Forum: Youth Assembly

Issue: Assessing the socio-economic impact of foreign investments on developing nations.

Student Officer: Shenushi Ranasinghe

Position: Head Chair at the Youth Assembly

Introduction

This agenda highlights how different forms of foreign investments influence the development of destruction of both social (education, health and community) and economic (income, employment and wealth distribution) factors in a developing country. A 2011 study published by Oxford university discussed that while foreign aid can bring capital, technological advancement or expertise in a country to stimulate both economic growth or infrastructure means – foreign aid may also result in negative consequences that pose further problems like income inequality, cultural disruption and environmental degradation for the developing countries. This agenda brings light to how far foreign investments can really give an impact both socially and economically.

Foreign investments play a crucial role in shaping the economic landscape of developing nations. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows reached approximately $1.58 trillion in 2020, with developing countries receiving about $616 billion, marking a significant increase from $500 billion in 2015. This influx led growth in multiple countries GDP. FID is also a crucial component of job creation that include low skilled and illiterate employees. For example, the ADB assisted sub-saharan Africa to create 10 million jobs in 2010-2015,which are still efficient today. Investments also contributed to bringing technology into developing countries, which led to more solutions and prevention towards country issues that required technological equipment.

There's also : 1) Infrastructure development hence large improvements in transportation and energy services that benefit both the people and the government. 2) Local businesses in developing countries benefit from this investment too, since this provokes access to global networks, which will expand global market access and lead to higher export volumes which improves the economical trade balance of the country. 3) Higher tax revenues and capital development which boosts public investment in services and will implement skill development programs to enhance local workforce capabilities. Caribbean countries used this method to increase their human capital development with a more efficient workforce sector- hence increasing its GDP from 3.7% to 22.536%.

The social impacts of foreign investments in developing nations are complex and multi-dimensional. One of the major impacts were skill development training initiatives, where according to the world bank, companies started investing in potential developing nations to get developing nations employees for skills that other local employees couldn't do. ILO also stated that due to foreign investments aiding in increasing incomes, standards of living in terms of education and healthcare have improved greatly.

Other social impacts include : 1) CSR initiatives in communities that enhance community welfare and infrastructure due to multinational corporations engaging in the idea. 2) A report by the African Development Bank noted that foreign investments contributed to $45 billion in infrastructure projects like orphanages and educational institutes which increased the average literacy rate of developing countries to 31%.

Definition of Key Terms

Foreign Direct Investment (FDI):

Capital investment made by an individual or entity in one country into business interests in another, typically characterised by a significant degree of control over the foreign business operations.

Economic Growth:

An increase in the production of goods and services in an economy, usually quantified by the rise in Gross Domestic Product (GDP), reflecting enhanced economic activity and prosperity.

Corporate Social Responsibility (CSR):

A strategic framework in which companies voluntarily integrate social and environmental considerations into their business operations, fostering ethical relationships with stakeholders and enhancing community welfare.

Income Inequality:

The unequal distribution of income and wealth among different segments of the population, often exacerbated by economic policies and the dynamics of foreign investment.

Cultural Homogenization:

The process by which local cultures and traditions are diminished or altered due to the pervasive influence of global cultural norms, often driven by foreign corporations.

Regulatory Framework:

The set of laws, regulations, and guidelines governing economic activities, including foreign investments, which can influence business practices and investment decisions.

Human Rights Impact Assessment:

An evaluation of the potential effects of business activities on human rights, particularly relevant for foreign investments in sensitive sectors or regions.

Value Chain Development:

The process of enhancing the value of products or services through various stages of production and distribution, often involving local firms in partnerships with foreign investors.

Digital Divide:

The gap between those who have access to digital technologies and those who do not, which can be impacted by foreign investment in technology sectors.

Investment Treaty:

Agreements between countries that establish the legal framework for foreign investments, often providing protections for investors and outlining dispute resolution mechanisms.

