

Chapter 13

Enhancing Regulatory, Financial, Fiscal Investment Incentives as a Means of Promoting Foreign Direct Investment

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ABSTRACT

According to UNCTAD, regulatory incentives, which include “lowering of environmental, health, safety or labor standards; temporary or permanent exemption from compliance with applicable standards; stabilization clauses guaranteeing that existing regulations will not be amended to the detriment of investors”, in addition to financial incentives, are considered “less important policy tools for attracting and benefiting from Foreign Direct Investment.” Whilst survey results, also illustrate that fiscal incentives are the most important type for attracting and benefiting from foreign investment, it is also highlighted that certain scenarios exist whereby investment incentives could be regarded as “compensation for information asymmetries between the investor and the host government, as well as for deficiencies in the investment climate, such as weak infrastructure, underdeveloped human resources.” This chapter not only explores how environmental incentives can serve as means of attracting investment, but also contributes to the literature on how their effectiveness could be enhanced.

DOI: 10.4018/978-1-5225-0305-7.ch013

INTRODUCTION

Investment Incentives as a Means of Promoting Environmental Incentives

Investment incentives can be used to attract or retain FDI in a particular host country (locational incentives). In such cases, they can be perceived as compensation for information asymmetries between the investor and the host government, as well as for deficiencies in the investment climate, such as weak infrastructure, underdeveloped human resources and administrative constraints (UNCTAD, 2014:109).

Based on UNCTAD reports, foreign investment is attracting greater interest from the tourism and extractive sectors – contrasted with manufacturing industries which are considered to have been “negatively affected by erosion of trade preferences” (UNCTAD, 2014)¹

There are notable differences between the benefits conferred by the tourism and extractive sectors. Whilst the tourism industry is able to stimulate initiatives and incentives which generate environmental awareness, as well as organized programs and activities that draw greater attention and focus to the devastating consequences of water, air and land pollution – all of which destroy natural habitats and areas of potential natural beauty, the extractive industry on the other hand, needs to observe balances derived from generating and refining natural resources as a means of promoting economic development and growth, as well as the potential consequences of the over-exploitation and depletion of such resources.

These arguments provide justification for the encouragement of measures aimed at promoting the adoption and use of biofuels, renewable energy such as solar and wind energy, which whilst generating valuable resources as a means of wealth creation, do not deplete such resources to threatening and alarming levels. Further these measures also contribute to ensuring a healthier and less polluted environment.

In this respect, the detrimental cycles and consequences triggered and resulting from air, land and water pollution also need to be highlighted. Whilst the generation of products and energy from natural mineral resources, in some cases, generate less devastating consequences, that is, the depletion of such non-renewable resources, other forms of mineral extraction deplete such resources, as well as pollute the environment with such magnitude which is difficult to quantify in terms of economic and environmental costs – causing further damage to aquatic life, avarian or land organisms.

However, it also needs to be emphasized that certain regions attract tourism,² as well as extraction generated incomes owing to their ability to adequately manage such resources – through the implementation, compliance with and effective enforcement of relevant and appropriate environmental standards, corporate governance mechanisms and structures.

This chapter is aimed at highlighting why environmental, regulatory, safety and labor standards should not necessarily be diluted. It also contributes to the literature by highlighting and recommending how and why governance structures require efficient accountability structures which are able to operate effectively and independently from political interference in order to ensure that appropriate policy responses are administered in times of crisis and temporary setbacks.

Wisdom was once asked:

*“What is the secret of ageless, timeless beauty?
Such as that of the mountains and hills...
Old yet full of wonder?.....”*

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