



Impact and Accountability: Examining Multinational Enterprises' Foreign Direct Investment in Developing Economies

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Abstract. This paper explores the intricate dynamics of Multinational Enterprises (MNEs) regarding their legal obligations and economic objectives during Foreign Direct Investment (FDI) in developing countries. It investigates the dual role of FDI as a driver of economic development and as a source of ethical and legal dilemmas, specifically concerning the protection of environmental and labor rights in host nations. Utilizing data from Asia-Pacific regions, the paper assesses the potential adverse impacts of FDI on these countries and discusses the challenges associated with aligning corporate profit motives with broader social responsibilities. Through detailed analysis, the paper highlights the difficulties in enforcing international investment laws and offers strategies to better integrate the pursuit of economic benefits with the upholding of ethical standards. Recommendations focus on enhancing legal enforcement, refining regulatory frameworks, and encouraging MNEs to adopt practices that support sustainable development and human rights alongside their economic goals. This paper contributes to the ongoing discourse by providing insights that can inform the development of more integrated and effective strategies for managing the complex interplay of investment, law, and ethics in the realm of international business.

Keywords: Foreign Direct Investment, Multinational Enterprises, Developing Countries.

1 INTRODUCTION

Foreign direct investment (FDI) is frequently regarded as a potent way to provide developing economies with the capital and expertise they so desperately need, as well as to initiate the procedures that will enable these nations to advance economically [1]. In the modern global economy, transnational corporations are crucial, particularly because they are a major force of investment in emerging nations. By generating jobs, developing human capital, allocating capital efficiently, and transferring knowledge, technology, finances and skills, multinational enterprises (MNEs)' investment in developing countries improve the local economy environment. In addition, these investments by MNEs encourage achievement of the sustainable development goal globally since they

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contribute to the optimization of regional economic structure. Using the Asia-Pacific region as an example, the MNE-driven FDI inflow speeds up the growth of the member nations' secondary and tertiary sectors. By 2023, the developing countries' secondary and tertiary sectors account for 40% and 50% of all industries [2], respectively, creating an economic structure that balances the advantages to the economy and the environment.

However, the expansion of economic gains can sometimes overshadow the substantial costs that developing countries incur in fostering this growth, including the disproportionate expenses. The relentless pursuit of profit, coupled with the insufficient legal enforcement of existing international regulations, often leads to widespread violations of labor rights due to inadequate human rights governance. Additionally, the neglect or disregard of production norms not only impairs the human rights of other stakeholders, including consumers but also inflicts environmental damage in developing nations.

The focus of current research, papers, and literature is on examining how multinational corporations should balance their benefits to society and the economy. The majority of them concentrates on supporting the businesses' freedom to pursue profits while emphasizing the duties of multinational firms. However, a survey of the literature done in 2023 by academics revealed that the majority of research findings have to do with assessing how assuming social responsibility will impact the financial performance of multinational corporations [3], ignoring the discussion on legitimacy of MNEs fulfilling their obligations, leaving a blank on whether if multinational enterprises' investments shoulders legally derived social responsibilities regardless of the affection for corporations' original pursuit. Interdisciplinary studies in the field of multinational enterprises' investment are rare as well, most of which involves applied economics rather than legislative theories.

Consequently, the purpose of this essay is to present and analyze the influence of multinational corporations' investment strategy in developing nations. The responsibilities of businesses under international law—particularly international investment law—are further examined in this study. On the other side, the study makes recommendations for how MNEs should reconcile the competing demands of legal requirements and the pursuit of economic gains while evaluating the social and economic benefits of particular investment projects using primary data analysis techniques.

The structure of this paper is organized as follows: The first section introduces the context and significance of FDI in developing economies, highlighting the role of MNEs. The second section critically examines the economic benefits and environmental impacts of MNE investments, supported by data from the Asia-Pacific region. In the third section, the paper addresses the legal and ethical challenges faced by multinational corporations in their pursuit of profit, with a focus on labor rights and environmental protection. The fourth section explores the responsibilities of MNEs under international investment law, and the final section offers recommendations for reconciling the pursuit of economic benefits with legal and ethical obligations, incorporating an analysis of primary data on specific investment projects.

