagan 2021).

The efforts undertaken by individual countries to pursue sustainable development in the environmental and social spheres are part of the implementation of the *Sustainable Development Goals* (SDGs) within the United Nations’ framework of the 2030 Agenda for Sustainable Development. Therefore, it is essential to involve foreign investors in activities to help achieve the goals adopted in this Agenda. **SDG-related sectors** include:

- infrastructure, including transport, energy (power generation and transmission), and telecommunications,
- energy from renewable sources (installations for all types of sources),
- water supply and treatment (for industry and households),
- the health sector (investment in infrastructure, e.g., the construction of hospitals),
- agriculture and food production (investments in agriculture, research and rural development),
- education (infrastructure investments, e.g., building schools) (UN/UNCTAD 2021a, p. 8).

According to the above classification, **international infrastructure investments** are seen as supporting the sustainable development of the countries in which they are implemented. However, the importance of **international productive investments** in raw material extraction, processing, and services linked to *global value chains* (GVCs) for sustainable development is not ignored. As a result of the disruption to global value chains during the COVID-19 pandemic, multinational companies involved in comprehensive international production networks need to make them more flexible or restructure them and improve the reliability of supply chains. One option is to shift production capacity closer to the home country. Another is to disperse it in many locations. However, these strategies will not be without implications for capital flows in the coming years, including for the achievement of the SDGs. In turn, international infrastructure investments involve both private and public entities – multinationals, investment funds, and financial institutions. Different financing mechanisms (financial and debt instruments) are used. As a result, only some international infrastructure investments translate into FDI. However, due to investors’ stability and long-term interest in managing international infrastructure projects, such flows are similar to FDI (UN/UNCTAD 2021b, pp. 158–159).

The collapse of global and regional FDI flows during the pandemic significantly impacted the level of investments necessary to achieve SDGs, especially in developing countries. According to UNCTAD assessments, *greenfield* investments in developing regions decreased by 33% in 2020 compared to the period before the pandemic, and funding for international projects decreased by 42%. All SDGs in developing regions recorded a collapse in the inflow of international private investment. These were two-digit decreases, i.e., from 35% in the education sector to 67% in the water supply and treatment sector, with the exception of investments in renewable energy sources, which saw a decrease of 8%. The shock caused by the pandemic strengthened the decrease in investments in these sectors, which was observed even before the pandemic (UN/UNCTAD 2021a, p. 8).

The rebound of global and regional FDI flows in 2021 did not significantly improve investment flows to the SDGs sectors. The total value of announced *greenfield* investments and project financing agreements increased by 55%, but mainly due to the conclusion of a few very large contracts in the renewable energy sector. The number of investment projects in sectors important for achieving SDGs in developing countries increased by only 11%. The sectors with the highest growth were renewable energy and municipal services, financed by international financial projects (UNCTAD 2022, p. 3).

In the context of a substantial collapse of investments in 2020 in sectors important for achieving the 2030 Agenda goals, and the lack of a breakthrough rebound of these investments in 2021, assessments of the prospects for achieving these goals, with the help of international business, must be cautious. They will largely depend on the policies pursued by individual countries for the sustainable recovery of economies during the crisis caused by the COVID-19 pandemic and on the situation in Central and Eastern Europe.

The role of FDI in the ecological transformation of the EU

The impact of international enterprises and their FDIs on the economies of the host countries occurs on many levels. Therefore, we examine the extent to which FDI flowing to EU Member States is located in polluting industries and whether its share in the total inward FDI stocks changes during the analyzed period. The same questions have been raised for FDI from EU investors in industries that pollute the environment. In addition, we analyzed FDI inflows to sectors/industries that are important for implementing SDGs in the new member states.

The statistical analysis was conducted based on OECD data on the sector/industry structure of FDI for 2015, 2019, and 2020. The limitations that emerged in the analysis were:

- data on the FDI stocks were available for only 22 EU Member States, which are also members of the OECD, and on FDI flows for only eight new EU Member States;
- reported data on sector/industry FDI in the analyzed countries was incomplete;
- the confidential nature of the data and their secrecy by the reporting countries resulted in a lack of data for sectors that are important for achieving the SDGs;
- lack of data due to values being close to zero;
- a high degree of data aggregation.

Based on the available data, the sector/industry classification for FDI stocks in 2015, 2019, and 2020 includes:

- 1) mining and quarrying,
- 2) the manufacture of textiles, wearing apparel, wood and paper products; printing and reproduction,
- 3) the manufacture of petroleum, chemical, pharmaceutical, rubber and plastic products,
- 4) the manufacture of metal and machinery products, except electrical equipment.

The third area (*the manufacture of petroleum, chemical, pharmaceutical, rubber and plastic products*) includes environmentally important investments. However, it also includes investments in the pharmaceutical industry, which were generally not classified as polluting.

Due to the above limitations and difficulties in terms of comparisons, it was not possible to perform a complete statistical analysis of the examined issue. Nevertheless, the analysis provides some information on the role of FDI in the ecological transformation of the economies of the EU Member States. It also provides information on the transfer of environmentally harmful production beyond the borders of individual countries.

The shares of **inward FDI stocks** located in environmentally harmful sectors/industries of selected EU Member States and **outward FDI stocks** in these sectors/industries in total inward and outward FDI stocks, respectively, are illustrated in Figure 2 and Figure 3.