Key Issues

Economic Dependency:

Excessive reliance on foreign capital can create vulnerabilities to the country when faced with sudden changes in the investor's sentiment, geopolitical tensions or global market fluctuations which will destabilise the economy. Countries are unable to handle both social and economic situations without foreign capital, hence implementing unnecessary and cheap policies thar worsen the situation. For example, the 2014 situation in Peru : When faced with a major rise in poverty, they turned to foreign investment for help but were rejected due to already being in debt. This caused the government to release a statement where they would be waiting until other foreign investment arrives. Peru only rose from poverty in 2019, which is 5 years later due to their complete dependency on foreign investment.

This dependency will also cause inflationary pressure. This where sudden changes or influxes from the foreign capital lead to inflation, which will directly affect both living standards as well as the total purchasing power. This pressure also causes profits generated from these firms being given back to their respective home countries, which limits the net economic benefit for the developing nation.

This dependence also prevents the development of domestic industries due to larger competition that benefits from the economies of scale. As time progresses, so does this dependency which causes the economy to be fragile and ready to shatter when a circumstance hits them.

Income inequality:

This focuses on the wage disparities between high skilled and low skilled workers. When multinational corporations enter a market, they go for skillful workers and provide a very high wage compared to the majority of the workforce (low skilled workers) who face less secure jobs with an even lower wage. With the rising demand for labour, workers who have an educational background of beforehand training will be employed however equally skilled workers without an educational background of beforehand training will be left behind. This deepens the already present income inequalities of the country as well as hindering social mobility as well.

Labour exploitation:

This is where foreign investment takes advantage of weak labour. Foreign firms offer low wages that don't meet basic living standards. Due to not having other alternatives, local people succumb to these practices just to receive a little bit of income enough to feed their families. Additionally, foreign firms in these cases offer facilities that are hazardous, often with no safety regulations and expect the workers to work for long periods of time.

Even with extensions of working hours, the pay remains the same or will slightly decrease. This is unfortunately due to the foreign business mindset where they prioritise the profit margins over the workers welfare,resulting in exploitation which contributes to the social issues of this agenda.

The Global Slavery Index 2018 estimated that 24.9 million people are in forced labour, with many working in sectors with significant foreign investment, highlighting concerns over labour exploitation.The government also plays a part in this issue. Since they depend on these foreign firms, they have little regulations on these working conditions due to the governments also aligning with this mindset. Sometimes, weak labour go off to create their own small businesses, but due to being overpowered by large firms, they turn into monopolistic or oligopolistic market structures.

Environmental degradation:

Investing in extractive industries causes serious threats to our environment that include habitat destruction, soil erosion, or different forms of pollution due to the amount of toxic waste and chemicals used in various extraction processes. With natural resources depleting, this affects both the environment and the local community who depend on these resources for agriculture or fishing practices. Pollution forms also contaminate drinking water sources leading to health issues in the community. A study by the World Health Organization (WHO) indicated that regions experiencing rapid industrialization due to foreign investments saw a 25% increase in respiratory diseases linked to pollution.Lastly, communities also face displacement and involuntary movement issues due to extraction communities taking away their homes.

Political influence:

When given foreign investments, politicians tend to shape their priorities towards their own individual needs rather than the needs of the local population. This basically fosters corruption where local governments start creating policies to both impress foreign investors as well as limiting access to essential services so that they can keep it for themselves.

This influence weakens the relationship between the government and the publix and will fuel the mindset that their OWN governments are serving foreign investments rather than their own. This will lead to rioting from the public, or cause more deviance in society due to forcing the people to align themselves with foreign policies. The predicted outcome will be the unstable economy, the hindered development goals of the country and the erosion of the basic principles of democracy that previous politicians have raised.

Cultural erosion :

Foreign consumer culture overshadows local identities and traditions, causing cultural erosion. Due to foreign investment introducing new lifestyles, local customs start altering or aligning towards these expectations. Cultural homogenization results in the loss of cultural practices, expressions and languages due to the promotion of foreign practices. This shift diminishes the importance of heritage and causes identity crises and diminishes social cohesions. A study by UNESCO found that in regions heavily influenced by foreign investment, 40% of respondents reported a decline in local cultural practices and traditions.