2 THE ECONOMIC BENEFITS AND ENVIRONMENTAL IMPACTS OF MNE INVESTMENTS

2.1 An Examination of the Financial Gains from MNE Investments

Research Scope and Main Influencing Factor Explanation. The influence of MNEs' foreign direct investment (FDI) inflow is continuously growing due to the unstoppable trend of globalization. This is particularly true for developing countries with burgeoning tertiary industries and secondary sectors that are increasingly maturing and seeking investment in human capital, technology, and administration. These characteristics are typical of the Asia-Pacific area, where foreign direct investments (FDIs) from multinational firms are already playing a significant role in the countries that make up this region. The Asia-Pacific area received 45% of worldwide FDI inflows until 2018, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). It is anticipated that this region will remain a prominent destination for FDI information in the years to come [4], as long as the Asia-Pacific Region continues to grow economically and technologically. The research ultimately chooses to focus on the Asia-Pacific region because of the continuity of foreign direct investment inflows and its representative of developing nations' economies.

Due to limited data disclosure in general and partial data that is substantially lacking in effectiveness, in order to assure the validity and efficacy of statistics, after removing the samples with significant data loss, the economic benefits from FDIs of 19 Asia-Pacific countries (Australia, Brunei Darussalam, Indonesia, Japan, Cambodia, Marshall Islands, Mongolia, Malaysia, New Zealand, Palau, Papua New Guinea, Republic of Korea, Singapore, Solomon Islands, Thailand, East Timor-Leste, Tuvalu, Vietnam Samoa) since 2000-2021 are selected as the object of this data analysis.

To understand the benefits countries reap from Foreign Direct Investments, this study identifies four main factors: The Production Capacity Index (PCI) as released by UNCTAD, which aims to pinpoint critical areas for a nation's economic development focus and measure economic potential, covering essential components such as natural and human capital, energy, ICTs, and more [5]. Real GDP per capita (GDP per capita) is employed to gauge the comprehensive impact of MNE FDI on the economy, serving as a vital metric for understanding a nation's macroeconomic status. FDI capital return rate (FDI ROC) assesses the financial gain that multinational organizations derive from their overseas investments. It might be impacted by transnational corporations' institutional elements, such as the stability of their governance [6], and the effectiveness of their international investment. Lastly, the ratio of Government expenditure to GDP (GOV) is analyzed, providing insights into the moderating effects of government spending on FDI returns and serving as an indicator of government size across different nations, which in turn affects economic development outcomes [7].

Data Analysis. Descriptive statistics of the main factors variables are shown in table 1.

Table 1. Descriptive statistics of major variables.

	Average	Median	Standard deviation	Minimum	Maximum	Observation
PCI	47.85851679	48.087	11.43545877	21.9121	71.1169	411
GDP per capita	14232.0069	4175.993524	17450.79717	301.516599	72794.003	411
FDI ROC	16.32557878	13.44286962	18.76491063	0	115.923563	411
GOV	3.973093786	2.203925783	6.415326213	-37.172653	43.9121128	411

With an average FDI ROC of almost 16%, the data clearly show that FDI investments by transnational businesses have a favorable effect on the economic environment of the Asia-Pacific Regions. The average 3% of government's restriction on spending does not significantly impede the benefits to the economy. The PCI displays polarization of over 50 within the Asia-Pacific region, highlighting the disparities in the degree to which different countries profit from FDI investment. The same pattern can be seen in GDP per capita, which further supports the existence of a significant national development gap that is partly due to variations in FDI volume and utilization rates.

It is important to note, however, that the current dataset may not fully capture the accuracy and comprehensiveness of the indices due to limited disclosure. Consequently, the actual economic gains from FDI may therefore be lower than anticipated.

2.2 The Influences on Environment of MNE FDI

The two main ideas on FDI's relationship with the environment that have been addressed in the literature to date are the pollution halo hypothesis (PHL) and the pollution haven hypothesis (PHH). PHH states that multinational firms from developed nations relocate their environmentally hazardous sectors to developing countries because of the tight environmental laws and significant taxes for environmental protection in their home countries. On the other hand, PHL believes that with eco-friendly investment and advanced technology transfer from foreign corporations, the host developing countries' environmental quality is actually improving [8]. Numerous analyses of the connections between FDI and the environment have been produced during the course of the two theories' decades-long debate.

The international industries' shift rule, however, establishes that foreign direct investment (FDI) from industrialized to emerging economies invariably has a negative impact on the environment of the host country. This rule affirms that secondary industry is the primary industry invested in developing nations. Researchers using Kuwait as an example discovered that the country's air pollution rose by more than 50% in just the five years between 2008 and 2003 during times when there was a significant influx of foreign investment, such as those saw between 2006 and 2016 [9].

There are established statistical results about the negative effects of FDI from MNEs towards developing countries. Anh Hoang To's 2019 study on the environmental damage caused by foreign direct investment (FDI) in Asia provides ample evidence that, despite the countries' apparent increases in GDP, CO₂ emissions are rising quickly as FDI increases.