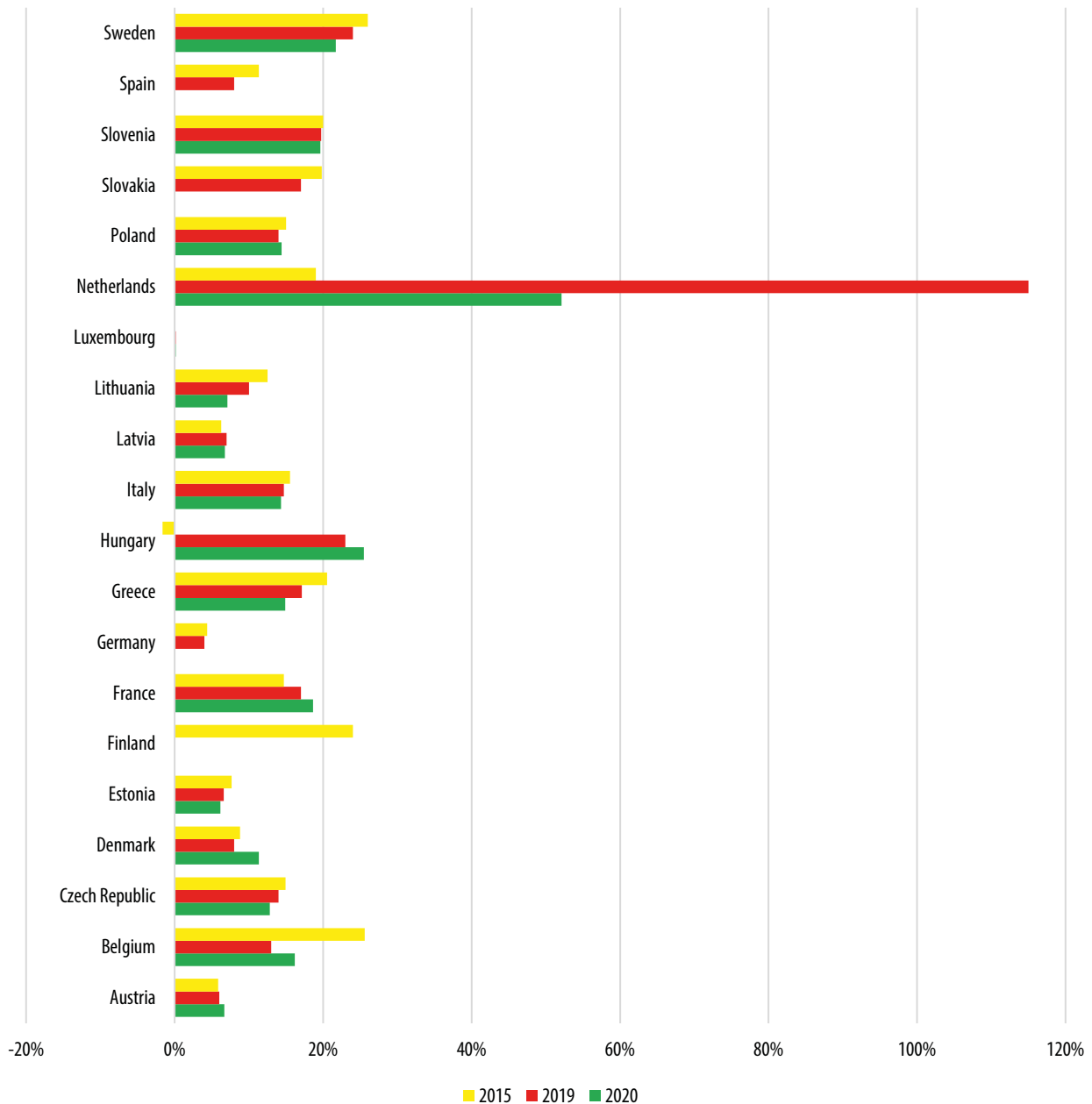


Figure 2. Share of environmentally harmful sectors/industries in the total inward FDI stocks for selected EU Member States, 2015, 2019, and 2020

Source: developed based on OECD 2021.

For most of the analyzed EU member states, the FDI stocks located in environmentally harmful industries do not exceed 20% of the total FDI stocks in these countries. The exception is Hungary (25% in 2020), Sweden (22% in 2020), and the Netherlands (52% in 2020) (OECD 2021 and own calculations). However, the result for the Netherlands is not reliable due to the large disinvestments observed in that country. Investments in environmentally harmful sectors, related to total investments suddenly shrinking, do not correctly reflect the situation there.

More than half of the analyzed EU member states recorded a decrease in the share of foreign investments in environmentally harmful industries or a stabilization of their

shares between 2015 and 2020. This group includes both old and new EU Member States. The increase in shares – ranging from 1 to 4 percentage points – was observed in only a few countries, i.e., Austria, Denmark, France, Latvia and Hungary. It demonstrates the ongoing change in FDI structure in the Member States towards sectors and industries that are less harmful to the environment.

For **FDI stocks located abroad** in environmentally harmful industries, there was a significant variation in the involvement of EU member states in this type of investment (see Figure 3). Three groups of countries are distinguished here.