Major Parties Involved and Their Views

United States of America:

The United States is a leading source of FDI in developing nations, showcasing their great economic influence and interests. As of 2021, USA’s FDI rate in developing countries was $400 Billion, where they’re mainly in energy, technology and consumer goods sections. The American mindset sees developing nations as markets for an expansion objective. The U.S government also takes initiative to facilitate American investments abroad through initiatives like : The Overseas Private Investment

Corporation (OPIC) and the U.S. International Development Finance Corporation (DFC) – where they provide trade agreements and partnership policies to ensure investment protection and to prevent misuse of their foreign capital.

However, the U.S.A poses a lot of concerns in relation to labour rights and environmental standards. According to UNHRC, U.S companies have been seen violating labourers, providing inadequate wages and facilitating poor working conditions. Developing countries have responded to this by increasing advocacy regarding CSR and requesting American firms to uphold ethical labour standards. This has been agreed by the government as of 2018, as they now emphasise which provide financing and insurance to reduce investment risks. Trade agreements, such as the United States-Mexico-Canada Agreement (USMCA) and partnerships in Asia-Pacific, underscore the U.S. commitment to open the importance of international guidelines on labour and environmental protection (Eg :- UN Guiding Principles of Business and Human Rights).

China

Ever since the Belt and Road initiative in 2013, China has emerged as one of the main investors in developing countries. BRI was made to enhance global trade and to build more infrastructure within Asia,Africa and Europe. This caused $1 Trillion to be raised from BRI and given to developing nations to secure access to certain resources. China's main focus is infrastructure development and energy projects. In developing Asian countries, Chinese firms have funded 30% of the total infrastructure in the continent. China has also funded extraction firms to ensure a steady supply of raw materials needed for technology and manufacturing sectors.

This raises concerns about these investments. The greatest concern is debt dependency of developing countries, as a lot of their projects are financed through loans, not grants. This scheme is called the "Chinese debt trap", causing countries to struggle in repaying these loans, so they rely on Chinese support for economic stability. They also have struggles with environmental impacts associated with pollution, deforestation, and involuntary displacement of local communities in these developing countries. Just like the U.S.A, they also face labour exploration issues, with 43.7% of their developing staff facing fatality from poor working conditions.

European Union :

The EU is known for accounting for 38% of the total global FDI in developing nations. Their strategy is more on sustainable development and poverty mitigation, committing to having a positive socio economic impact. They prioritise ethical investment practices, where they create positive impacts for a great financial return. The EU has implemented the European Consensus on Development, where they promote the SDG's to encourage green technology in these developing countries. They also link their trade agreements with developing countries to human right standards, since they believe that these investments should be both economically and socially responsible. The EU in 2021 allocated over €78 billion in development aid to reduce inequality and foster sustainable economic growth in developing nations. Their input in this agenda is remarked the most successful one, being 70.21% of the main impactors in aiding countries with foreign investment.

Russia:

Their FDI in developing nations was estimated to exceed $50 billion in 2021, where their allocations were towards energy projects and arm sales. Russia's energy companies known as Gazprom and Rosneft have partnerships across Latin America, Asia and Africa to secure access to energy resources. This boosted the energy security of developing nations, and facilitated job creation in projects like construction of oil pipelines or natural gas facilities.

They also specialise in military sectors, mainly in defence and arm technology. This benefits both sides since this secures political alliances and enhances Russia's influences in strong regions like the Middle East. In 2020, Russia was documented as the second largest arms exporter, where the greater portion was for developing nations. The main concern with Russia is their lack of adherence to international labour rights, where resource extraction facilities have no regulatory oversight and overwork their employees from 6 hours to 19 hours in a day.

