Global Investments, Sustainable Returns

Global Investments, Sustainable Returns:

Navigating Sustainable FDI in a Changing World

By

Panagiotis Kontakos

Cambridge Scholars Publishing

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To Eleftherios and Konstantinos, my steadfast brothers,
To Heghine, whose music touches the soul,
And to Krinio, a bright light and a promise for the future.

" Ὅπου γάρ ἐστιν ὁ θησαυρὸς ὑμῶν, ἐκεῖ ἔσται καὶ ἡ καρδία ὑμῶν."
— Ματθ. 6,21

"For where your treasure is, there your heart will be also."
— Matthew 6:21

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF BOXES

FOREWORD

It is a great privilege and honor to write the foreword for this remarkable and timely book, *Global Investments, Sustainable Returns: Navigating Sustainable FDI in a Changing World*, by Dr. Panagiotis Kontakos. In an era where sustainable development, economic inclusiveness, and responsible global investments are not just aspirations but urgent imperatives, this book comes as a critical resource for policymakers, academics, investors, and business leaders alike.

Having known Dr. Panagiotis Kontakos through his outstanding work as Deputy Dean of the School of Business and Management and Director of the MBA program at UCLan Cyprus over the past decade, I have witnessed firsthand his dedication to advancing not only academic excellence but also a forward-thinking approach to business education. His passion for sustainable development and expertise in foreign direct investments (FDI) are reflected throughout the comprehensive research and deep insights presented in this book.

As we navigate an increasingly complex global landscape—marked by geopolitical uncertainties, environmental challenges, and shifting economic paradigms—the need for sustainable FDI has never been more pronounced. This book does an exceptional job of exploring how sustainable investments can foster long-term economic growth while addressing critical social and environmental challenges. Dr. Panagiotis Kontakos carefully examines these dynamics through a wide range of case studies, theoretical frameworks, and practical recommendations, all designed to guide investors and policymakers toward a more inclusive and resilient global economy.

What sets this book apart is its ability to bridge the gap between academic theory and practical application. By offering insightful analyses of global trends, regional insights, and sectoral perspectives, the book equips its readers with the knowledge needed to make informed decisions that align with global sustainability goals. It demonstrates how FDI can serve as a powerful tool for driving economic development while promoting environmental stewardship and social equity.

In my role as CEO and Chairman of UCLan Cyprus, I have had the opportunity to work closely with Dr. Panagiotis Kontakos and witness his commitment to research, teaching, and thought leadership. His contributions to the academic and business communities, particularly in the fields of FDI and sustainability, have been invaluable. This book is yet another testament to his expertise and passion for fostering global investment strategies that contribute to a more sustainable future.

As you read through the chapters of *Global Investments, Sustainable Returns*, I am confident that you will gain a deeper understanding of the critical role sustainable FDI plays in shaping the future of our global economy. Dr. Panagiotis Kontakos's insights will undoubtedly inspire new approaches to investment strategies and policymaking, reinforcing the need for a balanced pursuit of profit, people, and planet.

I wholeheartedly recommend this book and look forward to seeing the positive impact it will have on both the academic and business worlds.

Sincerely,
Floros Voniatis
Chief Executive Officer & Chairman of the Council, UCLan Cyprus
Vice President, Larnaca Chamber of Commerce and Industry

PREFACE

The world is undergoing profound changes, with economic, environmental, and social challenges becoming increasingly interconnected. At the heart of this transformation is the critical role played by foreign direct investment (FDI) in fostering sustainable development. As global economies navigate unprecedented challenges—from climate change and resource depletion to geopolitical tensions—the need for sustainable FDI practices has never been more urgent. It is within this context that *Global Investments, Sustainable Returns: Navigating Sustainable FDI in a Changing World* emerges as a vital resource for investors, policymakers, academics, and business leaders.

This book is not merely a global examination of sustainable FDI practices; it is also deeply rooted in the specific challenges and opportunities facing the Eastern Mediterranean region. As home to Cyprus, where my university is located, and other countries like Greece, Turkey, and Egypt, the Eastern Mediterranean stands at a pivotal intersection between Europe, Asia, and Africa. The region is increasingly recognised as a hub for global investment, particularly in areas such as energy, shipping, and tourism, which are crucial for economic development and blue growth. However, the region also faces unique challenges, including political instability, resource scarcity, and environmental degradation.

