

Session C: Toward Environmental Sustainability of Investments in Emerging Economies – Country and Business Cases for Innovation

Chair: **Christopher Lattemann**, Jacobs University Bremen,
Germany

Rapporteur: **Petra Wiesbrock**, 4Sing, Germany

Presentations

- **Song Hong** - Emerging Markets Investment Strategies: New Pathways and Policies to Green Growth – Chinese Investment in Africa
- **Luis Serra** - Challenges for Environmental Regulation and FDI Promotion in Mexico
- **Marcia Nejaim** - Agency for the Promotion of Exports and Investments (APEX) – Brazil
- **Paulo D. Branco** - *Innovation and Sustainability in Global Value Chains – Brazil/Case Studies*

Emerging Markets Investment Strategies: New Pathways and Policies to Green Growth

Song Hong, 宋泓

Institute of World Economics and Politics(IWEP),
Chinese Academy of Social Sciences(CASS).

The Basic Challenges

- Environment Protection and Investment

- Environment protection or environmental sustainability, is a good example of public good;
- If this good is provided by a private firm, the private benefit is much less than social benefits, the result is short of supply of this good;
- If production or consumption of a good with some external effects, then the private benefit and social benefit of this consumption (example, smoking in public places), or the private cost and social of this production (example, steel production with some pollution) are not matched;
- The solution is government intervention, or new framework of private property right, and so on.

For the Overseas Investment from Emerging Economies...

- The key issues are the frameworks of government policy for environmental sustainability;
- The home country policy framework;
- The host country policy framework;
- The pressures from NGOs;
- Other pressures.

China's Private Firms Investment in Africa

- **Strong Entrepreneurship of Chinese private firms;**
 - Majority of private firms invested in Africa have no home firms/ companies in China;
 - A lot of Chinese entrepreneurs go to Africa only because they want to earn a lot money there
- **Marginal firms in China, not the leading firms;**

Foreign Market Entry Mode (Number of Firms)

Business networks	Entry mode	Number of firms
3. Personal networks	Cooperation with the younger generation overseas Chinese	4
	Cooperation with older generation overseas Chinese	8
4. Other networks	Participation in foreign aid projects	8
Independent	Individual and independent entry	7
	Firm entry, with different business	4
	Firm entry, sale-oriented	6

Grown up in the local markets...

Firms	Number
Without mother firms in China	13
Different business in Africa and China	7
Same business	24

The Local Policy Framework matters...

- The soft drink firm in Nigeria;
- The steel factory in Ghana.

Home Country Policy Framework

- The power station firm in Africa;
- In the last 20 years, especially in the end of 1990s, Chinese government raised the environmental standard for warming gas emission, and shuttled down a lot of small and medium power stations in China.
- Some of them, move this power station to oversea.

Investment and Environmental Sustainability...

- **The environmental standards**
 - 1) the higher, the better? Or the suitable, the better?
 - The question is the poorest country should adopt the highest environmental standards, the consequence is that always poor, or for ever poor with perfect environment?
 - what's the meaning of the suitable standard?

Investment and Environmental Sustainability (Cont.)

2) the same standard for every country? Or, different society should have a different standard, say, depending on the level of economic development?

- With the same standard, why the company invest in developing countries, for example;**
- But with different standard, how to avoid the competing to the bottom?**

Challenges for Environmental Regulation and FDI Promotion in Mexico

Luis Serra

Director of Energy and Climate Change,
Centro de Investigación para el
Desarrollo (CIDAC), Mexico

