

Chapter 34

Corporate Social Responsibility and Financial Development: Promoting Global Economic Development

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ABSTRACT

This chapter not only attempts to identify those variables which govern and impact the relationship and interplay between Corporate Social Responsibility and Foreign Direct Investment, but illustrate the conditions under which such variables are likely to be most susceptible to change and fluctuations – as well as consequences that are likely to be generated as a result of such fluctuations. In so doing it also contributes to the literature in highlighting why greater focus and priority should be accorded to Foreign Direct Investment and Corporate Social Responsibility, as tools for poverty alleviation. Further, as well as accentuating, under the conclusion section, why the UK Government strategy for building more plants after Hinkley Point, implies that the UK would not reap all benefits of the Project, the chapter expatiates on contributory factors which have resulted in the decision of the UK Government to delay its decision on the Hinkley Point Project. Contributory factors, which include among a notable few, the need for flexible generating capacity was also cited, since renewable energy cannot be easily converted at Hinkley Point.

INTRODUCTION

According to recent IMF reports (Hayden, 2015:1),¹ it was highlighted that between 2004 and 2013, Latin America “recorded impressive growth and strong progress on a range of social issues.” Identified factors of economic growth were considered to have resulted from a combination of “high commodity prices and economic management”, coupled with “progressive social policies”. Recent reports however, present a very uncertain and uneven projection for 2015 and the years ahead owing to various factors which not only include and result from slowing down of growth in emerging economies, but also a fall in commodity prices which have resulted from the economics and dynamics currently taking place in several emerging economies.

The World Economic Outlook (2015) highlights and accentuates the fact that “prospects in emerging markets and developing economies vary across countries and regions.” However, the uncertainty which clouds the present global landscape in relation to growth and development, particularly for 2015 is considered to be a combination of factors which is attributed to the weakened growth evidenced in the last quarters of 2015, with growth for emerging and developing economies forecasted to decline from 4.6 percent in 2014 to 4.0 percent in 2015 (see Hayden, 2015:1).²

Maurice Obstfeld, the IMF Economic Counsellor and Director of the Research Department, attributes recent developments to a combination of “at least three powerful forces”, namely:

- China’s economic transformation—away from export- and investment-led growth and manufacturing, in favor of a greater focus on consumption and services;
- Second, and related, the fall in commodity prices; and third,
- The anticipated increase in U.S. interest rates, which in his view, is likely to have global consequences, as well as contribute to current uncertainties.

Current Uncertainties

Whilst it is widely anticipated that the United States (the Federal Reserve) will raise interest rates, before the end of 2016, other jurisdictions such as the United Kingdom are having to lower interest rates. Such a move has not only generated greater uncertainty, but is also a consequence of the EU Referendum and the result of the Brexit vote which took place on the 23rd June 2016.

The EU Referendum has had far reaching implications, so far, on the UK economy - even such repercussions are considered to be short term. As well as the fall in value of the pound, which dipped to its lowest levels (against the dollar) - since 1985, in the immediate aftermath of the EU Referendum, further repercussions were to emerge - subsequently. Consequences of the lower pound include: Higher import prices, higher inflation, but on a more positive note, lower export prices (good for exports).

Higher inflation, as well a slowdown in economic activity also prompted speculations of low interest rates. Banking, airline, property shares were generally affected as reflected during early trading returns on UK government bonds - reported to be at lowest ever levels. Even though shares were temporarily down, the share results were not as bad as was expected. The uncertainty was also attributable to concerns relating to whether the economy was undergoing/would undergo prolonged recovery or whether such recovery would be temporary. There is also a need to balance medium term with undue prolonged uncertainty. As of the 30th of June, a week after the Referendum, shares appeared to have recovered and the reaction of markets, as well as representing a shift from perceived risky capital markets to less

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