Japan:

Like the EU, Japan is also known for the most successful impact in aiding developing nations. Mainly in Southeast Asia, Japan sent $140 billion to countries post-World War 2. With their advanced technology means and efficient manufacturing processes, they became key in implementing transportation networks and infrastructure that are energy efficient and sustainable. Main projects were the High-Speed rails in Indonesia and the main metro systems in Thailand – both funded by Japan. The Japan International Cooperation Agency (JICA) provided financial support and trained local workers to develop human capital and to ensure that communities have more skills and job opportunities. By creating these projects, the Japanese government aims to create mutually beneficial partnerships to foster long term economic growth in the recipient country to be rewarded in the future.

Brazil:

They are known for attracting foreign investment for their agricultural, energy and mining sectors. Brazil in 2021 was among the top 5 countries for the most FDI received, where they received approximately $50 billion. In agriculture : Brazil is a large producer and exporter of sugar, beef and soybeans. The government uses foreign investments to create more infrastructure with technological advancements so that they can have more modernised farming practices to ensure food security and to deliver these exports in time.

In energy : They use investments for more renewable energy facilities like hydropower and biofuels. As of 2024, 60% of their energy comes from renewable resources, and all these facilities were made from the $8 billion supplied by the U.S and EU. However, their main concern is in regards to the Amazon rainforest, where 13,000 square kilometres were deforested as of 2020 due to foreign extraction firms. The government faces pressure to balance both their progressing economic growth and environmental protection for the rainforest.

South Africa:

They openly accept foreign investment for their mining, manufacturing technological sectors. The receiving portion of FDI was approximately $3.1 billion. Foreign investors mainly look into south Africa due to their natural resources, including gold, platinum, and diamonds. The government prioritises FDI for economic transformation and empowerment of job creations in the community. Policies such as the Broad-Based Black Economic Empowerment (B-BBEE) program aims to ensure that investments made will uplift black ownership in foreign firms.

Their Mining operations however have often been associated with land degradation, water pollution, and displacement of local communities. In 2020, South Africa was recorded to have mining as 8% of the GDP, but the environmental impact led to widespread protests and demands for accountability from foreign investors. This caused large corporations to withdraw their money to prevent hurting their reputation, which slowly started to diminish South Africa's economy. In response to this, the Mining Charter was created to promote equal ownership as well as to enforce stricter environmental protection practices. While South Africa benefits from these foreign investments, they have the issue regarding inadequate working conditions and income inequality with foreign firms.

Vietnam:

Receiving $20 Billion in the form of FDI, Vietnam has become a destination for foreign investment as of 2021. The country, being both a strategic location and having favourable labour costs, make it a great opportunity for foreign firms to expand their operations.

"Vietnam 2035" aims to use foreign investment to integrate global supply chains mainly in electronics, textiles and automotive manufacturing. They have also participated in etrade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement, preventing economic dependency and misuse of trade power. Reports indicate that workers in foreign-invested enterprises often have long hours, low wages, and insufficient safety standards. The government of Vietnam is working to improve the conditions by implementing policies aimed at enhancing workers rights and protections among foreign companies.

Development of Issue/Timeline

Date	Event	Outcome
1994	The North American Free Trade Agreement is signed.	Signe countries agreed to provide foreign investment mainly to Mexico, who faced the 1982 debt crisis. The agreement also highlighted labour/environmental practices.
14/07/2001	The World Bank publishes the first FDI report.	TWB publishes the report, discussing main investors and developing nations in need of foreign capital. This sparked development aid programs mainly in Asian and African developing countries facing monetary challenges.