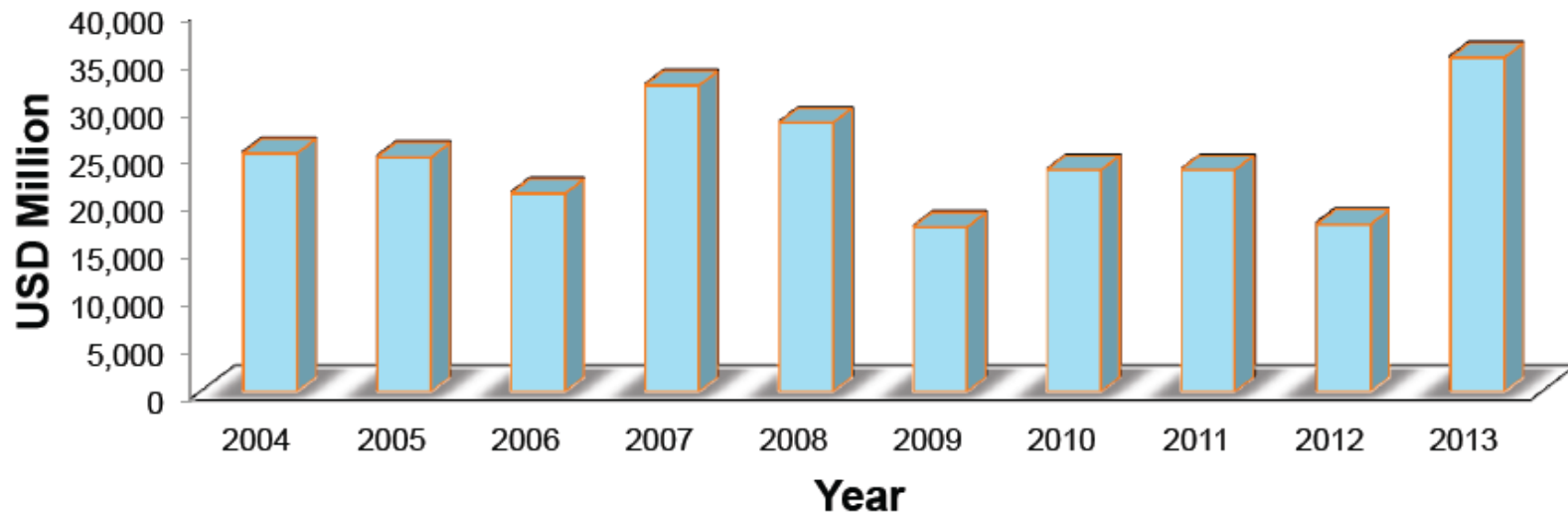
Roadmap

1. FDI in Mexico
2. Environmental policy and innovative FDI
3. Obstacles and opportunity areas to FDI in Mexico
4. Upcoming challenges (the energy reform)

1. FDI IN MEXICO

2013: - 35.2 USD billion (historical maximum) -
10th place worldwide (UNCTAD)

