

## Chapter 9

# Foreign Direct Investment as a Tool for Poverty Alleviation

**James Rossi**

*University of Greenwich, UK*

**Genevieve Dupont**

*American University of Paris, France*

### ABSTRACT

*It has been argued that “Absolute poverty can be alleviated if at least two conditions are met. First, economic growth must occur—or mean income must rise—on a sustained basis. Second, economic growth must be neutral with respect to income distribution or reduce income inequality.” By way of reference to current and previous literature on economic development, this chapter aims to investigate the relationship between poverty, economic growth, and income distribution, as a means of mitigating gaps in the literature on the topic, as well as contributing to the literature of Foreign Direct Investment as a tool for poverty alleviation.*

### INTRODUCTION

*The absence of public support for subsidy reform partly reflects a lack of confidence in the ability of governments to reallocate the resulting budgetary savings to benefit the broader population, as well as concerns that vulnerable groups will not be protected. This is particularly challenging in oil-exporting countries, where subsidies are seen as a mechanism to distribute the benefits of natural resource endowments to their populations; in addition, these countries typically lack capacity to administer targeted social programs. Governments are also often concerned about the inflationary effects of higher domestic energy prices and their adverse impact on the international competitiveness of domestic producers. Furthermore, subsidy reform can be complex when it involves efforts to reduce inefficiencies and production costs, as is often the case for the electricity sector. (IMF, 2013:5).*

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It has been argued (Jenkins, 2005:540) that one of the shortcomings of the current Corporate Social Responsibility model arises from its failure to accord greater focus and emphasis on poverty alleviation – which in part, is limited and attributed to the priority with which business and economic objectives are endowed. Herein lies the role of multinational enterprises in engaging the Government, wider stakeholders in designing effective social programs which not only constitute part of its corporate social goals and objectives, but can also be effectively enforced and complied with, through international codes and agreements.

It is also apparent from the investigated cases of subsidy reforms that opposition to such reforms arise primarily as a result of the inability of certain governments to effectively allocate designated resources in the manner deemed appropriate. Hence since issues appear to be more affiliated with domestic governance and local enforcement mechanisms, international and supranational entities may constitute more effective mechanisms for effectively enforcing and complying with related agreements, codes and standards. Further, as illustrated in chapter two, greater or equal status should be accorded to legal and ethical objectives, as embodied within Carroll's pyramid of Corporate Social Responsibility when such status is compared to that which is accorded to economic objectives.

As well as highlighting the advantages and disadvantages of energy subsidies as a means of identifying those areas of concerns and how they can be addressed, this chapter is aimed at proposing means whereby stakeholders and particularly wider stakeholders, the Government and multinational enterprises, can be effectively engaged in Corporate Social Responsibility as a tool for designing more effective social programs which are aimed at implementing successful subsidy reforms.

## **BACKGROUND AND LITERATURE REVIEW**

### **Conceptual Framework**

Subsidies are defined by the International Monetary Fund, as comprising of two elements, namely (IMF, 2013:6):

- Consumer subsidies
- Producer subsidies

Further, consumer subsidies are considered to arise “where the prices paid by consumers, including both firms (intermediate consumption) and households (final consumption), are below a benchmark price”, whilst producer subsidies arise “when prices received by suppliers are above this benchmark.” (IMF, 2013:6)

As well as growth and economic impacts of energy subsidies, environmental and social costs are also associated with such subsidies. Other disadvantages attributed to energy subsidies include the following (IMF, 2013:15-19):<sup>1</sup>

- Subsidies can discourage investment in the energy sector. Low and subsidized prices for energy can result in lower profits or outright losses for producers, making it difficult for SOEs to expand energy production and unattractive for the private sector to invest both in the short and long term.

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