Table 2. Descriptive statistics of all variables. [10]

Variables*	CO ₂	FDI	GDP	GDP2	GDP3	FDI2	Oil
Mean	-0.2291	18.439	7.0918	51.5246	383.6231	351.1924	5.115
Se (mean)	0.0446	0.1184	0.0376	0.5603	6.4754	4.2362	0.0416
p50	-0.3403	18.6467	6.9983	48.976	342.7476	347.6984	5.2524
Std.Dev.	1.3565	3.3481	1.1102	16.5261	190.9969	119.8189	1.2584
Variance	1.8401	11.2097	1.2326	273.1113	36,479.82	14,356.56	1.5836
Skewness	0.2173	-0.4674	0.5558	1.0321	1.5435	0.2373	-0.385
Kurtosis	2.8909	4.2238	3.3666	4.4672	6.2551	2.8618	2.9596
Sum	-211.8964	14,751.2	6169.857	44,826.43	333,752.1	280.953.g	4669.983
Range	7.1295	24.0938	6.2255	95.361	1155.864	691.465	6.8506
Min	-3.5603	2.3026	4.5462	20.6677	93.9591	5.3019	0.9444
Max	3.5692	26.3963	10.7717	116.0288	1249.823	696.7669	7.795
ID (n)	25	25	25	25	25	25	25
T-bar	37	32	34.8	34.8	34.8	32	36.52
Observations (N)	925	800	870	870	870	800	913

Addressing the tension between economic advancement and environmental conservation remains a complex challenge for domestic and international lawmakers and policymakers. The role of transnational corporations in this equation is significant, and their actions should be carefully considered within the framework of international investment legislation, labor laws, and environmental protection agreements.

3 CONFLICT BETWEEN TRANSNATIONAL CORPORATE PROFIT GOALS AND LEGAL ETHICS

3.1 The Dilemma between Labor Rights and Chase for Profit

As globalization advances, the international division of labor increasingly favors multinational firms, drawn by the cost efficiencies of repetitive labor in developing countries. These regions, characterized by burgeoning education systems, higher economic levels, and environments conducive to foreign investment, have become hotspots for outsourcing businesses. Such conditions facilitate the growth of MNEs, particularly in advancing industries within the second and tertiary sectors. However, in addition to the allure of reduced expenses, the demographic dividend of developing nations presents MNEs with increased legal risk and moral quandaries over the defense of labor rights.

The concept of labor rights is divided into two parts: the fundamental layer represents fundamental human rights, which apply to every person equally regardless of their identity, financial status, or state of health. The rights of individuals to life, liberty, and personal security serve as symbols for these rights. This first layer of rights serves as the foundation for the second layer of rights, which is directly tied to the nature of labor. For instance, the human right to life and security forms the basis for the right to appropriate insurance or safety measures when performing high-risk job. Precautions and insurance are real measures of protecting lives and providing securities.

The direct violations of the first layer of worker rights have decreased as a result of improvements in the international legal system's regulation of multinational corporations, as well as increased emphasis and oversight from non-governmental organizations and the international community on MNEs' social responsibilities. But, in the name of commercial interests, businesses violate the second layer through discriminatory pay practices against certain age and gender groups, excessive overtime demands, or the denial of employees' ability to engage in collective bargaining with their employer [11].

3.2 The Dilemma between Environment and Chase for Profit

Previous data has indicated that MNE foreign direct investments may potentially impact the environment in the developing nations they are located in. Yet, addressing these environmental issues faces obstacles and demands from various stakeholders, primarily the host developing nations and the MNEs themselves.

Because of the need for the economic growth benefits brought about by the enterprises, as well as their fear of the political might and greater actual discourse power of developed countries concealed behind the investment, developing host countries may compromise to the unjustifiable discharge of MNEs invested production bases. Moreover, developing nations are prevented from attempting to reform their industrial processes by the high expense of studying, developing, and promoting the use of green technology as well as the absence of technological support.

The limited capacity to regulate the operations of multinational corporations is a consequence of the immature application of environmental legislation in developing

nations. The reluctance of host developing countries to institute robust environmental protections fosters a tendency among multinational firms to prioritize profit over environmental care. This trend is exacerbated by insufficient international legal enforcement, which results in minimal global regulation of environmental issues. Consequently, MNEs face significant challenges in adopting comprehensive environmental governance, often influenced by their motivation to minimize costs and the absence of enforced regulatory subsidiaries.

4 MULTINATIONAL ENTERPRISES RESPONSIBILITIES UNDER INTERNATIONAL INVESTMENT LAW

The phrase "international investment law" refers to national and international legal standards pertaining to the safeguarding and regulations of foreign direct investments. The pursuit of more profit globally is a result of multinational businesses' ongoing development. Because of this, rules governing investment behaviors and the responsibilities of multinational enterprises have developed and improved as a result of stronger economic links.