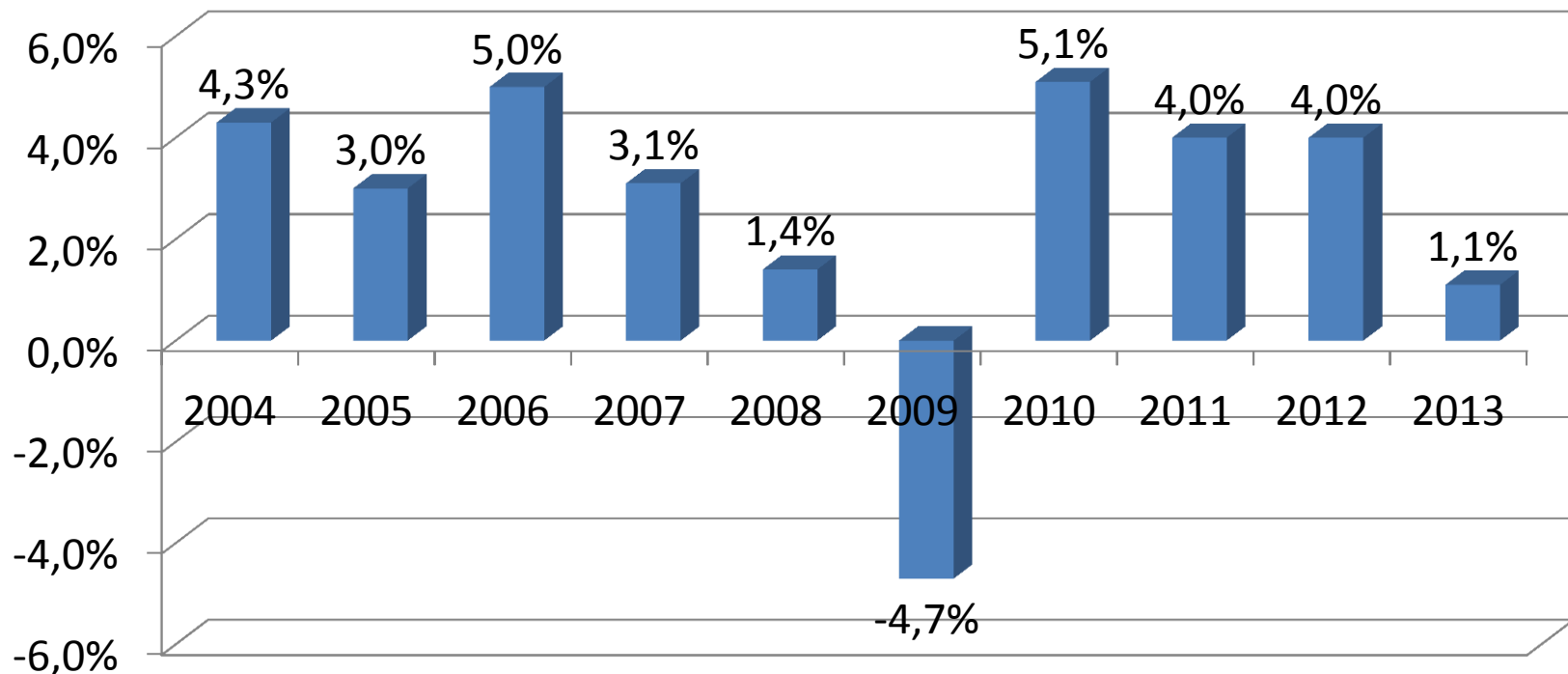
FDI in Mexico



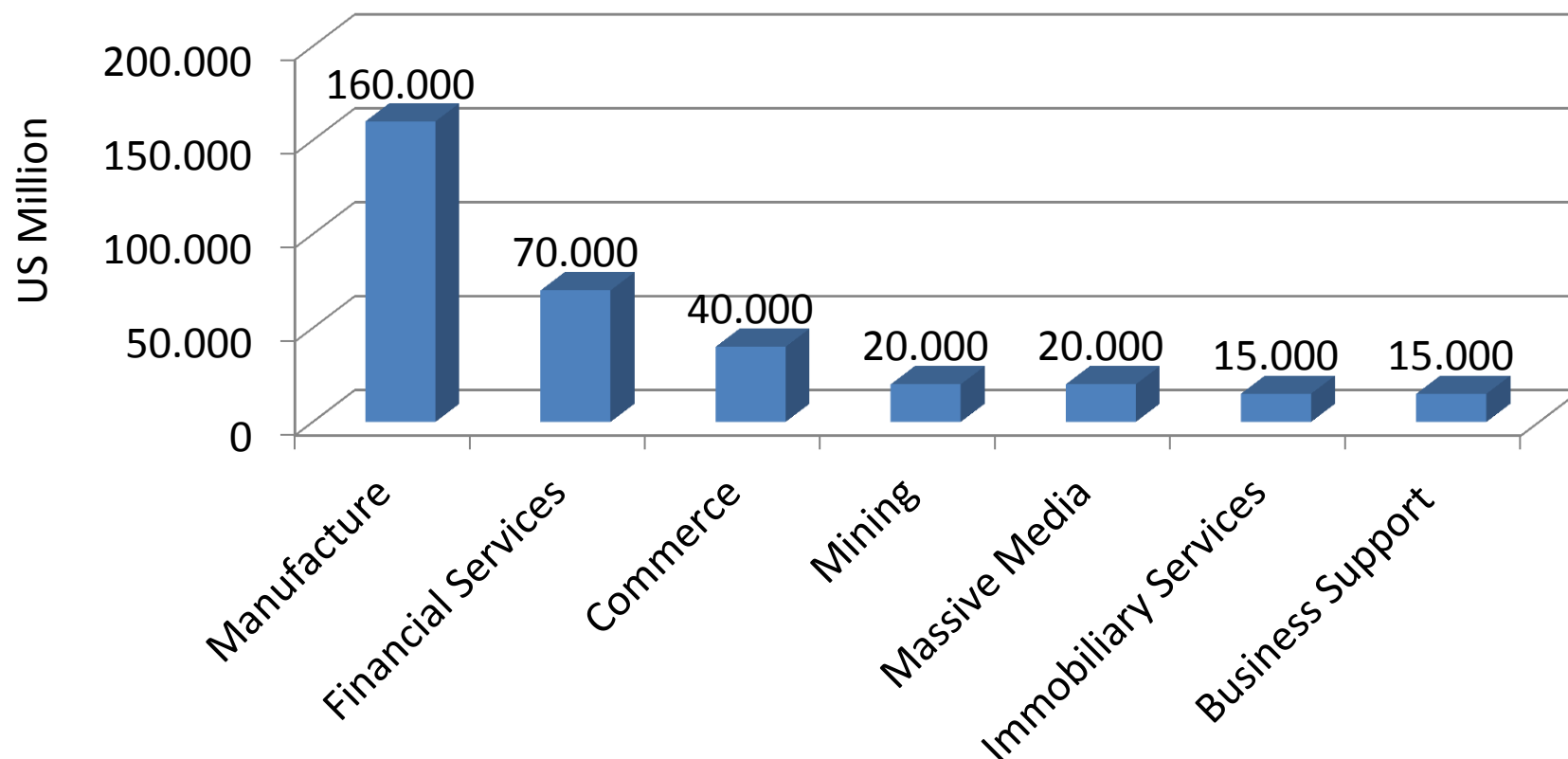
Source: Secretariat of Economy

Growth Rate in Mexico

Growth Rate



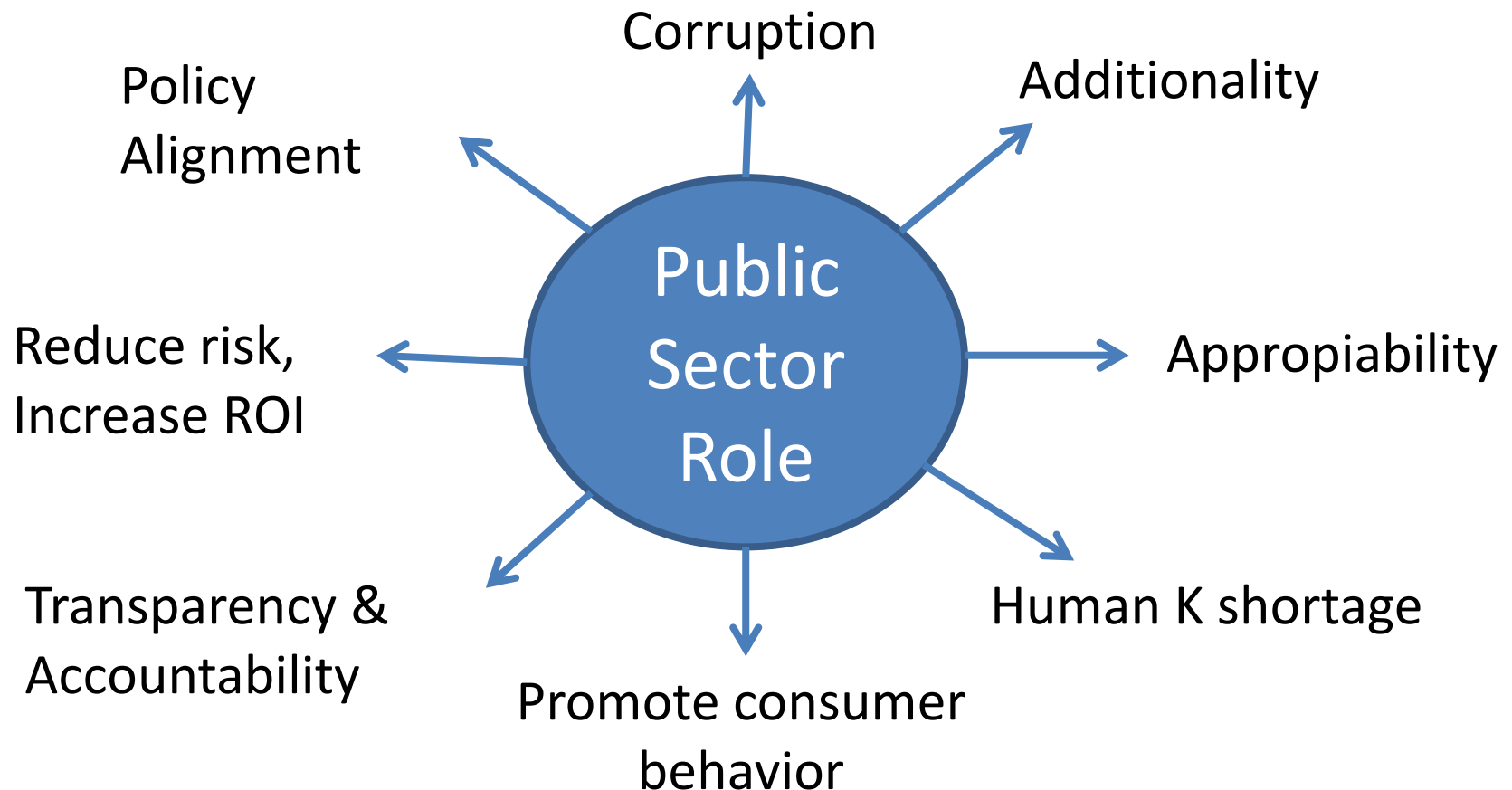
Accumulated FDI by Recipient Sector 2000-2013



2. Environmental Policy and FDI

- Is Mexico a pollution haven?
- Fulfillment of environmental legislation: NAFI (CNIE)
- Discriminatory practices are sensitive
- Role of Public Sector

Mexico's Barriers to FDI



3. General Obstacles for FDI

- I. Open economy with lagging economic freedom.
- II. Infrastructure needs with archaic contractual schemes.
- III. Green agenda with mixed political-support.
- IV. Lax Environmental Protection.

A. Case Study: Bus Rapid Transport (BRT)

- ✓ **Adequate** to address transport inefficiencies.
 - ✓ **Strong lobbying** from civil society and NGOs.
 - ✓ **Strong clean---air agenda** in Mexico City.
 - ✓ Presence of an **effec2ve champion**.
 - ☒ Complicated and rigid **concession schemes**.
 - ☒ Lack of funding because of **absence of PPPs**.
 - ☒ Highly **centralized** transport **planning**.
 - ☒ **Little political support**.
- **LESSON: Civil society involvement and government action.**

B. Case Study: New Mexico City's International Airport

- ✓ **Total estimated investment:** 13 USD billion in phase 1.
- ✓ **Jobs created:** 160k.
- ✓ **Efficient use of energy:** fully operated by RE.
- ✓ **Sustainability:** LEED Platinum Certification and social impact.
- ☒ **Social support.**
- ☒ **Environmental impact assessment.**
- ☒ **Coordination with urban planning.**
- ☒ **Little accountability** due to previous processes.

Prospective: Lack of instrumented and coordinated policy.

4. Upcoming Challenges (Energy Reform)

a. New Law for PPP

b. Role of NAISEPHS

c. Reducing inefficiencies (electricity markets)

A. New Law for PPP

New Law for PPPs eases arrangements between parties.

However, conflict of interests might arise (Ministry of Finance).

New Law for PPPs increase the possibilities for financing.

However, diversion of funds might take place (banking and financial privacy laws).

New Law for PPPs provide certainty through regulatory framework.

However, uncertainty reigns regarding old-regime projects vs. New-regime ones.

B. Role of the NAISEPHS

NAISEPHS provides stronger institutional framework for a vigorous industry.

Nevertheless, what would make a difference vs. PROFEPA?

