INTERNATIONAL BUSINESS AND SUSTAINABLE DEVELOPMENT

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Abstract: *The last three decades have been characterised by the growing international business activities through international direct investments. Also the previous period has been characterised by the launching and promoting the concept of sustainable development. The goal of the paper is to highlight the connection between international business and sustainable development. The methods of analysis, comparison, deduction and synthesis have been used. The research results show that international business can be important for achieving sustainable development. Findings regarding global level as well as the novelty findings regarding national level of Serbia lead to conclusion that there is a need for higher participation of the international business activities through foreign direct investment in priority sectors for sustainable development. Therefore the paper might be useful for creators of investment and sustainable development strategy and policy.*

Keywords: *international business, international direct investment, sustainable development.*

1. INTRODUCTION

The last three decades have been characterised by the growing international business activities through private sector investments abroad i.e. foreign direct investments (Figure 1). Foreign direct investment (FDI) refers to the flow of capital across national borders undertaken by private sector companies. Flows of foreign direct investment have increased dramatically in recent years surpassing the growth of international trade and world GDP.

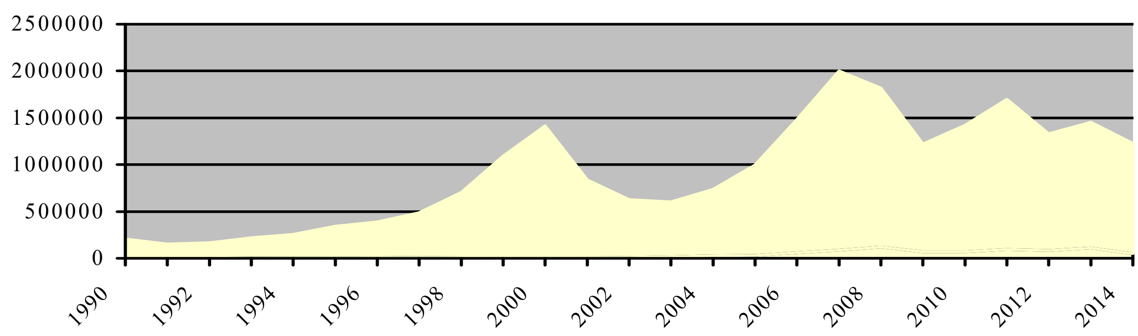

Figure 1: International business expansion through foreign direct investment inflows (millions of dollars)
Source: Author's graphical presentation of the data from [1].

The previous period has also been characterised by the launching and promoting the concept of sustainable development as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs" [2]. The term sustainable development has three dimensions: economic, environmental and social and includes three substantial requirements: productive economic growth, social justice and environmental sustainability.

Relationship between international business activities through their main channel - foreign direct investment (FDI) and the sustainable development has changed from a focus on the contribution of FDI to national growth and competitiveness to achieving greater sustainability of FDI over the long run. The issue of how host countries can attract more sustainable FDI to achieve their own sustainable development has become central. Sustainability of FDI implies economic, social and environmental impacts of FDI that are reflected in their contribution to a country's long-term sustainable development by enhancing local production capacity for environmentally friendly production, using resources efficiently in the long run and adhering to low carbon emission standards [3]. Social sustainability or socially responsible FDI assumes that FDI should be contributing to local capacity buildings, long-term employment and more equal distribution of income/wealth, strengthening social resilience and solidarity. Investors are expected to behave responsibly also in terms of labour and environmental standards, conditions within global supply chains and minimizing the potential negative economic effects of FDI such as crowding out of local investors, substitution of local with foreign suppliers, a race to the bottom by incentives, corruption (leading to inefficiencies) and degrading the environment and working conditions.[3] Therefore international business, through impacts of FDI, can be an important means of stimulating and achieving sustainable development of the country as well as vice versa.

2. INTERNATIONAL BUSINESS ACTIVITIES THROUGH FOREIGN DIRECT INVESTMENTS AND SUSTAINABLE DEVELOPMENT

International business activities through foreign direct investments were initially seen as an important source of country development and later they began to be seen as an important source of achieving sustainable development. Mobilizing investment for sustainable development becomes important chalenge for all countries oriented towards sustainable development.

Foreign investments can provide a necessary complement to domestic investments which is particularly important for countries that are scarce in domestic investment. Because it is unrealistic to expect the public sector to meet all funding demands in many countries, initiatives to increase private sector participation are of crucial importance.