The Eastern Mediterranean, with its rich history and strategic importance, offers a unique lens through which to explore the global themes of sustainable FDI. Countries in this region have the potential to serve as models of how sustainable investment can be leveraged to not only drive economic growth but also address environmental and social challenges. Cyprus, for instance, with its proximity to the Middle East and North Africa (MENA) region and its EU membership, is in a unique position to attract sustainable investments that bridge Europe and the emerging markets of the East.

This book provides an in-depth exploration of how FDI can be a force for positive change, especially in regions like the Eastern Mediterranean that are ripe for development but face sustainability risks. It discusses the role of investments in fostering sustainable industries such as renewable energy, green infrastructure, and eco-tourism—areas where the Eastern Mediterranean can play a leading role. The region's abundant solar and wind resources, combined with strategic investment, have the potential to transform the energy landscape, facilitate the energy transition, reduce dependency on fossil fuels, and align with the global shift towards decarbonisation.

While the Eastern Mediterranean provides a crucial case study, the global scope of this book ensures that readers from all regions will find value. The theoretical frameworks, case studies, and practical recommendations offered here are applicable to various regions and sectors, from the emerging markets of Southeast Asia to the established economies of Europe and North America. The goal is to foster a global understanding of how sustainable FDI can drive long-term economic growth while simultaneously promoting environmental stewardship and social equity.

Ultimately, *Global Investments, Sustainable Returns* is both a reflection of my professional journey and a response to the pressing global need for more responsible and sustainable investment strategies. It is my hope that this book will serve as a valuable resource for those seeking to navigate the complexities of sustainable FDI, not only in the Eastern Mediterranean but around the world. By understanding and embracing the principles of sustainable investment, we can contribute to a more inclusive, resilient, and sustainable global economy.

Panagiotis Kontakos
Cyprus, 2024

CHAPTER ONE

INTRODUCTION TO SUSTAINABLE FOREIGN DIRECT INVESTMENTS

1.1. Definition and Scope

Definition of Sustainable Foreign Direct Investments

Foreign direct investment (FDI) involves cross-border investments in which an investor, company, or government from one country establishes a lasting interest and significant influence in an enterprise or project in another country. This is typically indicated by ownership of 10 percent or more of the voting power, as defined by the OECD (OECDiLibrary, 2024).

FDI encompasses inward and outward stocks, flows, and income, categorised by partner country, industry, and FDI restrictiveness. Unlike stock investments in foreign companies, FDI generally involves acquiring a substantial stake in a foreign business or fully purchasing it to expand operations into new regions, thereby contributing to stronger economic ties and global integration.

FDI is a key driver of global economic integration, fostering stable, long-term connections between economies. It facilitates technology transfer, promotes international trade by opening foreign markets, and serves as a vital tool for economic development. Traditional FDI focuses primarily on maximising financial returns and economic growth. However, in recent years, the concept of sustainability has gained prominence, leading to the evolution of sustainable foreign direct investments (SFDI).

Sustainable FDI can be defined as investments made by companies or individuals from one country into business interests located in another country, which are designed to yield economic returns while also generating positive social and environmental impacts (UNESCAP, 2016). This dual focus distinguishes sustainable FDI from conventional FDI, emphasising a balance between economic growth, environmental stewardship, and social development (Fig. 1-1).

Fig. 1-1: *Dimensions of Sustainable FDI*
Source: The Author.

Sustainable FDI integrates principles of sustainability into all stages of the investment process. This includes considering the long-term environmental and social impacts of investments, aligning with global sustainability goals such as the United Nations Sustainable Development Goals (SDGs), and adopting responsible business practices that promote environmental protection, social equity, and economic viability.

Scope of Sustainable Foreign Direct Investments

The scope of sustainable FDI encompasses a wide range of sectors, regions, and stakeholders, each contributing to and benefiting from the sustainable development agenda. The following sections outline the key dimensions of the scope of sustainable FDI.

Sectoral Scope

Sustainable FDI spans various sectors, each with unique challenges and opportunities for promoting sustainability:

- Energy and Natural Resources: Investments in renewable energy, sustainable mining, and resource-efficient technologies are crucial for reducing carbon footprints and promoting energy security.

- Manufacturing: Sustainable manufacturing practices involve adopting cleaner production techniques, reducing waste, and enhancing resource efficiency.
- Agriculture and Food: Sustainable FDI in agriculture aims to improve food security, support smallholder farmers, and promote sustainable farming practices.
- Services: The services sector, including finance, tourism, and information technology, can drive sustainability through responsible practices, green finance, and sustainable tourism initiatives.