NAISEPHS produces a baseline for FDI in shale industry.

Nevertheless, there is no strategic planning for water use or water treatment.

NAISEPHS is created inspired by international best practices.

However, uncertainty reigns regarding effective sanctioning.

C. Reducing Inefficiencies (Electricity Markets)

Energy reform could potentially attract FDI to meet demand needs for 2026.

However, there are no decisive policies to reduce technical and non-technical losses.

Energy reform and self-binding targets for 2020 and 2024 create opportunities for green FDI.

However, there is no cost---efficiency comparison of CECs vs. *Banking* or *wheeling*.

Energy reform seeks to create a competitive electric market.

However, market signals remain obscure and provide wrong incentives for efficient use.



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THANK YOU!

Agency for the Promotion of Exports and Investments (APEX) - Brazil

Marcia Nejaim

Competitiveness and Innovation Executive
Manager, Brazilian Agency for the Promotion of
Exports and Investments (APEX), Brazil

Summary

- Apex-Brasil
- Premises for Apex-Brasil
- Reasons to Support Innovative and Sustainable Attributes
- Our Solutions
- Challenges

Apex-Brazil

- Export promotion of Brazilian **products and services**.
- Support to internationalization of **Brazilian enterprises**.
- Promotion of the **Brasil Brand abroad**.
- Strategic **Foreign Direct Investment (FDI)** attraction.

Beijing – China, Dubai – United Arab Emirates, Miami and San Francisco – USA, Havana – Cuba, Brussels – Belgium, Moscow – Russia, Bogota – Colombia and Luanda – Angola.

PREMISES FOR APEX-BRASIL

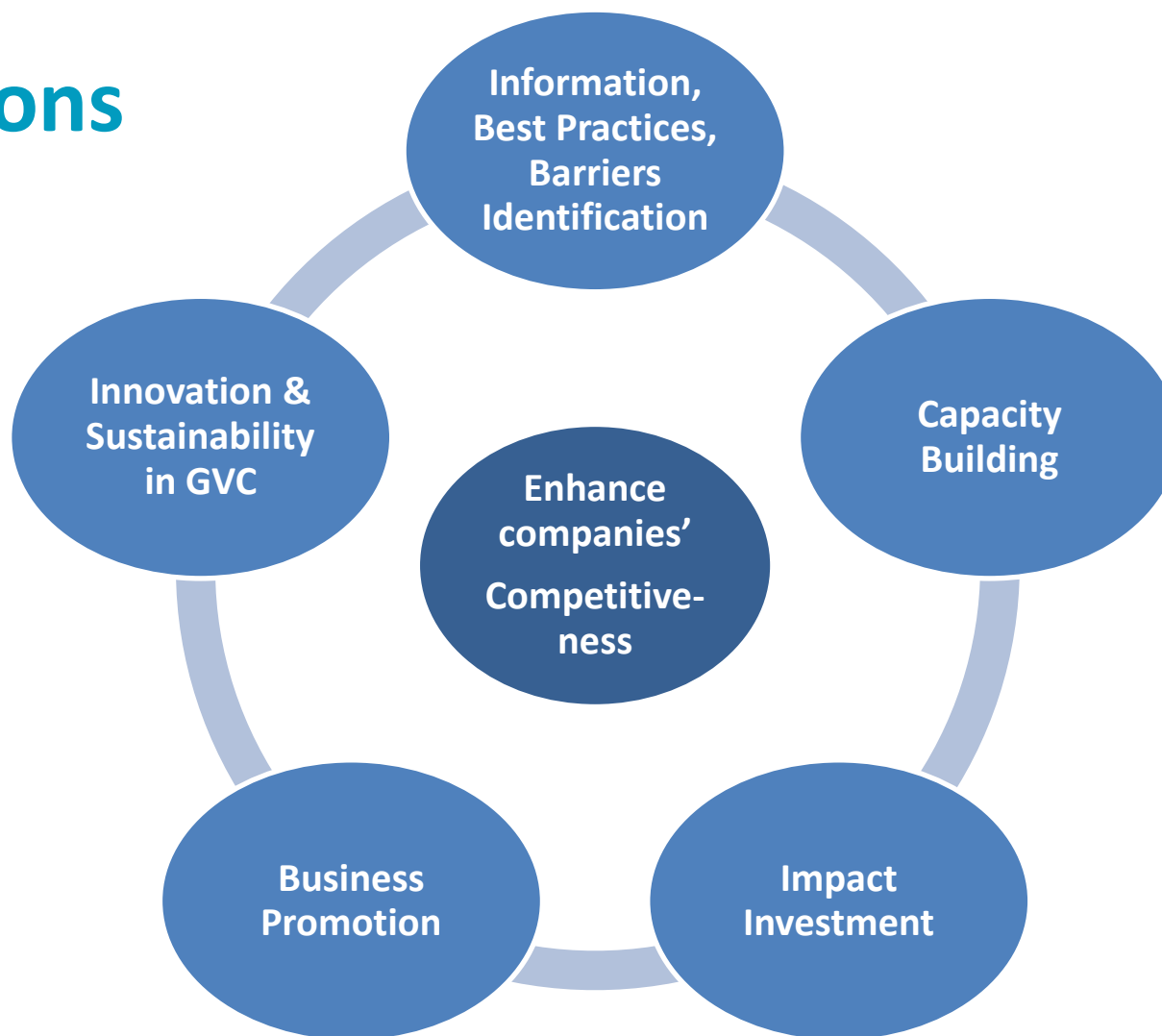


Reasons to Support Innovative and Sustainable Attributes

- Increase value added products and services exports.
- Promote Brazilian sustainable brands
- Support shared value businesses.
- Stimulate entrepreneurship and innovation within small and medium companies.
- Support global sustainable businesses