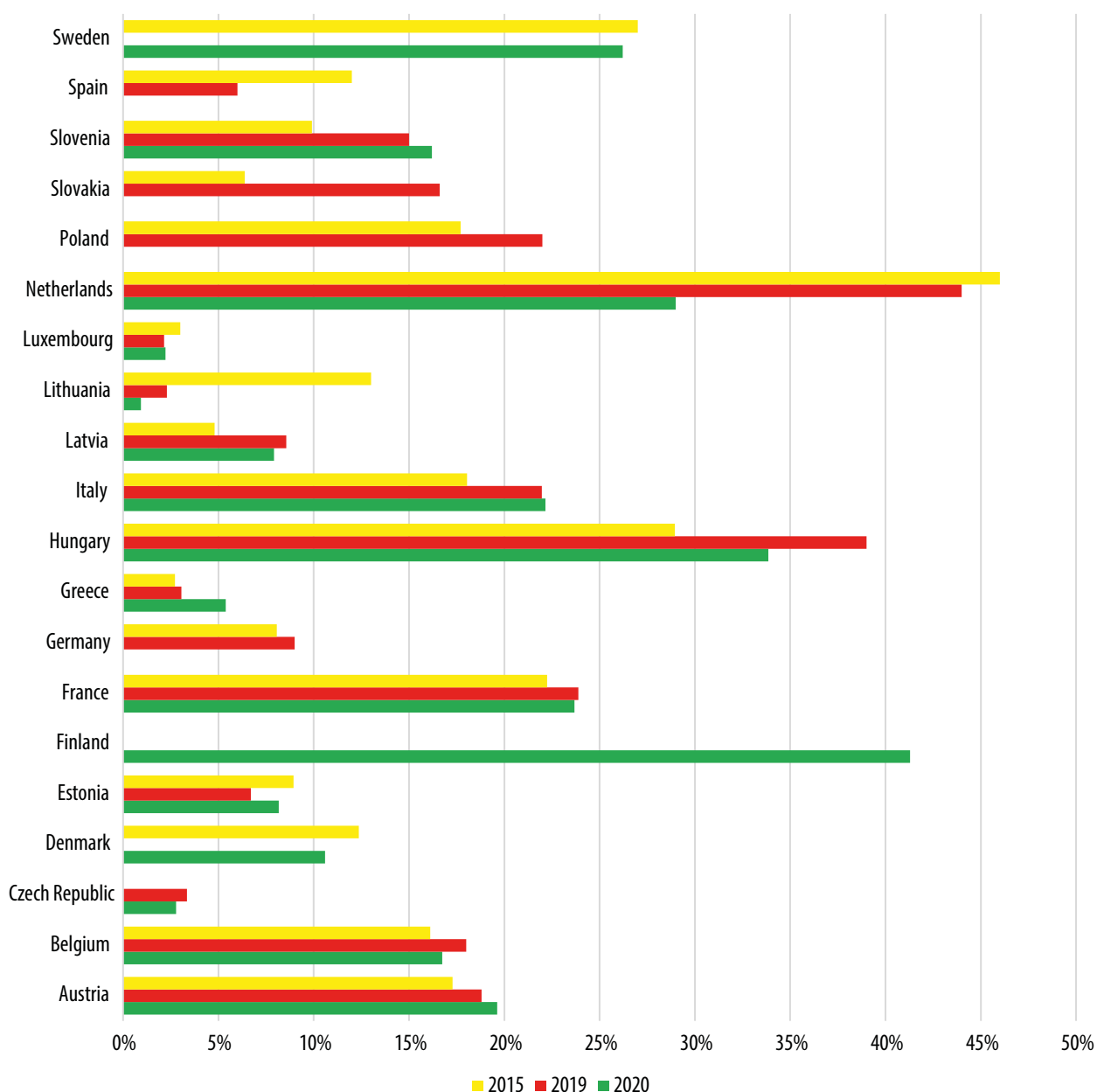


Figure 3. Share of environmentally harmful sectors/industries in total outward FDI stocks for selected EU Member States, 2015, 2019 and 2020

Source: developed based on OECD 2021.

The first group includes countries where the shares of the analyzed investments in the total outward FDI stocks are relatively high, i.e., in the range of 20% to 41%. In 2020, this group included: Finland (41%), Hungary (34%), the Netherlands (29%), Sweden (26%), France (24%), Italy (22%) and Austria (20%), as well as Poland (22% in 2019) (OECD 2021 and own calculations).

The second group includes countries whose share of FDI stocks in environmentally harmful industries ranged from 10% to 19% of total outward FDI stocks in 2020 (Belgium – 17%, Slovenia – 16%, and Denmark – 11%, and Slovakia – 17% in 2019). The third group includes countries with shares below 10% in the analyzed years. This group included both the new EU Member States (the Czech Republic, Estonia, Lithuania, and Latvia) and the old Member States (Greece, Luxembourg, Germany) (stats.oecd.org and own calculations).

The differences in the involvement of EU Member States in environmentally harmful FDI can be partly explained by the following:

- Investors from some Member States, especially the old ones, continue to take into account traditional location factors and shift environmentally harmful production abroad;
- Investors from the new Member States are still poorly able to invest abroad, especially in capital-intensive sectors;
- Individual large transactions, e.g., in the petrochemical industry, may affect the sectoral and industry structure of FDI stocks, with a relatively low involvement of a given country in FDI abroad.

Figure 4 presents data on the absolute values of inward and outward FDI stocks to and from environmentally harmful sectors/industries in selected EU Member States in 2020. It allows determining which of the analyzed countries remain, despite the pandemic conditions, **net exporters** of direct investments in these sectors/industries. According to the available data, the **net exporters are the old EU Member States**, i.e., Austria, Belgium, Denmark, France, Sweden, and Italy. Due to a lack of data, the position of Finland cannot be determined.

A more comprehensive explanation of the effects of the involvement of the identified net exporters in the host countries' environmentally harmful sectors/industries would require additional research on the dominant environmental strategies of foreign investors, the technologies used, and their involvement in social responsibility in the environmental dimension. The geographical distribution of investments would inform whether such investments are mainly located in developing countries or also in the new EU Member States.