4.1 Responsibilities on Environment Protection

The legislation governing multinational corporations' duties date back to the early 1970s. The Stockholm Declaration of 1972 highlights industrialized countries' exploitation of developing countries' natural resources as well as international marine sources for their own needs. The proclamation underlines the need of businesses shouldering their obligations for common endeavors with governments and communities [12]. This is one of the first steps in which universal laws are issued to warn MNEs in rich nations about the inappropriate use of their disproportionate influence in international trade and economics in comparison to underdeveloped countries.

The OECD Guidelines for Multinational Enterprises contain a distinct and independent chapter governing multinational corporations' investment responsibilities. Clearly, the rules set stricter restrictions on multinational firms' activities. Generally, the Guidelines required the construction and maintenance of specific environmental management systems, as well as the assessment and oversight of the streamlines invested by multinational corporations. Microscopically, the Guidelines regulated the systematic training of workers on eco-friendly operation processes, the monitoring of the product's impact on consumer health and safety, and the balancing of interests between stakeholders seeking profits from investments and those seeking environmental protection, such as certain multinational enterprises [13].

Numerous policies and agreements have been implemented to support MNEs' technological assistance to developing host countries in their pursuit of green industrialization, apart from regulations that emphasize MNEs' obligations to protect the environment of their host countries through a variety of methods prior to, during, and after their production process. For instance, the 2019 European Green Deal (EDG) introduced a comprehensive and detailed investment plan that indicates MNEs from various EU

industries to support clean energy in host developing countries. The plan's implementation gave Eastern European countries, such as Romania and Bulgaria, good development opportunities, allowing them to establish stronger and more advanced industries in low-carbon transformation.

Nonetheless, the degree to which MNEs are meeting their obligations, as dictated by law and stipulated in agreements, remains ambiguous. Due to the lack of stringent legal enforcement and public oversight, the actual fulfillment of these responsibilities may fall short of expectations. The profit motive of firms can impede regulatory control over MNE activities, and the subtle attitudes of host nations can also play a role. In some emerging countries, the imperative for rapid progress outweighs the urgency and ethics of safeguarding local environmental conditions. The immediate benefit of cost-free development often takes precedence over sustainability because residents prioritize an improved standard of living. As a result, in many developing host countries, MNE investments enjoy lenient regulation of environmental transgressions.

4.2 Responsibilities on Labor Rights Protection

Global supply chains have made MNEs' investments in upstream and downstream industries abroad more intense than in the past, and while international regulations have already established a legal foundation supporting MNEs' obligations to protect workers' labor rights, the regulations on risk-based due diligence—that is, the protection of workers' rights along the value chain that the core MNE controls and oversees—still needs further improvement.

Multinational corporations were mandated by the OECD Guidelines on Multinational Enterprises to uphold the fundamental human rights of its employees, including the right to life, the right to personal dignity, the right to rest, the right to get insurance, the right to earnings, and so on. In order to settle disputes between multinational enterprises (MNEs) and their employees, governments and corporations should also set up National Contact Points (NCPs) as a relief mechanism.

The idea that companies should investigate human rights issues thoroughly in order to identify and prevent any potential or current harm is becoming more widely accepted. The European Supply Chain Act, which was recently introduced, mandates that EU firms with over 500 workers and a global net income of more than 150 million euros do thorough audits of their partners and suppliers, including monitoring the circumstances of labor treatment [14]. The Act offers a major paradigm for the creation of international agreements and rules of risk-based due diligence on human rights protection in an effort to regulate MNEs' investment behavior in global supply chains.

Despite these initiatives, practical challenges persist. Human rights violations by MNEs are often driven by the pursuit of low labor costs. To effectively monitor MNE involvement, developing host countries need to advance their economies and legal frameworks. Therefore, resistance to enforcing regulations comes from both the home and host countries, complicating the path to harmonized global labor rights protection.

5 RECOMMENDATIONS FOR RECONCILING THE PURSUIT OF ECONOMIC BENEFITS WITH LEGAL AND ETHICAL OBLIGATIONS

5.1 Reconciling the Pursuit of Economic and Environmental Benefits

There are two main concepts of approach that can be used to balance the pursuit of environmental and economic benefits: The first approach is lowering the cost of green technologies. The second strategy is to control polluting behavior while MNEs are investing.