Solutions



Innovation and Sustainability in Global Value Chains

- Brazilian Global Players
- Innovation and sustainability in their value chains
- Promote SMEs to contribute to MNCs
- Increase Brazilian companies' access to foreign markets as global suppliers

- Companies with innovative solutions
- Capacity building - business and trade
- Mentoring
- Business opportunities
- Sellers – Buyers Meetings



ApexBrasil
BRAZILIAN TRADE AND INVESTMENT
PROMOTION AGENCY

CHALLENGES

- Having innovation and sustainability as part of companies' strategies.
- Costs vs. Investments.
- Better integration of public and private sectors.
- Bring other MNCs on board.
- Get funding and technical support to scale and follow up on companies.
- Insert Brazilian companies in Global Value Chains

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Innovation and Sustainability in Global Value Chains

GVces & Apex-Brasil
Paulo D. Branco

Berlin, September 15, 2014

Center for Sustainability Studies FGV - EAESP

Gvces

Founded in **2003**, GVces offers an open arena for **study, learning, insights, innovation, and knowledge production**. We base our activities on the **development** of **public** and **private** management **strategies, policies** and **tools** to promote sustainability for **local, national** and **international** scenarios.

Our programs are driven by **four major pillars**:

EDUCATION

RESEARCH
AND
PUBLISHING

ARTICULATION
AND
PARTNERSHIPS

COMMUNICA
TION AND
MOBILIZATION

Our Programs

S
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INNOVATION ON
VALUE
CREATION

GLOBAL
SUSTAINABILITY

LOCAL
DEVELOPMENT

INTEGRATED
EDUCATION

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SUSTAINABLE
CONSUMPTION

SUSTAINABLE
FINANCE

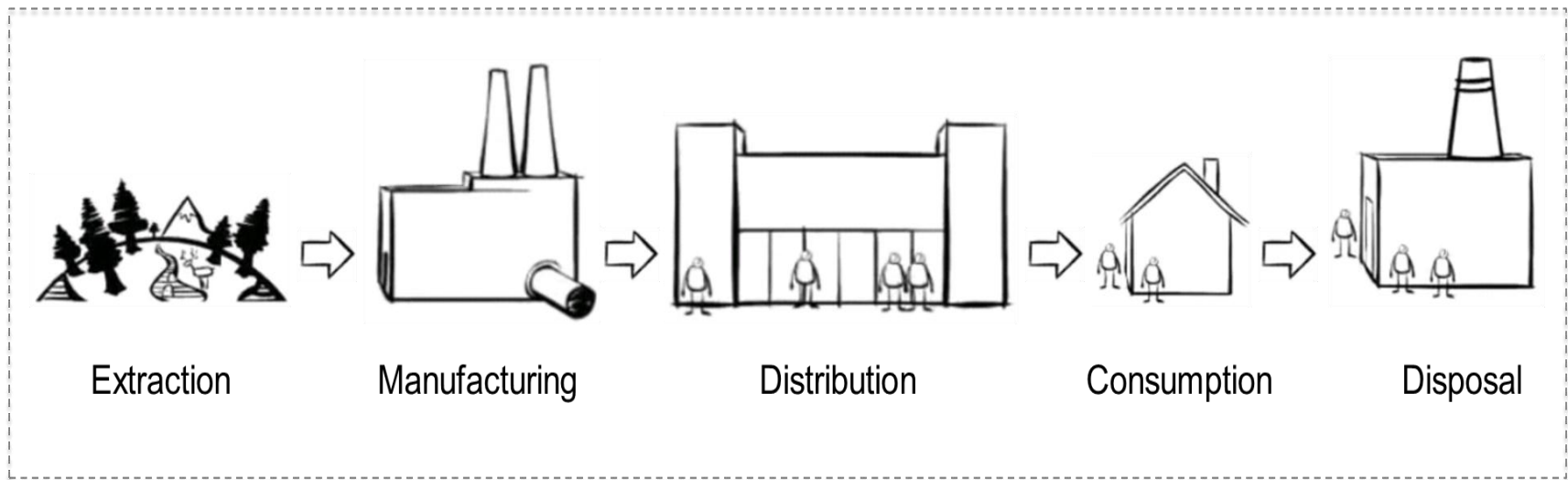
ENVIRONMENTA
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ECONOMICS