Case study: Sustainable Tourism

Sustainable tourism, often referred to as ecotourism or green tourism, is a form of travel that seeks to address its economic, social, and environmental impacts, both now and in the future, by considering the needs of visitors, the industry, the environment, and host communities.

The growing need for sustainable and ethical tourism practices has been driven by concerns such as increasing greenhouse gas emissions, overcrowding, and the erosion of socio-cultural authenticity in host communities. In a 2022 survey, over 80 percent of global travellers expressed that sustainable tourism was important to them and were willing to embrace sustainable travel practices. This shift in consumer preference has contributed to the ecotourism industry's global market size reaching 196 billion U.S. dollars in 2023. The sector is projected to attract significant investment and reach 562 billion U.S. dollars by 2032, with an expected compound annual growth rate (CAGR) of 12 percent (Fig. 1-2).

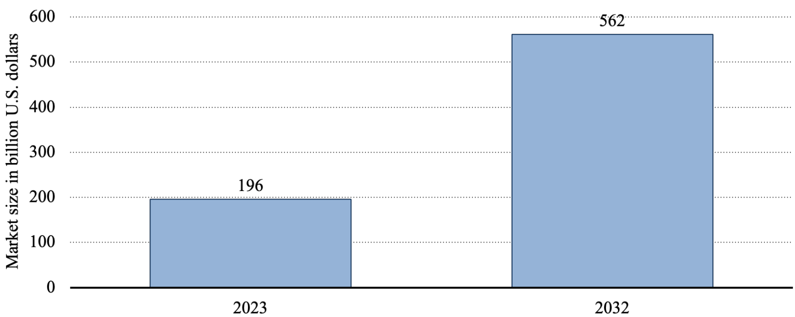

Fig. 1-2: *Worldwide market size of the Ecotourism sector in 2023, with a projection for 2032 (Billions of U.S. dollars)*
Source: The Author, based on publicly available data sourced from Imarc (2024).

Geographical Scope

Sustainable FDI affects and is influenced by different regions globally, each with distinct developmental needs and priorities:

- Developed Economies: In developed countries, sustainable FDI focuses on advancing technological innovation, improving energy efficiency, and promoting corporate social responsibility (CSR).
- Emerging Markets: Emerging economies benefit from sustainable FDI through technology transfer, infrastructure development, and enhanced competitiveness in global markets.
- Developing Countries: In developing nations, sustainable FDI plays a critical role in addressing poverty, creating jobs, and fostering inclusive growth while protecting the environment.

Stakeholder Scope

The success of sustainable FDI depends on the active participation and collaboration of various stakeholders:

- Governments: Policymakers create enabling environments through regulatory frameworks, incentives, and support for sustainable investments.
- Businesses: Corporations adopt sustainable practices, engage in responsible investing, and report on sustainability performance.
- Investors: Institutional investors and venture capitalists prioritise sustainability in their investment decisions, considering environmental, social, and governance (ESG) criteria.
- Civil Society: Non-governmental organisations (NGOs) and community groups advocate for sustainable practices, monitor corporate behavior, and hold businesses accountable.
- International Organisations: Multilateral institutions, such as the United Nations and the World Bank, provide guidelines, funding, and support for sustainable FDI initiatives.

Environmental Scope

Sustainable FDI aims to mitigate environmental impacts and promote ecological sustainability through:

- Climate Change Mitigation: Investments in renewable energy, energy efficiency, and carbon reduction technologies help combat climate change.
- Resource Efficiency: Sustainable FDI promotes the efficient use of natural resources, reducing waste and minimising environmental degradation.
- Biodiversity Conservation: Investments that support the protection of ecosystems and biodiversity are essential for maintaining ecological balance.

Social Scope

Sustainable FDI addresses social issues by promoting inclusive and equitable development:

- Job Creation and Skills Development: Sustainable investments generate employment opportunities and enhance workforce skills, contributing to economic empowerment.
- Community Development: FDI projects that engage and benefit local communities foster social cohesion and improve living standards.
- Human Rights and Labor Standards: Sustainable FDI ensures the protection of human rights and adherence to fair labor practices, promoting ethical business conduct.