The Role of FDI in the Sustainable Development of the European Union

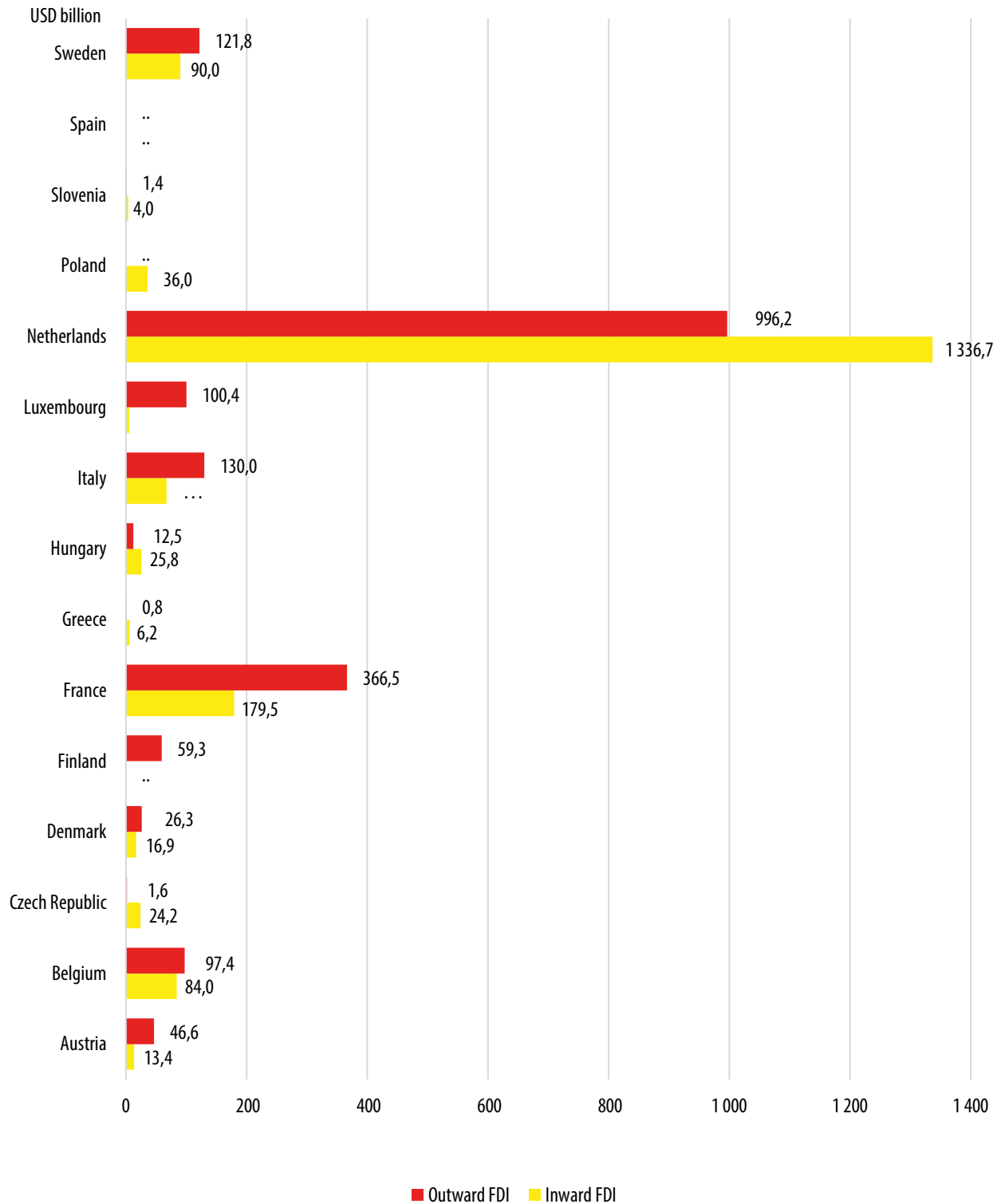


Figure 4. Differences in FDI stocks in environmentally harmful sectors/industries for selected EU Member States, 2020, USD billion

Source: developed based on OECD 2021.

The new EU Member States are interested in FDI inflow, which mainly FDI contributes to modernizing their economies. In addition to the technology transfer they expected as part of the FDI inflow to the processing industries, investments in sectors

vital for achieving the SDGs of the 2030 Agenda are also important. On the one hand, the situation of the new EU Member States is influenced by their policy toward foreign investors. Some areas of the economy may be treated as strategic by them. On the other hand, foreign investors seem to show limited interest in investing in this area.

Data on the share of FDI inflows to sectors important for achieving the SDGs of the 2030 Agenda in the total annual FDI inflows to the analyzed new EU member states are illustrated in Figure 5.

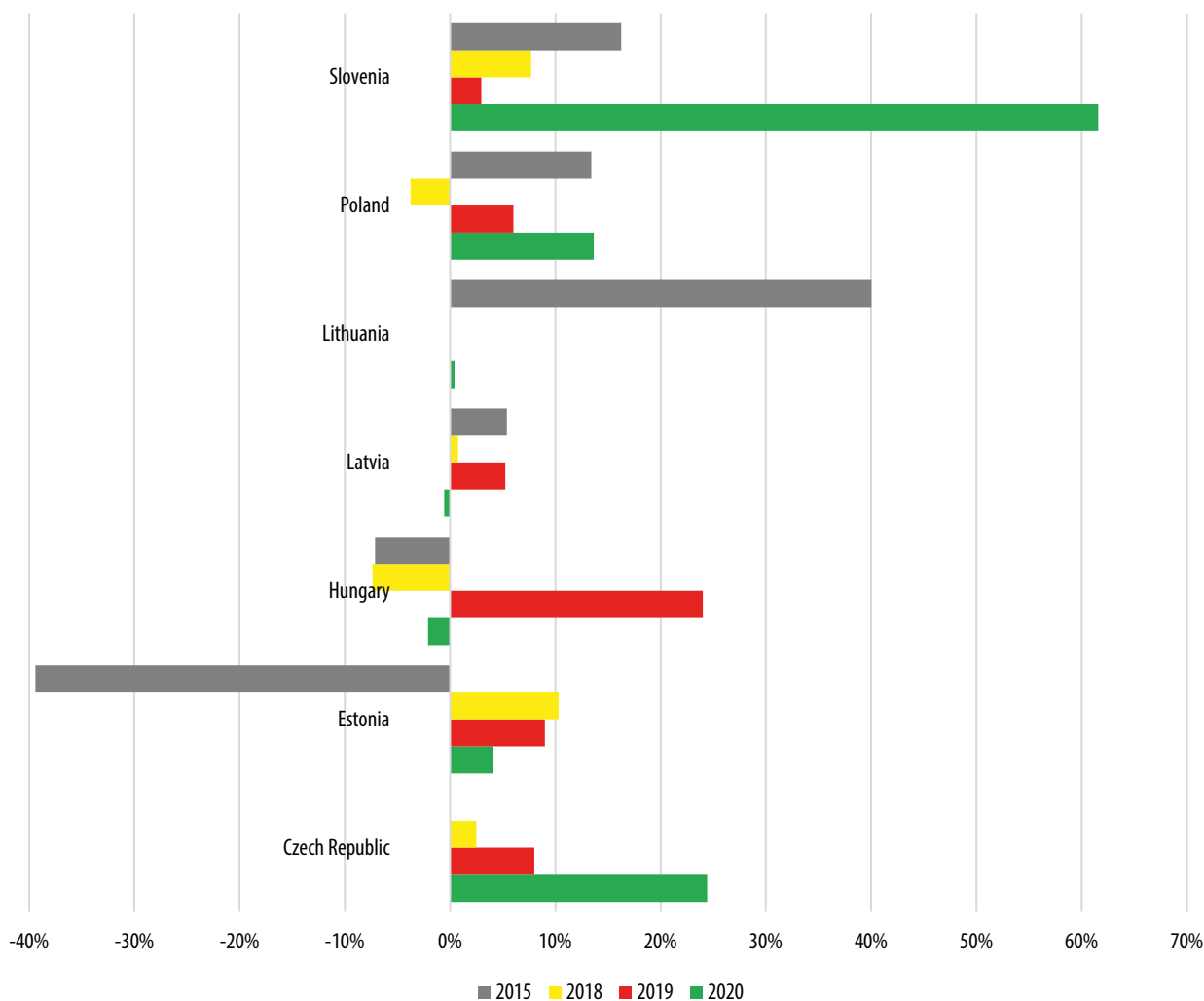


Figure 5. Share of FDI inflows to sectors important for SDG 2030 in the total annual FDI inflows for selected new EU Member States, 2015, 2018, 2019, 2020, %

Source: Developed based on OECD 2021.