INNOVATION ON VALUE CREATION | Program

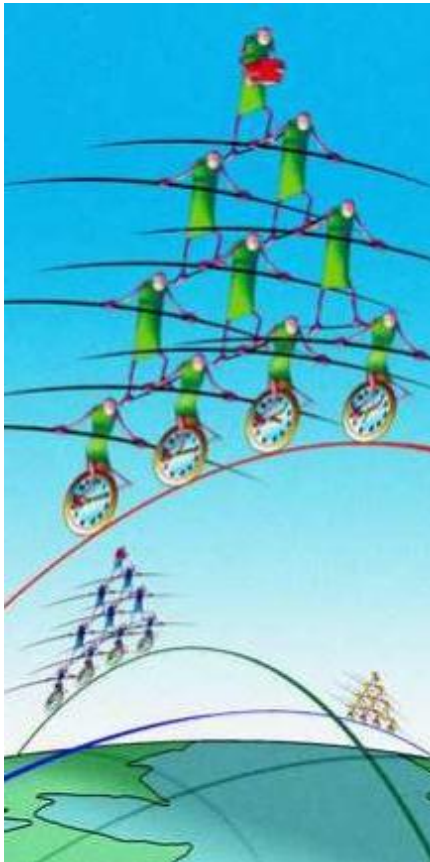
OBJECTIVES

- Promote innovation in **business models, strategies, relationships, processes, products, services and corporate practices**, aligned with sustainable development.

From Linear to Circular Value Chains



Challenges for Multinational Companies



Today the competition is no longer between individual companies but between value chains.

Fonte: Martin Christopher, *Logistics and Supply Chain Management: Creating Value - Adding Networks*, 2005.

SMEs in Brazil

Size	No. of companies (% of total)	Employees (% of total)
Micro	95.27	37.94
Small	4.03	18.90
Medium	0.57	14.27
SUBTOTAL	99.87	71.11
Large	0.13	28.89

Our Approach



Innovation
and Sustainability
in the Value Chain



Braskem



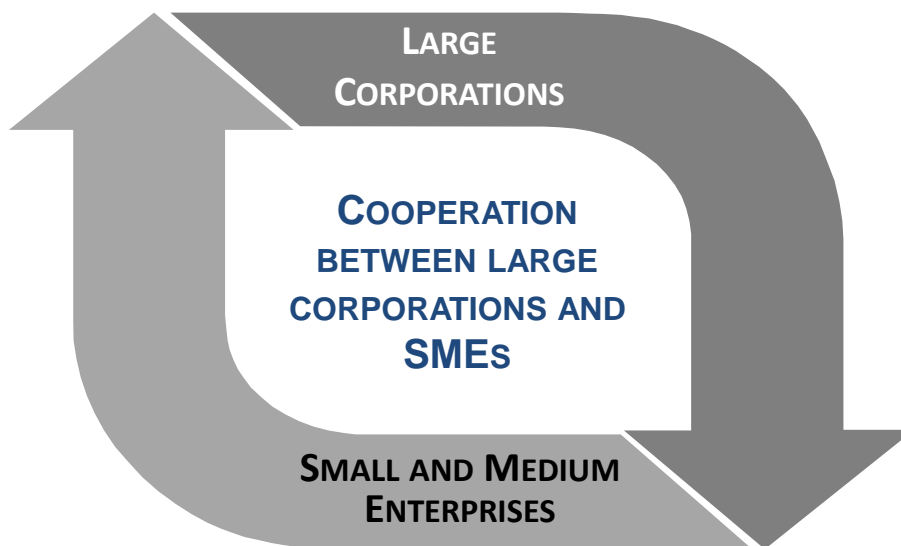
natura



SUZANO
PAPEL E CELULOSE



+20 large corps



Partnership



Sponsor

Citi Foundation



BMZ



Federal Ministry
for Economic Cooperation
and Development



ZEIT-Stiftung
Ebelin und Gerd
Bucerius

Implemented by



Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Our Approach



To promote trade and foreign investment for Brazilian:

- SMEs;
- Anchor companies and their value chain.



Brazilian Trade and Investment
Promotion Agency (Apex-Brasil)