Integration with Global Sustainability Goals

Sustainable FDI aligns with global sustainability initiatives, particularly the United Nations Sustainable Development Goals (SDGs). The SDGs provide a universal framework for addressing global challenges such as poverty, inequality, climate change, and environmental degradation. By integrating the SDGs into investment strategies, sustainable FDI contributes to achieving these global targets, creating shared value for investors, host countries, and the international community (Fig. 1-3).

Fig. 1-3: *Reflections of Sustainable Development Goals on MNE Strategies, adapted from the United Nations (2024).*

The strategic spectrum of "international—multidomestic—global—transnational" has long been foundational in international business theory. It has provided a framework in international business for understanding how multinational enterprises (MNEs) balance the need for global coherence with the demand for local adaptability. In today's context, sustainability adds a new layer to this balance. Each strategy type now represents a distinct approach to integrating environmental and social goals alongside traditional business objectives. Managers must consider how these strategies support sustainable value creation while responding to local and global challenges. This table outlines the sustainability-oriented characteristics and key considerations of each strategy type, offering a comparative view to guide strategic decision-making (Fig. 1-4).

	International Strategy	Multidomestic Strategy	Global Strategy	Transnational strategy
Orientation	Leverage core competencies and innovations in sustainability from the home country to global markets, focusing on responsible supply chains.	Adapts sustainability strategies to local conditions, enabling tailored approaches to meet local environmental and social needs.	Focuses on standardised sustainability practices worldwide to maintain efficiency and consistency in ESG reporting and impact measurement.	Combines global sustainability standards with localised approaches, balancing efficiency with responsiveness to local environmental and social needs.
Value Chain Configuration	Concentrated; sustainability practices are directed from the home office, such as sustainable sourcing and low-carbon logistics in international operations.	Dispersed; subsidiaries have autonomy to implement localised sustainability initiatives, such as green energy adoption or community-focused CSR programs.	Concentrated; sustainability practices are standardised, leveraging economies of scale in green technologies, waste reduction, and global carbon footprint reduction.	Concentrated yet flexible; core sustainability values are centralised, but subsidiaries are empowered to adopt additional local sustainability initiatives.
Value Chain Coordination	Centralised processes control sustainability standards to ensure compliance with environmental, social, and governance (ESG) principles across global units.	Subsidiaries operate independently, allowing flexibility to meet local sustainability demands while supporting social and environmental well-being within the region.	Coordinated centrally to ensure consistent application of sustainability standards across all markets, such as waste management and energy efficiency protocols.	Simultaneous goal of achieving global sustainability efficiency (e.g., carbon reduction goals) while adapting to local regulations and stakeholder expectations.
Key Advantage	Promotes transfer of green expertise, sustainable practices, and environmental standards from the parent company to international units.	Increased sensitivity to local environmental concerns and regulatory standards; enhances corporate social responsibility (CSR) and community engagement.	Provides a uniform sustainability brand image; allows for cost-effective global implementation of sustainable technologies and standardised carbon footprint reduction.	Encourages sharing of sustainability innovations across units; enables adaptation to local environmental and social standards while maintaining a global sustainability framework.
Key Disadvantage	Limited adaptability to local environmental conditions and stakeholder expectations; risks not addressing specific sustainability needs of local markets.	May lead to inconsistent sustainability practices across markets, diluting brand-wide sustainability commitments and increasing complexity in sustainability reporting.	Limits ability to tailor sustainability practices to meet unique local environmental and social needs; may not address specific issues in each market comprehensively.	Complex to manage sustainability efforts due to balancing global standards with local adaptations, potentially leading to coordination challenges and increased compliance costs.
Examples	P&G (emphasis on sustainable sourcing and production), Apple (with initiatives on carbon neutrality)	Unilever (commitment to local sourcing and community impact), Nestlé (sustainable agriculture), McDonald's (green packaging initiatives)	Haier (green manufacturing practices), Coca-Cola (global water stewardship programs)	Tata (sustainable energy solutions), Zara (sustainable fashion), IBM (circular economy initiatives)

Fig. 1-4: *Attributes of Sustainability-Oriented Strategy Types Adopted by MNEs*
Source: The Author.

Measuring and Reporting Sustainable FDI

Accurate measurement and transparent reporting are crucial for assessing the impact of sustainable FDI. Key performance indicators (KPIs) and standardised reporting frameworks, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), help investors and stakeholders evaluate the sustainability performance of FDI projects. These tools provide a basis for comparing investments, tracking progress, and making informed decisions.