The shares of investment flows to sectors considered important for the achievement of SDGs of the 2030 Agenda in the total annual FDI flows reach highly volatile values in the analyzed new EU member states. In 2020, which was generally characterized by a decrease in the share of these sectors in global FDI flows, in three countries, i.e., Slovenia, the Czech Republic and Poland, these shares were higher than in previous years.

In other countries, changes in shares ranged from -2%, -1% (disinvestments) to +4%. At the same time, data for 2015 and 2018–2020 indicate that there were no stable FDI inflows to these countries in the analyzed sectors (stats.oecd.org and own calculations).

Policy towards foreign investors aimed at sustainable development in the post-pandemic period

Traditional policy towards foreign investors

Policies that support the recovery of economies after the shocks caused by the pandemic should take into account the current role of FDI in the economies of the host countries and shape the operating conditions for foreign investors to achieve the goals of sustainable development.

The aim of traditional policies towards foreign investors is to strengthen the net benefits for the host country. Expectations related to FDI inflow are sometimes very high and include increasing financial resources and investments, strengthening technological potential, increasing export competitiveness, creating new, qualitatively better jobs, de-monopolization and promoting competitive behavior and environmental protection. These objectives can not always be achieved because there are phenomena that adversely affect the effectiveness of the policy toward foreign investors. These include information and coordination failures in international investment processes, stronger foreign investors eliminating local competition, the possibility for transnational corporations to exploit, for some time, the existing advantages of the host country (e.g., low labor costs) and then withdraw as these advantages erode, and weak bargaining and regulatory capacity (especially of less developed countries) (UNCTAD 1999, pp. XXIV–XXXIV).

Two approaches to constructing a policy towards foreign investors were observed in practice. The first is a traditional **policy of strengthening location advantages by offering incentives**, sometimes very extensive. The prisoner's dilemma was revealed here. The use of incentives by other countries forced the particular country to use them as well, despite the threat of adverse effects. Secondly, there was an awareness that attracting foreign investors requires **that the economic “foundations” of the country be strengthened**. It means expanding and modernizing the infrastructure, increasing the supply of trained employees as a result of appropriate educational policy, achieving economic and political stability, and improving long-term economic growth prospects (Oman 2000, pp. 9–13). Over time, problems that have arisen in investment policies include protecting investors' interests versus the interests of the host countries and settling disputes between them, as well as issues of screening investment projects.

New ideas and concepts of policy towards foreign investors after the pandemic

The following data confirm that the attitude towards foreign investors in the host countries is changing in the long run. There is a gradual shift from liberal politics and the use of incentives to more restrictive policies. During the pandemic, this shift intensified. While the proportion of liberalization measures applied to restrictive measures was approximately 90% to 10% in 2003, the shares of these groups of measures in the pandemic year of 2020 amounted to 59% and 41%, respectively (UN/UNCTAD 2021a, pp. 16–17). In that year, the policy towards foreign investors in developed countries was dominated by restrictive or regulatory measures (81% of all adopted measures). They involved taking precautionary measures to protect sensitive domestic businesses from foreign acquisitions. It contrasted with the situation in developing countries, where only 14% of the introduced measures were regulatory or restrictive (UN/UNCTAD 2021a, pp. 16–17).

The COVID–19 pandemic revealed **shocks and uncertainty** about further impacts on the economy, including capital flows in the form of FDI, on the side of both host countries and foreign investors. Applying anti-pandemic policies in health care in the host countries affected foreign investors in particular countries. They also negatively affected the recent decisions on investments abroad. The additional obstacles that emerged included low predictability and transparency of legal regulations for foreign investments, difficulties in starting investments, the lack of incentives for foreign investors to engage in SDGs sectors, the use of screening procedures for investment projects, and the temporary revocation of visas for employees.

In order to eliminate the general adverse effects of the pandemic crisis in the sphere of FDI inflows and, in particular, those concerning sustainable development, various **concepts of changes in policy towards foreign investors** of the host countries have been formulated. They include (Nimac 2020; Stephenson 2021; Sauvant, Stephenson, and Kagan 2021; Thrasher 2021; World Trade Organization 2022):

- facilitating foreign investment, including investments aimed at sustainable development,
- changing the approach of the host countries' governments to shaping the policy towards FDI, with particular emphasis on promoting FDI,
- encouraging the involvement of investors in “green investments”,
- making investment agreements more flexible to combat climate change in the recipient countries,
- introducing investment partnership programs between countries through the cooperation of investment promotion agencies.

The **facilitation of foreign investment** is currently being negotiated in the WTO. A joint initiative of WTO member countries (developing countries and least developed countries – LDCs) was launched in 2017 to develop a multilateral agreement on facilitating development-friendly investment (*Investment Facilitation for Development*). One hundred and eleven countries joined the initiative successively; formal negotiations began in September 2020, and the expected date of concluding the negotiations is the end of 2022 (World Trade Organization 2022). The issues discussed by the countries participating in this initiative are:

- improving the transparency and predictability of investment policy measures,
- simplifying and speeding up administrative procedures for investments,
- strengthening the dialogue between governments and investors and promoting the introduction of responsible business practices by companies, as well as preventing and combating corruption,
- providing special and dedicated treatment and technical assistance to developing countries and LDCs and building their position.

The impact of the pandemic on FDI flows confirmed the importance of this initiative for all stakeholders and the need to finalize the negotiations rapidly.

According to another recommendation, **economic support** during the pandemic for entities affected by government restrictions should cover both domestic companies and foreign subsidiaries of international enterprises (Nimac 2020, p. 1). Barriers to FDI inflow to sensitive sectors introduced during a pandemic should be clearly defined, limited in time, and subject to verification. The task of investment promotion agencies should be to support foreign investors operating in the economy to help them stay in the market.

On the other hand, in the phase of emerging from the crisis, the governments of the host countries should consider **reformulating their policy towards foreign investors** to help overcome the effects of the pandemic on FDI flows and to activate the driving forces for sustainable and technological development. Changes in the approach to policy should cover four stages (Nimac 2020, pp. 2–3).

In the first stage, it would be necessary to review the FDI strategy to ascertain whether investors were in segments of the economy that were resistant to the effects of the pandemic. Such segments included the production and supply of medical equipment, the pharmaceutical industry, services supported by IT technologies, logistics, and some media. The review should also identify those segments that could benefit from the transformation and re-formatting of global value chains. It should be used to consider which segments of the economy fit best into the national objectives, e.g., sustainable development, green economic growth, and industrial development 4.0.