Examples of Innovative SMEs

- To export
- To receive investment

TERPENOil
Tecnologia Orgânica



SANEX[®]
ISO 9001





ICVGlobal

INICIATIVA GVCS

EMERGING MARKET
MULTI-NATIONALS NETWORK
FOR SUSTAINABILITY



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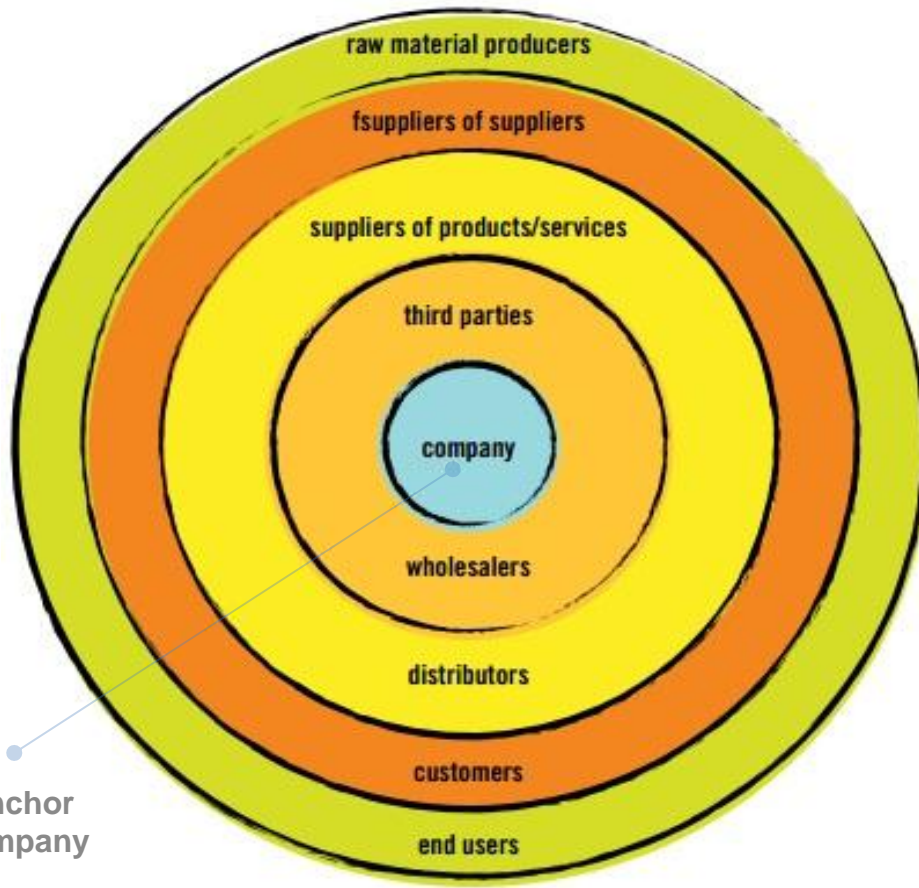
AGÊNCIA BRASILEIRA DE PROMOÇÃO
DE EXPORTAÇÕES E INVESTIMENTOS



IM Summit

2014

Anchor Companies



BMZ



Federal Ministry
for Economic Cooperation
and Development



ZEIT-Stiftung

Ebelin und Gerd
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Deutsche Gesellschaft
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Presenters

- **Hong Song** is Assistant Director and Senior Fellow at the International Trade Research Division of the Institute of World Economy, Chinese Academy of Social Sciences in China. Previously he was a Visiting Scholar at the East Asian Institute of the Columbia University, USA. His main areas of research include FDI, transnational corporations and the industrial development of developing economies.
- **Luis Serra** is Director of Energy and Climate Change and Senior Researcher at Centro de Investigación para el Desarrollo (CIDAC) in Mexico. A specialist on sustainable energy consumption and energy reform processes, he has been an Advisor on projects of Grupo Reforma, MIDE JALISCO and EGADE Business School.
- **Marcia Nejaim** is an Executive Manager for Competitiveness and Innovation at the Brazilian Agency for the Promotion of Exports and Investments (APEX). In her role she has successfully assisted foreign investors to set up new productive plants in Brazil and identified in the national industrial strategy where FDI had the potential to make a significant impact.
- **Paulo D. Branco** is Vice Coordinator at the Center for Sustainability Studies of Fundação Getulio Vargas (FGV-EAESP) in Brazil. He is a founding partner of Ekobé Management Consulting, having contributed since 2001 to the inclusion of sustainability in the strategy of different national and multinational companies. He has been a Visiting Professor at the Institute of Ecological Research and the Federal University of Rio de Janeiro.

Session Concept

Increased environmental sustainability in investments in emerging economies can greatly benefit both the investor as well as the economy as a whole. Robust environmental standards and performance can help build long-term relationships, increase financial re-turns, and reduce investment and operational risk. In addition, the environmental and social impacts of investments in emerging economies are being scrutinized and examined by international audiences.

As governments, financial institutions, and industry in emerging economies further develop environmental policies to address investment challenges, they can examine the lessons and experiences of their peers and predecessors. In this session, presenters will show country and business perspectives for policy frameworks in emerging economies for policy frameworks in emerging economies and extract lessons and recommendations for a new generation of sustainable investment practices.

Guiding Questions

- What is the business incentive for having strong environmental policies? What is the financial benefit, if any, of adopting and implementing such a policy?
- From your experience or from cases you have examined, what are the biggest challenges for increasing sustainability for investments in emerging economies? What have been the biggest benefits?
- What are the most significant impediments to adopting and implementing stronger environmental policies, and how can these be overcome?
- What future research areas or action points should be taken to see more widespread sustainable investment practices from emerging actors?

Potential outcomes

- Business incentives for strong environmental policies defined.
- Examples of financial benefit of adopting environmental policies presented.
- Challenges and benefits for increasing sustainability for overseas investment defined.
- Concrete impediments to adopting and implementing stronger environmental/sustainable investment practices and how these can be overcome showcased.
- Future action points as part of the EMM/EPF defined (basis for design thinking session on day 2).