Challenges and Opportunities

While sustainable FDI offers significant benefits, it also faces several challenges:

- Regulatory and Policy Barriers: Inconsistent regulations and lack of supportive policies can hinder sustainable investments.
- Financial Constraints: Access to financing for sustainable projects remains a challenge, particularly in developing countries.
- Market Risks: Economic instability and market fluctuations can impact the viability of sustainable investments.
- Stakeholder Engagement: Achieving effective collaboration among diverse stakeholders requires overcoming communication barriers and aligning interests.

Despite these challenges, sustainable FDI presents numerous opportunities:

- Innovation and Technology: Advances in green technologies and sustainable business models open new avenues for investment.
- Market Differentiation: Companies that adopt sustainable practices can gain a competitive edge and attract socially conscious consumers and investors.
- Long-Term Resilience: Sustainable investments contribute to the long-term resilience of economies and businesses, mitigating risks associated with environmental and social issues.

1.2. Importance of Sustainable FDI

The concept of sustainable foreign direct investment is gaining prominence in the global economic landscape. As nations grapple with the challenges of climate change, social inequality, and economic instability, sustainable FDI emerges as a pivotal tool for promoting holistic development. This section elucidates the importance of sustainable FDI, highlighting its economic, environmental, and social benefits, and underscoring its role in achieving global sustainability goals.

Economic Importance

Sustainable FDI plays a critical role in fostering economic growth and development. Traditional FDI has long been recognised for its potential to boost economic activity by creating jobs, enhancing productivity, and facilitating technology transfer. However, sustainable FDI goes a step further by ensuring that these economic benefits are achieved in a manner that is environmentally and socially responsible.

• Enhanced Economic Resilience: Sustainable FDI contributes to the long-term resilience of economies. By investing in sustainable industries such as renewable energy, green technology, and sustainable agriculture, countries can diversify their economic bases, reducing dependence on volatile sectors like fossil fuels. This diversification enhances economic stability and reduces vulnerability to global market fluctuations.

• Innovation and Competitiveness: Investments in sustainable practices drive innovation. Companies that adopt sustainable technologies and practices often lead in technological advancements, giving them a competitive edge in the global market. Moreover, countries that attract sustainable FDI can position themselves as leaders in green technology and sustainable practices, attracting further investment and fostering a cycle of innovation and growth.

• Quality Employment: Sustainable FDI is associated with the creation of high-quality jobs. Investments in sectors like renewable energy and sustainable agriculture not only generate employment but also require a skilled workforce, leading to improved labor standards and better working conditions. This contributes to social stability and economic prosperity, as a more skilled and satisfied workforce drives productivity and economic growth.

Environmental Importance

The environmental benefits of sustainable FDI are manifold. As global environmental concerns intensify, the role of FDI in promoting environmental sustainability becomes increasingly crucial.

- Reduction in Carbon Footprint: Sustainable FDI in renewable energy projects, such as wind, solar, and hydroelectric power, significantly reduces greenhouse gas emissions compared to investments in traditional fossil fuels. By shifting towards cleaner energy sources, countries can meet their climate targets and contribute to global efforts to mitigate climate change.

- Resource Efficiency: Investments that prioritise resource efficiency help in reducing waste and conserving natural resources. Sustainable manufacturing practices, for example, aim to minimise water and energy usage, reduce waste, and enhance recycling processes. Such practices not only lower operational costs but also mitigate the environmental impact of industrial activities.
- Biodiversity Conservation: Sustainable FDI often includes projects aimed at conserving biodiversity and protecting ecosystems. Investments in sustainable agriculture promote practices that preserve soil health and biodiversity, while investments in eco-tourism help protect natural habitats and wildlife. These efforts are critical for maintaining ecological balance and ensuring the long-term sustainability of natural resources.

Social Importance

Sustainable FDI has profound social implications, contributing to social equity, improved quality of life, and inclusive development.

- Poverty Alleviation: By generating employment and fostering economic opportunities, sustainable FDI can play a significant role in poverty reduction. Investments in sectors like sustainable agriculture and renewable energy provide income-generating opportunities for marginalised communities, helping to lift them out of poverty and improve their living standards.
- Community Development: Sustainable FDI projects often involve community engagement and development initiatives. Companies investing sustainably are more likely to engage with local communities, ensuring that their operations benefit local populations. This can include building infrastructure, providing education and healthcare services, and supporting local businesses, thereby fostering community development and social cohesion.
- Human Rights and Labor Standards: Sustainable FDI promotes the adherence to high labor standards and the protection of human rights. Companies committed to sustainability are more likely to ensure fair wages, safe working conditions, and respect for workers'

rights. This not only improves the quality of life for employees but also promotes ethical business practices globally.

