

REGIONAL PERSPECTIVES ON SUSTAINABLE FDI: TRENDS, CHALLENGES, AND STRATEGIC PATHWAYS IN DEVELOPED, EMERGING, AND DEVELOPING ECONOMIES

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Abstract: *This paper explores regional variations in the promotion of sustainable Foreign Direct Investment (FDI), focusing on developed, emerging, and developing economies. Sustainable FDI, which aligns profitability with environmental and social objectives, is reshaping investment landscapes across the globe. Developed economies demonstrate strong regulatory frameworks and ESG integration, emerging markets show promise through demographic-driven demand and infrastructural expansion, while developing countries face structural challenges despite holding vast potential. Drawing on case studies from China, Uzbekistan, Chile, and the European Union, this paper identifies key drivers, strategic sectors, barriers, and policy responses that influence the flow and effectiveness of sustainable FDI. By analysing regional disparities and commonalities, the study provides policy insights for attracting and managing sustainable FDI aligned with global development and climate agendas.*

Key words: Sustainable Foreign Direct Investment (FDI), Environmental, Social, and Governance (ESG), Policy Frameworks, Public-Private Partnerships (PPPs), Renewable Energy Investment, Inclusive Economic Growth, Sustainability Certification, Institutional Capacity

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1. INTRODUCTION

Foreign Direct Investment (FDI) is increasingly being leveraged to promote sustainable development across global economies. Sustainable FDI refers to investments that contribute positively to economic growth while addressing environmental protection and social inclusion (UNCTAD, 2023). This dual objective has positioned sustainable FDI as a critical tool in the post-COVID recovery and in meeting the United Nations Sustainable Development Goals (SDGs). FDI can act as a vehicle not only for capital inflows but also for technology transfer, human capital development, and environmental innovation.

However, the adoption and effectiveness of sustainable FDI vary significantly across regions due to differences in economic maturity, regulatory frameworks, institutional capacities, and socio-political stability. Developed economies tend to have robust frameworks and institutional support systems, while emerging and developing economies face resource constraints, governance issues, and infrastructural deficits.

This paper aims to explore and compare sustainable FDI practices in developed, emerging, and developing economies. It highlights regional trends, identifies sectoral opportunities, evaluates challenges, and offers policy recommendations. Through comparative analysis, the study provides a framework for understanding how tailored

strategies can optimise sustainable FDI in diverse regional contexts. This regional approach is particularly important given that sustainability and investment behaviours are deeply influenced by local dynamics and governance architectures.

2. SUSTAINABLE FDI IN DEVELOPED ECONOMIES

Developed economies have taken a leading role in mainstreaming sustainability in FDI. This trend is largely driven by advanced regulatory environments, ESG-conscious investors, and consumer demand for green products and practices (EY Global, 2020; European Commission, 2024a).

In Europe, the Green Deal is the most prominent sustainability framework, aiming to reduce net greenhouse gas emissions to zero by 2050. The EU Taxonomy defines what constitutes a sustainable activity and provides clarity for investors (European Commission, 2024b). This policy coherence encourages FDI in sectors aligned with environmental and social objectives. Moreover, disclosure obligations such as the Sustainable Finance Disclosure Regulation (SFDR) increase transparency in financial markets and enhance investor confidence.

In the United States, the Biden administration's Inflation Reduction Act has mobilised billions of dollars for green energy and clean infrastructure, further encouraging FDI in renewables, electric vehicles, and energy storage (The White House, 2024). The federal government's focus on climate resilience and green innovation creates a fertile ground for FDI projects aligned with net-zero targets.

Private sector alignment with Environmental, Social, and Governance (ESG) standards has further accelerated this transition. Asset managers like BlackRock and Vanguard are shifting investment strategies to favour ESG-compliant companies.

Multinational corporations headquartered in developed economies are adopting ESG disclosure frameworks such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD), reinforcing their commitment to sustainable business models (ESG Dive, 2023).

Key sectors attracting sustainable FDI include renewable energy, circular economy innovations, sustainable agriculture, and digital infrastructure. Renewable energy, particularly offshore wind in the UK and solar in Germany, continues to be a magnet for FDI. The UK's Contracts for Difference (CfD) scheme guarantees long-term price certainty, making it a favourable investment destination (EY, 2024). France and the

Netherlands, meanwhile, are leveraging their advanced agricultural sectors to support precision farming and agroecological practices (Deloitte, 2024).

In addition, developed economies have witnessed a growing integration of sustainability across supply chains. For example, companies are not only greening their production processes but also engaging their suppliers to meet ESG criteria. This holistic approach increases the indirect impact of FDI on sustainable development, as investment ripples throughout domestic and international value chains. Financial services are also adapting, with green and sustainable funds comprising an increasing share of investment portfolios in the EU and US markets.