It is anticipated that the two main indicators of environmental policy and strategy that might mitigate the issue of climate change would be energy efficiency and green energy. Özbuğday and Erbas's study on energy efficiency found that 24 out of 36 countries had effective energy-efficiency policies in place to reduce greenhouse gas emissions [15]. As a result, a matching policy encouraging research and development or import of green technology, as well as its use in MNE-invested businesses, is required. On the one hand, environmental protection subsidies are attractive to businesses behavior. On the other side, there is an urgent need for politicians and entrepreneurs to shift their attitudes toward sustainable development, so that they have the motive to implement and cooperate with the eco-friendly policies. The promotion of environmental protection is a basic, soft, non-mandatory but vital strategy to increasing MNE stakeholders' knowledge of green investment and production.

Aside from soft and flexible policies, legal enforcement must be strengthened in order to implement MNE FDI laws. Currently, aside from the OECD Guidelines, legislative directives and recommendations on MNEs' environmental duties are scattered rather than systematic, principled rather than particular. Most environmental protection frameworks focus on worldwide challenges rather than foreign direct investment or FDI-related environmental protection issues in developing countries. Consequently, targeted worldwide regulation of the issue is urgently needed. This framework should aim to close the gaps that MNEs may exploit in less stringent environments and ensure that environmental stewardship becomes an integral part of the investment lifecycle. It would also call for the development of a standardized set of benchmarks and performance indicators that can be used to assess MNE compliance with environmental obligations. Furthermore, this approach would necessitate the creation of international bodies vested with the authority to monitor, report, and sanction non-compliance, thus ensuring that MNEs are held to account on a global stage.

5.2 Reconciling the Pursuit of Economic and Labor Rights

As the number and maturity of global supply chains are growing, it's critical to bridge the oversight gap between organizations that have an investment relationship with multinational businesses and the MNEs themselves because the primary violator is switching from the transnational entities to their partners. A suggested line of action is the creation of comprehensive international standards for the protection of human rights across industries. Because supply chains use basically standard production processes

across borders, it provides an opportunity to regulate the basic behavior of different industries for worker rights' protection. The OECD has made such attempts in its guidance systems by developing particular labor rights protection documents for the chemical, internet information, and mining industries.

Currently, employees of non-governmental organizations (NGOs) and government ministries make up the majority of NCPs which deals with labor rights conflicts between MNEs, their employees and investments across various nations, and the basis of their mediation are international principles, domestic regulations on human-rights protection and moral condemnation. Both the composition structure and behavioral basis are voluntary more than mandatory. To legalize NCPs, it seems feasible to convert the OECD Guidelines' complaints process into a quasi-legal tribunal in order to handle complaints on labor rights protection [16]. This entails setting up an independent and supervisory department of the OECD in contracting states by sending out specialized inspectors to involve in investigating the complaints submitted and Provide feedback or dispute proposals in a consistent amount of time.

Moreover, increasing the legal enforcement by perfecting the reasoning and precisely defining the legal terminology described is a more flexible option rather than further creating "hard laws" for regulations because the complexity of the international legal environment does not lend itself to such a solution. This would include clearer guidelines that can be adapted to local contexts and enforced through a consensus-driven approach. It allows for the creation of a dynamic legal environment that can evolve in tandem with the changes in international business practices and environmental standards. Such an approach would also encourage MNEs to adopt best practices proactively rather than reactively, fostering a culture of compliance that is grounded in ethical considerations as much as legal ones.

6 CONCLUSION

The roles and responsibilities of MNEs in the context of FDI in developing countries are multifaceted and laden with complexities. This paper focuses on the significance of FDI as a catalyst for economic growth in these nations, while concurrently highlighting the ethical and legal quandaries posed by the competing objectives of corporate profitability and the protection of host country environmental and labor rights. By analyzing the data on economic growth and environmental benefits of MNE investment from Asia-Pacific regions, we can infer that while FDI by MNEs carries potential for negative impacts on host countries, data omissions may introduce errors in this analysis. This finding has prompted a deeper discussion on the challenges of striking a balance between a corporation's primary profit-driven goals and its social responsibilities, with a focus on MNEs' obligations towards environmental stewardship and labor rights protection as mandated by international investment laws.

The paper underscores the hurdles encountered in reconciling these dual objectives, pointing out that while legal frameworks and regulatory guidelines are in place, their effective implementation is often hampered by a range of factors, including the varying capacities of host countries to enforce these regulations and the MNEs' strategies to

align their operations with such directives. Given this backdrop, the paper puts forth recommendations aimed at encouraging MNEs to fulfill their duties more effectively, promoting environmental sustainability and human rights alongside their profit-making activities. These recommendations advocate for a blend of enhanced legal enforcement, the refinement of regulatory frameworks, and the fostering of a corporate culture that values ethical considerations on par with economic outcomes.

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