Foreign direct investment (FDI) brings not only foreign currency, but also employment growth, potential transfer of technologies and technical expertise, increased efficiency, competitiveness and managerial skills. Potentially, FDI can also introduce cleaner technologies, facilitating the technological "leapfrogging" that might contribute to sustainable development. [4].

Therefore FDI is a more than a flow of capital that can stimulate economic growth. FDI can contribute to sustainable development in different ways. It comprises a package of assets that includes long-term capital, technology, market access, skills and know-how. As such, it can contribute to sustainable development by providing fnancial resources where such resources are often scarce; generating employment; strengthening export capacities; transfering skills and disseminating technology; adding to GDP through investment and value added, both directly and indirectly; and generating fiscal revenues [5]. In addition FDI can support industrial diversification and upgrading, or the upgrading of agricultural productivity and the build up productive capacity, including infrastructure. Importantly, it can contribute to local enterprise development through linkages with suppliers and by providing access to global value chains [5].

These positive impacts of FDI are not always realized. Also the effect of FDI can also be negative in each of the above mentioned areas. For example, FDI can crowd out domestic investment and domestic enterprises or reduce employment (through restructurings, for example) or increase imports more than exports or lead to financial outflows (in the form of repatriated earnings) or avoid tax obligations etc.

FDI may also have mixed impacts on environment and green house emissions. It was found that FDI promote environmental friendly practices in countries with weak regulations in this field because of their implemented standards, like ISO 14001, even though some studies found out that the laxity of environmental regulations has also been assessed as a potential source of comparative advantage. But, in the last years we have witnessed a switch of FDI to clean energy projects and energy efficiency that has a good environmental influence [6]. Many FDI enterprises adopt new technologies and promote innovations achieving an increased efficiency and helping to create a low carbon economy. The FDI can be an important source for the transition to a greener economy with low carbon emissions [6].

The debate on the environmental consequences of FDI is very wide. Some researcher argue that countries will lower environmental standards to attract FDI, creating so-called "pollution havens", and that a "race to the bottom" will ensue as countries compete with each other for FDI by continually reducing their environmental standards. Others argue that foreign investments brings more environmentally friendly technologies. In this view, FDI is the best way to disseminate new and cleaner technologies. [4]

There is an opinion that the most important influence on FDI is made by environmental effect followed by social effect and economic effect of sustainable indicators. Environmental effect is one of the most important because of the need for investments in climate change reduction projects and a greener way of doing business. In the case of greenhouse gas emissions reduction goals, FDI can ease the burden of financing from the shoulders of governments. [6]

Furthermore different type of foreign investment can make different development impacts. Greenfield investment has different impacts than investment driven by mergers and acquisitions. The former will generally imply a greater immediate contribution to productive capacity and job creation; the later may bring benefits such as technology upgrading or access to international markets, but may also have negative effects (e.g. on employment in case of restructurings). Similarly, efficiency-seeking investments will have different development impacts than market-seeking investments, both with potential positive and negative contributions. And foreign investment also comes in different financial guises: FDI does not always imply an influx of physical capital (e.g. reinvested earnings), nor does it always translate into actual capital expenditures for the build-up of productive assets (e.g. retained earnings) and can sometimes behave in a manner not dissimilar to portfolio investment [5].

Therefore it can be concluded that there are potential for different impacts of FDI and the issue of attracting more sustainable FDI to stimulate and achieve countries' own sustainable development becomes central chalenge for all countries oriented towards sustainable development. In that context it is particularly important to attract FDI into sectors that are crucial for countries' sustainable development.

3. FINDINGS FOR GLOBAL AND NATIONAL LEVEL

The sectors that are crucial for countries' sustainable development include basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health and education (Sustainable Development Goals-related sectors).

Table 1: Priority sectors for sustainable development (SDG-related sectors)

Sector	Description
Power	Investment in generation, transmission and distribution of electricity
Transport	Investment in roads, airports, ports and rail
Telecommunications	Investment in infrastructure (fixed lines, mobile and internet)
Water and sanitation	Provision of water and sanitation to industry and households
Food security and agriculture	Investment in agriculture, research, rural development, safety nets, etc.
Climate change mitigation	Investment in relevant infrastructure, renewable energy generation, research and development of climate-friendly technologies, etc.
Climate change adaptation	Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.
Eco-systems/biodiversity	Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.
Health	Infrastructural investment, e.g. new hospitals
Education	Infrastructural investment, e.g. new schools

Source: [7].