07/01/2005	The UN adopts the Millennium Development Goals to prevent income inequality in terms of FDI.	On 07/01/05, a conference was held to discuss measures to prevent income inequality within developing nations when receiving FDI. Countries most benefited from this event were Indonesia, Vietnam, Nigeria and Kenya.
07/08/2013	China launches the Belt and Road Initiative (BRI).	This initiative raised $1 trillion to infrastructure projects in multiple developing nations to ensure global trade market access. There were also comments about debt dependency and environmental impacts against the the BRI.
2015	The UN adopts the Sustainable Development Goals (SDGs) associated to FDI.	Protocols were discussed to ensure social, economic, and environmental sustainability. Majority of protocols to this day focus on SDGs.
25/11/2016	First Labour exploitation case in Bangladesh from foreign firms reaches the United Nations.	The United Nations urged the foreign firms to leave Bangladesh while compensating the country for all damage caused. Allegedly

		27% of this money went to the families of workers who faced injuries or fatality from these conditions.
April 2020	The UN Conference on Trade and Development (UNCTAD) releases its COVID-19 impact report.	The report stated the 40% decline in global FDI due to the pandemic, causing all progress in developing nations to halt or diminish.
2021	FDI inflows report released.	Brazil with $20 Billion,South Africa with $3.1 Billion, Vietnam with $20 Billion, Indonesia with $13 Billion and Kenya/Niger with $1.1 Billion.
18/02/2022	The European Union introduces the Global Gateway strategy.	All countries being aided from the EU's capital had to sign an agreement to adhere with the SDGs to ensure high living standards for the local communities. 31 countries were documented to have signed the agreement.
6-20/11/2022	COP27 in Egypt	The panel discussed about the role of foreign investments in achieving specific climate goals. The discusses included

		how to integrate sustainability into investment and infrastructure frameworks in these developing nations.
April 2023	The African Union hosts a summit focused on increasing intra-African investments.	Hosted to address how to enhance cooperation with foreign investors and to promote regional integration.
September 2023	The Global Forum on Sustainable Investment takes place.	The forum was based on practices for integrating social and environmental considerations for healthier foreign investment practices. They features case studies and reports from various developing nations, and encouraged them to be less dependent on these investments.
January 2024	The World Economic Forum addresses FDI.	A conference was held to highlight the role of FDI with SDG's, as a result of the impact of the pandemic as well as internal governmental crises within the country.

Previous Attempts to Solve the Issue

Regional/Global agreements and initiatives :

As mentioned in the timeline, there have been multiple notable attempts to address the agenda, particularly focusing on economic growth, social responsibility and environmental sustainability. The MDGs and SDGs being established encouraged foreign investment as a means to achieve economic growth, while also highlighting the importance of addressing social and economic problems. However, the MDGs mainly faced criticism for not integrating environmental sustainability.

Guidelines agreed with the Paris Agreement (2015) focused on proper business conduct to prevent labour exploitation. They served as a benchmark for companies to adopt practices to give equal wages, short hours or working and safer working conditions. Foreign companies agreed to provide appropriate wages that exceed just the basic standards of living.

Initiatives such as the Principles for Responsible Investment (PRI) and the Global Impact Investing Network (GIIN) encourage foreign investors to consider social, environmental and governance factors while deciding their investment approaches. This promotes healthy investment practices while guaranteed financial returns to avoid a developing nation falling into debt.

The World Bank and IMF programs taught governments how to be less dependant on these foreign investments through economic reforms and liberalisation without opening up to foreign firms.While these programs increased FDI flow rate, they lacked focus on community welfare and increased governmental corruption due to them prioritising the small amount of investment left for themselves rather than the populations needs.

Possible Solutions

Enhanced Regulatory Framework

Strengthening frameworks allow foreign investments to comply with local labour laws, and already instilled standards associated with the environmental and social equality of workers. This can promote responsible practices that cause mutual benefit, and protect local communities and ecosystems from displacement and deforestation.

Investment Incentives

Tax breaks, grants or subsidies are given to foreign investors who adhere to sustainable regulations regarding renewable energy, emission control or proper labor laws. This encourages companies to adopt more practices to foster economic growth. This plan of action was previously used by Cambodia and Thailand during 2016, but was stopped due to the pandemic.

Community Benefit Agreements

This essentially focuses on foreign investors to negotiate with CBA before any project intiatiion, in order to discuss: the expected benefits, the jobs required, the protection of the environment and how this will improve the community as a whole. This ensures that the community and the investors align together to come to a consensus.

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