The second stage should be the approval of priority segments. It would require the formulation of country policy priorities by the relevant institutions (ministries, agencies responsible for business registration and activities in the area of issuing licenses, work permits, visas, and incentive management) in cooperation with the investment promotion agencies.

The third stage is implementing policy reforms towards foreign investors to improve the value of current and emerging priority segments. It would require:

- phasing out investment screening mechanisms for monitoring that were introduced during the pandemic crisis;
- linking incentives for investors to new priority segments of the economy; and
- reviewing international investment treaties and applicable law to address pandemic issues (e.g., clarifying rights and obligations under force majeure conditions).

The fourth stage would be to promote new priority segments of the economy among foreign investors, involving investment promotion agencies. It would be essential to involve the investment promotion agencies in the aftercare of investment projects in the post-investment phase.

When sustainable development, including the reduction of CO₂ emissions, becomes a priority investment direction for countries, **policy concepts are also formulated to encourage green investments**. The host countries' proactive policy should focus on (Sauvant, Stephenson, and Kagan 2021):

- encouraging or requiring (if necessary) multinationals to make their foreign subsidiaries carbon-neutral; reporting and publishing information on the carbon footprint of these subsidiaries should be mandatory; this would relate to companies of a specific size;
- using financial and non-financial incentives for carbon neutral FDI, including the creation of a "Recognized Sustainable Investor" category (Sauvant and Gabor 2021); the criterion for inclusion in such a category would be the investment's climate neutrality or positive impact on the climate;
- combining taxes with carbon emission levels in investment projects, according to the rule: lower emissions, lower taxes; in addition, governments could facilitate the use of green finance as a source of capital for CO₂-neutral FDI projects;
- supporting the emergence of carbon-neutral investment projects by creating platforms that facilitate the pooling of capital with investment opportunities.

Foreign investors' **home countries** also have a responsibility to promote green investment. They can support outgoing FDI with investors' compliance with the climate pro-

tection standards in force in the home country. It may be combined with the requirement for domestic investors to publish data on carbon emissions in large investment projects abroad. Measures that are used by home countries to reduce the risks of investments abroad – political risk insurance or guarantees – can be combined with carbon dioxide emissions. The principle should be: the lower the CO₂, the more favorable the offered conditions of insurance against political risk and guarantees. The home countries should not allow carbon-emitting industries to be relocated abroad. Preferential financing of investment projects should be associated with low emissions that result from their implementation (Sauvant, Stephenson, and Kagan 2021, pp. 1–2).

The concept mentioned above is in line with the idea of making **investment agreements between countries more flexible** to enable them to meet their commitments to **limiting climate change**. Most investment agreements focus on investment protection without addressing the impact of investment on the host countries' economies. Thus, the agreements do not create conditions for introducing investment policy measures that favor climate-friendly foreign investments or counteract investments that are harmful to the climate. The international investment regime is not adapted to the current needs of countries, lagging behind their actions, referred to as “green industrial policy”. As part of this policy, countries are introducing incentives for the renewable energy sector and energy transformation and discouraging reliance on fossil fuels. The EU is also changing the concept of industrial policy towards supporting the green economy (Kawecka-Wyrzykowska 2020, pp. 11–35; Thrasher 2021, pp. 1–3).

Only a few new international investment agreements contain provisions that address the challenges of climate change. These challenges are addressed by facilitating increased investment in environmentally friendly goods and services. It is seen as the continued dominance of liberalization investment regimes over the right of governments to regulate critical sectors within the framework of a “green industrial policy”. Therefore, it is proposed that countries be granted the right to support renewable energy production and that investments in the fossil fuel sector be discouraged (Thrasher 2021, pp. 1–3). This proposal could become a viable solution if the action of a group of WTO members (including the EU) regarding the phasing out of fossil fuel subsidies and allocating these funds to financing a green, sustainable economy is supported. Subsidies for fossil fuels were estimated at USD 500 billion in 2019 (World Trade Organization 2021).

The introduction of **investment partnership programs between countries**, through the cooperation of investment promotion agencies, is a concept that would make it possible to increase FDI flows and promote sustainable investments (Stephenson 2021, pp. 1–3). This cooperation may concern the partnership between investment promotion agencies from different countries on sharing knowledge and good practic-

es and the partnership between investment promotion agencies and outgoing investment agencies.

The discussion on various aspects of foreign investment policy, which are conducive to recovery from the pandemic crisis and to sustainable development, points to the need to adapt this policy to new conditions and challenges. The conclusion of WTO negotiations on a new agreement on investment facilitation would create a framework within which changes in national policies could take place, taking into account the interests of the negotiating parties and companies making investments abroad. The solutions proposed must consider the existing provisions adopted in the Agreement on Trade-Related Investment Measures (TRIMS), GATT/WTO, the Agreement on Subsidies and Countervailing Measures, GATT/WTO, and the principle of national treatment, which OECD members are bound to respect with regard to foreign investors.

The EU's investment policy during the recovery from the COVID-19 pandemic

Under the Treaty on the Functioning of the European Union (The Treaty of Lisbon), the EU acquired new competencies in external relations, including FDI, in the common commercial policy (Art. 206). The Treaty confirms the division of competencies between the Union and the member states (Art. 207) (TFEU 2012).

The impact of the common investment policy on capital flows in the form of FDI is achieved by concluding investment agreements between the EU and third countries, regulations on how to resolve investment-related disputes, and regulations on the common framework for the screening of FDI entering the EU.

From the perspective of the sustainable development of the EU, investment agreements between the EU and third countries, including environmental, climate change, and social issues, as well as regulations on the screening of FDI flowing into the EU and practical actions taken in this regard, are of particular importance.

The EU has undertaken numerous negotiations on trade and investment agreements with the grouping's external partners, which can be perceived as part of the implementation of the investment policy. Agreements concluded and currently being negotiated are either comprehensive cooperation agreements, which also include investment provisions, or agreements aimed mainly at facilitating investments and their protection in mutual relations. The new generation agreements concluded by the EU with partner countries include provisions on sustainable development that result from the commitments stemming from the 2030 Agenda. By implementing trade agreements, the EU wants to achieve the objectives of social justice, respect for human rights, high labor

standards and environmental protection. So far, it has negotiated and signed 14 such agreements (European Commission 2022)¹.