Today the participation of the private sector (e.g. FDI) in investment in priority SDG-related sectors is relatively low. Only a fraction of the worldwide FDI is in SDG-related sectors, and even less in developing countries, particularly the poorest ones [5].
Regarding the available data on sector distribution of the world inward FDI stock it can be noticed that the share of FDI in the SDG-related sectors is small. This means that despite the general recognition of the development potential of investment, it remains unrealized in many parts of the world. And where there have been significant increases in FDI to developing countries in past decades, these have not always met the needs of sustainable development [8].

Table 2: Estimated world inward FDI stock, by sector and industry, 2012

Sector/ industry	Value (millions of dollars)	Share (%)
Total	23 304 429	100
Primary	1 739 016	7,5
Agriculture, hunting, forestry and fishing	81 694	0,4
Mining, quarrying and petroleum	1 647 571	7,1
Unspecified primary	9 752	0,0
Manufacturing	5 914 629	25,4
Services	14 954 101	64,2
Electricity, gas and water	609 859	2,6
Construction	293 278	1,2
Trade	2 116 111	9,1
Transport, storage and communications	1 454 652	6,2
Hotels and restaurants	127 263	0,5
Finance	5 416 129	23,2
Business activities	4 521 515	19,4
Public administration and defence	15 868	0,1
Education	7 911	0,0
Health and social services	22 631	0,1
Community, social and personal service activities	63 489	0,3
Other services	73 677	0,3
Unspecified tertiary	231 717	1,0
Unspecified	696 683	3,0

Source: Author's calculations of shares based on [1, Web table 24].

On the national level of Serbia, regarding the available data on sector distribution of FDI, it has been found that investment in SDG-related sectors is also low and the recognised development potential of investment remains unrealized.

Table 3: FDI in Serbia, by sector and industry, 2017

Sector/industry	Value (millions of euros)	Share (%)
Agriculture, forestry and fishing	72.0	2,8
Mining, quarrying and petroleum	102.5	4,0
Manufacturing	634.3	24,9
Electricity, gas and water	52.2	2,0
Water management	11.1	0,4
Construction	406.8	16,0
Trade	312.3	12,2
Transport and storage	22.4	0,9
Hotels and restaurants	16.3	0,6
Communications	197.9	7,8
Finance and insurance	367.5	14,4
Business activities	326.1	12,8
Education	0.1	0,0
Health and social services	2.1	0,1
Community, social and personal service activities	16.1	0,6
Unspecified tertiary	0.5	0,0
Unspecified	7.9	0,3
Total	2,548.1	100

Source: Author's calculations of shares based on [9].

4. CONCLUSION

The research results shows that the presence of internationally oriented business acitivities throufh foreign direct investment in SDG-related sectors is low either on global level either on national level of Serbia and the general recognition of the development potential of investment remains unrealized in SDG-related sectors. Therefore there is the need for higher participation of FDI in priority sectors for sustainable development.

Mobilizing investment for sustainable development becomes important chalenge for all countries oriented towards sustainable development. The important role in this process have the creators of economic policies especially creators of investment and sustainable development strategy and policy.

Given the specific development contributions that can be expected from different kind of international investment, policymakers should consider carefully what role each type can play in the context of their development strategies. Policymakers should be aware of different development impacts that can be expected from different type of foreign investments.

Also they should be aware that the potential for increasing FDI participation is greater in some sectors than in others. For example, infrastructure sectors, such as power and renewable energy, transport and water and sanitation, are natural candidates for greater private sector participation. Other sectors, such as climate change adaptation or education and health care, are less likely to generate significantly higher amounts of private investments, either because they are not attractive because of the risks they carry (in case of climate change adaptation) or because they are closer to public sector and highly sensitive to private sector involvement (in case of education and health care).

Some of the most important fields to attract FDI are climate change reduction projects and a greener way of doing business with the aim of greenhouse gas emissions reduction and green investments that would generate an increase in clean energy production and clean tech innovation. One of the most important fields is the development of renewable energy, the reduction of costs and increasing efficiency of renewable sources, which gives a special importance to attracting FDI in these fields.

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