Alignment with Global Goals

Sustainable FDI is instrumental in achieving the United Nations Sustainable Development Goals (SDGs). These 17 goals provide a universal framework for addressing global challenges such as poverty, inequality, and climate change. By aligning investment strategies with the SDGs, sustainable FDI contributes to the global effort to create a more equitable, sustainable, and prosperous world.

- Promoting Inclusive and Sustainable Economic Growth (SDG 8): Sustainable FDI drives economic growth that is inclusive and sustainable, creating decent jobs and promoting economic opportunities for all.
- Ensuring Affordable and Clean Energy (SDG 7): Investments in renewable energy technologies help ensure access to affordable, reliable, and sustainable energy for all.
- Building Resilient Infrastructure and Fostering Innovation (SDG 9): Sustainable FDI supports the development of resilient infrastructure and fosters innovation, which are critical for sustainable development.
- Combating Climate Change (SDG 13): By reducing greenhouse gas emissions and promoting environmental sustainability, sustainable FDI plays a vital role in combating climate change and its impacts.

1.3. Overview of Global FDI Trends

Global FDI trends since 1990 show significant fluctuations. After a period of steady growth, FDI peaked around 2007, driven by globalisation, liberalisation, and technological advancements. The 2008 financial crisis led to a sharp decline, but by 2015, FDI reached another peak. This resurgence was fueled by economic recovery, large-scale mergers and acquisitions, and increased investment flows into emerging markets, particularly in Asia and Latin America.

Developed countries continued to attract the majority of FDI inflows, but developing countries increasingly captured a larger share, driven by industrial growth, market potential, and favorable economic reforms. However, post-2015, global FDI inflows have experienced a marked decline, influenced by rising geopolitical uncertainties, economic nationalism, and global trade tensions. Developed countries saw significant reductions in FDI inflows, while developing countries, though also affected, continued to attract investments, particularly in infrastructure and emerging industries.

This decline highlights the impact of global economic and political challenges on investment flows, marking a shift in the global FDI landscape (Fig. 1.5).

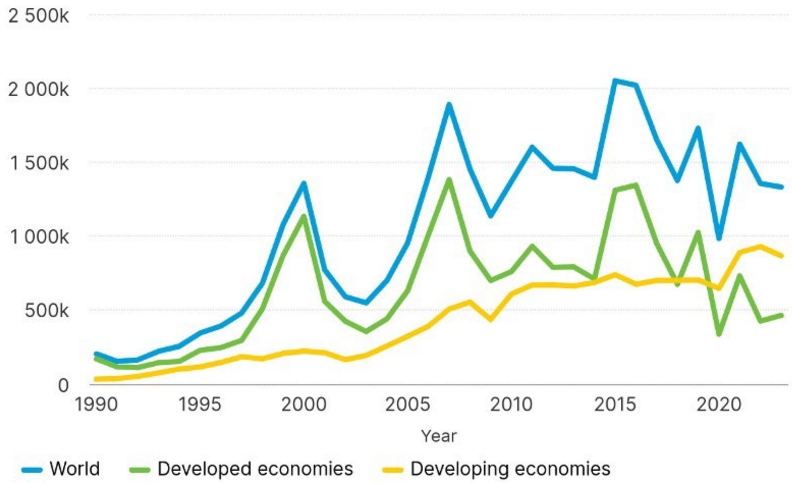

Fig. 1-5: *FDI inflows by Economic groups, 1990-2023 (Millions of U.S. dollars)*
Source: The Author, based on publicly available data sourced from UNCTADstat (2024).

During 2023, global FDI inflows declined by 2 percent to 1.3 trillion U.S. dollars, impacted by trade and geopolitical tensions amid a slowing global economy. FDI inflows to developing countries fell by 7 percent to 867 billion U.S dollars, exacerbated by tight financing conditions that caused a 26 percent decline in international project finance deals, which are crucial for infrastructure investments in the poorest nations. This decline makes these countries more vulnerable to the global downturn in investment (UNCTAD, 2024).

Global economic instability, protectionist policies, and regional realignments are fragmenting trade networks, regulatory environments, and supply chains, creating challenges and limited opportunities for global investment flows. Despite the challenging outlook for 2024, modest growth is possible, supported by easing financial conditions and enhanced