Nonetheless, several barriers constrain sustainable FDI in developed countries. Regulatory fragmentation across jurisdictions, compliance costs, and frequent policy changes can deter investment. Market saturation in mature industries like wind and solar also results in diminishing returns and intensified competition. Public resistance to infrastructure projects—such as opposition to wind farms—can create delays or project cancellations (American-Hellenic Chamber of Commerce, 2019).

Strategic approaches to overcoming these barriers include scaling public-private partnerships (PPPs), creating innovation funds, offering tax incentives, and supporting community-based investment models.

Long-term stakeholder engagement and alignment with local sustainability goals are also essential to de-risk projects and ensure social licence to operate. Developed countries can also benefit from cross-national collaboration in R&D and knowledge transfer, allowing the pooling of resources to accelerate innovation in sectors such as green hydrogen, energy storage, and sustainable transport.

3. SUSTAINABLE FDI IN EMERGING MARKETS

Emerging markets represent high-potential regions for sustainable FDI. These countries are characterised by rapid GDP growth, rising middle classes, and expanding infrastructure needs (World Bank, 2018). At the same time, they face environmental degradation, social inequality, and inadequate access to public services—challenges that sustainable FDI can help address.

Drivers of sustainable FDI in emerging economies include urbanisation, demographic expansion, and policy alignment with international frameworks such as the SDGs and the Paris Agreement. Governments in these regions are actively seeking

to attract responsible investment through targeted reforms. India's National Solar Mission and Brazil's Low Carbon Agriculture Plan are notable examples (Asia Financial, 2024; University of British Columbia, 2024).

Renewable energy continues to dominate investment flows in emerging markets. India ranks among the top solar producers worldwide, with major international players investing in its solar parks (Asia Financial, 2024). In Latin America, countries like Colombia and Mexico have attracted FDI in clean energy and sustainable mobility, supported by public tenders and regulatory guarantees.

The agricultural sector also offers investment opportunities through sustainable supply chains, climate-smart practices, and agri-tech. Precision agriculture in Brazil, rice intensification systems in Southeast Asia, and water-smart farming in North Africa illustrate how innovation is being leveraged to improve yields and reduce emissions (IRRI, 2024).

Manufacturing, particularly in electronics, textiles, and food processing, is another growing area. Many multinational enterprises are relocating or expanding operations in emerging markets to align with supply chain diversification and regional trade agreements.

By embedding sustainability into these operations—such as energy efficiency, water reuse, or fair labour conditions—FDI can make meaningful contributions to both economic and social dimensions of development.

Barriers to sustainable FDI in emerging markets include corruption, policy inconsistency, and regulatory uncertainty. Land tenure issues, limited financial inclusion, and underdeveloped capital markets exacerbate these challenges (implicating investments in agriculture and renewable energy (Lund et al., 2006). Additionally, infrastructure deficits—ranging from unreliable power supply to inadequate transport systems—hinder project scalability.

To address these constraints, governments and multilateral institutions are promoting blended finance instruments and risk mitigation mechanisms. The use of green bonds and guarantees from entities like the IFC and the Green Climate Fund can reduce the perceived risk of investing in high-impact projects (Tyson, 2021; Asian Development Bank, 2022). Moreover, financial innovation—such as mobile banking and digital credit—helps expand access to funding and facilitate inclusive participation in green economies.

4. SUSTAINABLE FDI IN DEVELOPING COUNTRIES

Developing countries face a dual imperative: achieving socio-economic development while addressing pressing environmental and climate challenges. In this context, sustainable FDI emerges as a powerful enabler of transformative change.

These economies are marked by widespread poverty, fragile institutions, and acute infrastructure deficits. Yet they also offer opportunities in renewable energy, sustainable agriculture, eco-tourism, and water management. International investors can support not only economic growth but also social inclusion and environmental resilience.

Renewable energy investments have made notable progress in countries such as Kenya, Ethiopia, and Morocco (Mugisha et al., 2021). Projects like the Lake Turkana Wind Power and the Noor Solar Complex in Ouarzazate are emblematic of what targeted FDI can achieve when aligned with national development strategies (Lake Turkana Wind Power, 2024; World Bank, 2017).

Agriculture remains central to economic life in most developing countries. Investments in agro-processing, sustainable land use, and local value chains can transform livelihoods and enhance food security.

Ghana's cocoa sector, Ethiopia's coffee industry, and Bangladesh's rice farming demonstrate the viability of inclusive and sustainable agricultural FDI (IFC, 2021; Statista, 2024; International Trade Administration, 2024).

Infrastructure, including roads, sanitation, and digital connectivity, remains a crucial but underfunded sector. FDI in these areas not only stimulates economic productivity but also improves quality of life. Moreover, emerging sectors such as eco-tourism, environmental restoration, and sustainable fisheries present underexploited opportunities that can attract impact investors seeking both financial returns and measurable development outcomes.

However, political instability, weak legal frameworks, and corruption deter investors. Local financing systems are often underdeveloped, and foreign investors face currency risk, bureaucratic delays, and social unrest (Kontakos, 2025).