The EU has established a common framework for screening incoming FDI, with regulations entering into force in April 2019 (European Union 2019). The general justification for the introduction of screening was to protect the public interest in the expansion of foreign investors from third countries in strategic EU sectors. Therefore, efforts have been made at the EU level to create a new investment policy instrument, which has a potentially restrictive character. Its use should safeguard the key strategic interests of the EU and the member states in the global economy. Although the main objectives of adopting this regulation were different, this instrument could also safeguard the EU's interests in terms of sustainable development.

The EU's investment policy, aimed at sustainable development, is complemented by the activities of international and national businesses within the CSR framework. Of the several identified dimensions of CSR (Carroll and Shabana 2010), the social, economic, and environmental dimensions are of fundamental importance for supporting sustainable development.

The EU promotes the responsibility of enterprises for their impact on society. It promotes the integration of CSR into various forms of private business activities to achieve SDGs (European Commission 2011; 2019). The EU also adopted a new European Consensus on Development in 2017 as a common framework for EU and Member States' actions (European Commission 2019). Assuming a convergence of corporate social responsibility/corporate social conduct with the UN 2030 Agenda for Sustainable Development and the UN Guiding Principles for Business and Human Rights, the EU focuses on practical actions to lead to their implementation. The social involvement of business, including their international involvement, is part of balancing the EU's development.

Conclusion

The COVID-19 pandemic caused a drastic decline in FDI flows on a global and regional scale in 2020. Due to foreign investors' high sensitivity to the changing economic, political and institutional conditions in the host countries and their home countries, the recorded decreases in FDI in the first period of the pandemic were more significant than for GDP and international trade. Developed countries, including the EU, experienced the most significant decline, i.e., by 73%, compared to the year before the pandemic. Some

¹ These are agreements with Canada, Central America, Colombia, Peru and Ecuador, Georgia, Japan, Mercosur, Mexico, Moldova, Singapore, South Korea, Ukraine, and Vietnam.

EU Member States recorded disinvestments, and only a few saw a slight increase in FDI flows. Although global FDI flows rebounded in 2021, in the EU, growth was only 8%.

The pandemic threatened the implementation of SDGs on a global scale. The collapse of FDI in sectors important for SDGs (i.e., infrastructure, renewable energy, water supply and treatment, health, agriculture and food production, and education) makes these objectives more difficult to achieve, especially in developing countries. The EU, which implements the *European Green Deal* strategy, is also facing constraints resulting from a decrease in the involvement of foreign investors in the economies of the Member States and a change in the sectoral structure of their investments. The war in Ukraine and its consequences for the energy security of Europe and other regions are now becoming a serious threat.

The statistical analysis of international business involvement in the EU economy in environmentally harmful sectors/industries indicates that the share of such investments between 2015 and 2020 in most member states did not exceed 20% of total FDI stocks. In addition, the structure of FDI stocks changed towards sectors/industries that were less harmful to the environment. Considering the high requirements for economic entities resulting from the EU's environmental policy, it can be assumed that international business contributed to the ecological transformation of the EU.

On the other hand, changes in the structure of FDI stocks located abroad in polluting sectors/industries by investors from EU member states do not allow for a clearly positive conclusion. There are significant differences between the member states in the scale of investor involvement in sectors/industries that are harmful to the environment. The changes in the investment structure between 2015 and 2020 were multidirectional. It should also be noted that several of the old Member States were net exporters of direct investment into these sectors/industries.

An analysis of the involvement of foreign direct investors in sectors important for the implementation of the SDGs of the 2030 Agenda in eight new EU Member States indicates that such investments are not very high in value and are highly volatile. It can also be assumed that they do not play a significant role in their economies.

FDI recipient countries carry out investment policies that are supposed to help achieve economic goals, including sustainable development. The policies towards foreign investors are evolving. In the longer term (2003–2020), there was a gradual shift from liberal policies and the use of incentives to more restrictive policies. While emerging from the pandemic and eliminating shocks and uncertainties in the sphere of capital flows in the form of FDI, various concepts of changes in the current policies towards foreign investors have appeared. With regard to supporting the sustainable development of FDI recipient countries, it may be helpful to facilitate foreign investments, including investments aimed at sustainable development, encourage the involvement of investors in green investments, and make investment agreements more

flexible to combat climate change in the receiving countries. The introduction of specific solutions to countries' investment policies will be possible after the conclusion of negotiations on a multilateral agreement within the WTO on facilitating development-friendly investments (*Investment Facilitation for Development*).

In the EU's common investment policy, investment agreements between the EU and third countries, which include environmental, climate change, and social issues, as well as regulations and actions regarding the screening of FDI inflows into the EU, are of particular importance for achieving the EU's sustainable development goals.

References

- Budnikowski, A. (1998), *Ochrona środowiska jako problem globalny*, PWE, Warszawa.
- Carroll, A.B., Shabana, K.M (2010), *The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice*, "International Journal of Management Reviews", 12 (1), pp. 85–105, <https://doi.org/10.1111/j.1468-2370.2009.00275.x>
- European Commission (2011), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A renewed EU strategy 2011–14 for Corporate Social, Brussels, 25.10.2011, COM(2011) 681 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0681&from=EN> (accessed: 15.02.2022).
- European Commission (2019), *Corporate Social Responsibility, Responsible Business Conduct, and Business and Human Rights, Overview of Progress*, <https://ec.europa.eu/docsroom/documents/34963> (accessed: 13.02.2022).
- European Commission (2022), *Sustainable development*, https://policy.trade.ec.europa.eu/development-and-sustainability/sustainable-development_en (accessed: 13.02.2022).
- European Union (2019), Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, Official Journal of the European Union, L 79 I/1, 21.3.2019, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0452&from=EN> (accessed: 15.02.2022).
- Kawecka-Wyrzykowska, E. (2020), *A new industrial policy in the EU: in search for a new paradigm of public intervention*, [in:] A.A. Ambroziak (ed.), *New Challenges for the European Union's Industrial Policy: Climate Change, Servitisation, Digitalisation*, SGH Publishing House, Warszawa, pp. 11–36.
- Nimac, I.A. (2020), *COVID–19 and FDI: How should governments respond?*, "Columbia FDI Perspectives", 288.
- OECD (1999), *Foreign Direct Investment and the Environment*, Paris.