Policy tools to improve the investment climate include stable legal frameworks, fiscal incentives, land reforms, and anti-corruption measures. Capacity-building in public institutions, technical training for local workers, and inclusive planning with civil society can foster a more enabling

environment (Kontakos, 2025; Republic of Rwanda, 2022).

5. COMPARATIVE CASE STUDIES AND REGIONAL INSIGHTS

To understand the global evolution of sustainable FDI, regional case studies provide rich insights that illustrate both achievements and ongoing challenges in diverse socio-political contexts:

- China has combined policy-led green transformation with strategic state investments in clean energy, making it the world's largest investor in renewables. National frameworks like the Green Credit Guidelines and the 14th Five-Year Plan reflect China's long-term commitment to decarbonisation (China Daily, 2024). While enforcement gaps persist, China's scale and proactive industrial policy have allowed it to position itself as a global leader in green technology exports, attracting FDI in solar, wind, and battery technologies (China Briefing, 2022).
- Uzbekistan has made significant strides in transforming its cotton sector. Historically criticised for unsustainable farming practices and labour violations, the country has partnered with international organisations like the Better Cotton Initiative (BCI) and UNDP to implement reforms. These include sustainable irrigation practices, crop diversification, and robust labour rights monitoring (Better Cotton, 2023; UNDP, 2023). These efforts have revitalised the cotton sector and made it attractive to FDI from textile and apparel companies seeking ethically sourced inputs.
- Chile demonstrates success in fisheries and aquaculture sustainability. Through quota-based management, the country has reduced overfishing and improved marine biodiversity. Its Aquaculture Stewardship Council (ASC) certifications and integration of multi-trophic aquaculture systems have drawn sustainable investment in salmon farming and other aquaculture ventures (Flanders Investment & Trade, 2023). Chile's regulatory consistency and public-private collaboration are core to this success.
- The European Union provides perhaps the most comprehensive sustainability policy framework through the European Green Deal and the EU Taxonomy. These instruments promote transparency, define sustainable activities, and direct both domestic and international investment into sectors like renewable energy, energy efficiency, and sustainable urban development (European Commission, 2024a). The role of the European Investment Bank and financial instruments such as green bonds has been central in scaling climate-aligned FDI across member states.

These case studies offer several cross-cutting lessons:

1. Policy Certainty Matters: Countries with coherent long-term strategies—like China and the EU—attract more consistent sustainable FDI.
2. Partnerships Are Essential: Success in Uzbekistan and Chile highlights the importance of collaborating with international organisations and stakeholders.
3. Certification and Monitoring: Sustainability-linked certifications help bridge investor trust and market access, especially in sectors like agriculture and aquaculture.
4. Social Impact Integration: Aligning sustainable FDI with social objectives, such as labour reforms and inclusive governance, strengthens legitimacy and resilience.

CONCLUSION AND POLICY RECOMMENDATIONS

Sustainable FDI holds transformative potential across developed, emerging, and developing economies. It supports decarbonisation, green job creation, inclusive economic growth, and resilience to global shocks. However, its success is highly dependent on tailored policy frameworks, institutional quality, and local implementation capacity.

Developed economies are at the forefront of standard-setting and ESG integration, serving as models for policy and investment architecture. However, they must continue to lead by example, support green innovation, and extend financial and technical support to partner countries. Emerging economies are evolving rapidly, offering a mix of risk and reward that requires de-risking strategies, blended finance, and governance improvements. Developing countries remain constrained by infrastructure and institutional deficits but offer high development impact for mission-aligned investors.

Policy recommendations include:

1. Enhance regulatory clarity and global alignment: Countries should harmonise their domestic investment frameworks with global sustainability standards to reduce uncertainty for investors.
2. Support local capacity building: International donors and investors should work with governments and local institutions to strengthen regulatory enforcement, technical skills, and monitoring systems.

3. De-risk sustainable investments: Mechanisms such as guarantees, insurance, and public co-investment can mitigate the risks associated with politically and economically volatile markets.

4. Strengthen Public-Private Partnerships (PPPs): Governments should co-develop projects with the private sector, particularly in high-impact areas like infrastructure, clean energy, and agriculture.

5. Leverage data, digital tools, and innovation: Invest in monitoring tools, digital platforms, and data-sharing mechanisms that enhance transparency, promote investor confidence, and drive continuous learning across sectors.

6. Foster regional cooperation: Cross-border sustainability challenges—such as water scarcity, migration, or pollution—require joint responses and investment. Regional frameworks and development corridors should be used to coordinate FDI flows and development efforts.

By pursuing these strategic actions, countries can unlock the full potential of sustainable FDI to advance environmental objectives, drive inclusive growth, and strengthen resilience in the face of global uncertainties. In doing so, they will not only attract capital but also contribute meaningfully to achieving the shared global vision of sustainability.

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