- OECD (2021), *OECD International Direct Investment Statistic 2020*, https://www.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2020_e6696186-en (accessed: 20.02.2022).
- Oman, Ch. (2000), *Policy Competition for Foreign Direct Investment. A Study of Competition among Governments to Attract FDI*, OECD, Paris, <https://doi.org/10.1787/9789264181083-en>
- Sauvant, K.P., Gabor, E. (2021), *Facilitating Sustainable FDI for Sustainable Development in a WTO Investment Facilitation Framework: Four Concrete Proposals*, “Journal of World Trade”, 55, pp. 261–286, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3496967 (accessed: 10.02.2022).
- Sauvant, K.P., Stephenson, M., Kagan, Y. (2021), *Green FDI: Encouraging carbon-neutral investment*, “Columbia FDI Perspectives”, 316.
- Stephenson, M. (2021), *Launching a program for investment partnerships*, “Columbia FDI Perspectives”, 319.
- TFEU (2012), *The Treaty on the Functioning of the European Union (Consolidated version)*, “Official EN Journal of the European Union”, C 326/47, 26.10.2012, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN> (accessed: 15.02.2022).
- Thrasher, R. (2021), *Room to move: Building flexibility into investment treaties to meet climate-change commitments*, “Columbia FDI Perspectives”, 296.
- UN/UNCTAD (2016), *World Investment Report 2016. Investor Nationality: Policy Challenges*, Geneva, https://unctad.org/system/files/official-document/wir2016_en.pdf (accessed: 10.02.2022).
- UN/UNCTAD (2019), *World Investment Report 2019. Special Economic Zones, Overview*, Geneva, https://unctad.org/system/files/official-document/wir2019_en.pdf (accessed: 10.02.2022).
- UN/UNCTAD (2021a), *World Investment Report 2021. Investing in Sustainable Recovery, Overview*, Geneva, https://unctad.org/system/files/official-document/wir2021_overview_en.pdf (accessed: 11.02.2022).
- UN/UNCTAD (2021b), *World Investment Report 2021. Investing in Sustainable Recovery*, Geneva, https://unctad.org/system/files/official-document/wir2021_en.pdf (accessed: 11.02.2022).
- UNCTAD (1999), *World Investment Report 1999. Foreign Direct Investment and the Challenge of Development*, New York–Geneva, https://unctad.org/system/files/official-document/wir1999_en.pdf (accessed: 12.02.2022).
- UNCTAD (2022), *Global FDI rebounds strongly in 2021, but recovery highly uneven*, “Investment Trends Monitor”, 40, https://unctad.org/system/files/official-document/diaeiainf2021d3_en.pdf (accessed: 15.02.2022).
- Witkowska, J. (2011), *Foreign Direct Investment and Sustainable Development in the New EU Member States: Environmental Aspects*, “Comparative Economic Research. Central and Eastern Europe”, 14 (3), pp. 5–23, <https://doi.org/10.2478/v10103-011-0016-0>
- World Trade Organization (2021), *Ministerial Statement on Fossil Subsidies*, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/MIN21/9R1.pdf&Open=True> (accessed: 11.02.2022).

World Trade Organization (2022), *Joint Initiative on Investment Facilitation for Development*, https://www.wto.org/english/thewto_e/minist_e/mc12_e/briefing_notes_e/bfinvfac_e.htm (accessed: 8.02.2022).

Wysokińska, Z., Witkowska, J. (2004), *Handel i inwestycje zagraniczne a zrównoważony rozwój*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź.

Zahn, J. (2021), *Global FDI prospects for 2021–2022*, <https://www.fdiintelligence.com/content/opinion/global-fdi-prospects-for-20212022-80145> (accessed: 18.01.2022).

Rola BIZ w zrównoważonym rozwoju Unii Europejskiej

Celem artykułu jest zbadanie roli międzynarodowych zachowań biznesowych w procesie zrównoważonego rozwoju UE oraz udzielenie odpowiedzi na dwa pytania, a mianowicie: (1) „W jakim stopniu międzynarodowy biznes może przyczynić się do rozwoju »zielonej gospodarki« w warunkach niepewności spowodowanej pandemią COVID-19?»; (2) „W jaki sposób kraje otrzymujące mogłyby przyciągnąć „zielone” i społecznie odpowiedzialne bezpośrednie inwestycje zagraniczne (BIZ)?”

Analiza statystyczna zaangażowania biznesu międzynarodowego w gospodarce UE w sektorach/gałęziach uciążliwych dla środowiska wskazuje, że w latach 2015–2020 udział tego typu inwestycji w większości krajów członkowskich nie przekraczał 20% ogółu skumulowanych BIZ. Struktura inwestycji zmieniała się w przypadku połowy badanych krajów w kierunku sektorów/gałęzi mniej uciążliwych dla środowiska. Zmiany te oraz wysokie wymagania wobec firm krajowych i zagranicznych w ramach polityki ochrony środowiska UE pozwalają wnioskować, że biznes międzynarodowy przyczyniał się do transformacji ekologicznej UE. Natomiast zmiany w strukturze skumulowanych BIZ ulokowanych przez kraje członkowskie UE za granicą w latach 2015–2020 w sektorach/gałęziach uciążliwych dla środowiska były różnokierunkowe. Sześć spośród analizowanych krajów UE pozostawało nadal eksporterami netto bezpośrednich inwestycji w tych sektorach/gałęziach. Zaangażowanie bezpośrednich inwestorów zagranicznych w nowych krajach członkowskich UE w sektorach ważnych dla realizacji celów zrównoważonego rozwoju – SDGs Agendy 2030 osiągało niezbyt duże wartości, cechowało się dużą zmiennością, nie odgrywając znacznej roli w ich gospodarkach. Przyciąganie „zielonych BIZ” i społecznie odpowiedzialnych inwestycji wymaga zmian w polityce wobec inwestorów zagranicznych. Powinny one dotyczyć ułatwień dla inwestycji zagranicznych, w tym inwestycji ukierunkowanych na zrównoważony rozwój, zachęt do angażowania się inwestorów w „zielone inwestycje”, uelastycznienia umów inwestycyjnych w celu przeciwdziałania zmianom klimatycznym.

Słowa kluczowe: bezpośrednie inwestycje zagraniczne, zrównoważony rozwój Unia Europejska, aspekty ekologiczne