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Government Policies for MNEs' Sustainable Linkages

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1. Overall Introduction

In this chapter, our aim is to present a critical perspective on past, present, and future policies towards multinational enterprises' (MNEs) sustainable linkages in host economies. We will discuss how governments can and do guide multinationals towards developing sustainable linkages – with targeted MNE linkages and related FDI policies, actions, and initiatives –, and engage in a critical discussion on the challenges policy makers face in doing so. As such, this chapter positions itself within the ongoing debates around policies adopted by governments towards achievement of the UN Sustainable Development Goals (SDGs), e.g., policies that guide multinational enterprises towards increasing their contribution to the achievement of these goals through responsible and sustainable business practices.

Traditionally, governments' FDI policies have focused on the economic dimension of firms' activities and impact, such as size and scale of the investment, or the employment or technology transfer potential generated by activities of foreign multinational firms. More recently, governments have started to adopt measures that facilitate not only more FDI, but also more sustainable FDI through the inclusion of facilitation measures aimed at directly or indirectly increasing the development impact of MNEs once they operate in the host economy. Today, governments pay more attention to social, environmental and governance dimensions of foreign investment (such as human rights or gender considerations, pollution controls, or supply chain standards), by providing incentives, through initial screening of investment, or provision of post-investment services. Despite efforts, the policy landscape to promote sustainable investment tends to be complex to navigate for policy makers and for firms. And there remain questions as to whether the right actions are being taken and – importantly - is it enough (Narula & Pineli, 2019; UNCTAD, 2023a).

Sustainable linkages are linked to the activities of MNEs in a host country, and what has been coined by research and policy makers as sustainable investment, broadly defined as: “commercially viable foreign direct investment that is characterized by best efforts to make a reasonable contribution to the economic, social and environmental development of host countries and that takes place in the context of good governance mechanisms” (Sauvant et al., 2022: p. 44). MNEs' linkages occur via inter-firm transactions, interactions and on-going relationships (Giroud, 2012), when MNEs are directly involved with other firms and

organisations in the host country (within or across industries) and have a direct influence on these local partners. In this chapter, we define “sustainable linkages” or “linkages that contribute to sustainable development” as: “MNE inter-firm linkages that promote not only economic but also social and environmental impact”.

We ask the following research question: what are the linkages policies in place in host economies? And what policies do governments adopt to support greater sustainable linkages? To provide answers to these questions, we first conduct a review of existing literature to uncover the impact of MNEs through linkages and the mechanisms to enhance their positive impact. We then present a presentation of traditional linkages policies before investigating novel actions adopted by governments. We propose that to promote sustainable linkages, policy makers should not only adopt traditional means to support MNE linkages, but also promote sustainable linkages and devise (a) linkage policies and measures in SDG-related sectors, (b) linkage policies and measures that have a sustainability impact focus, and (c) linkages and measures with a focus on inclusiveness on vulnerable groups (e.g. women, communities of practice such as small holder farmers, blacks, indigenous, etc...). The chapter ends with a critical discussion on linkages policies and way forward.

2. MNE Linkages: what do we know so far?

Given the potentially critical role of MNEs in fostering development, it is no wonder academic research on MNEs' linkages and spillovers is extensive, demonstrating the complexity of understanding when and how these occur in host economies. Spillovers are broadly defined as externalities created by MNEs in host economies, linkages are the direct relationships established between foreign firms and local organisations, and as such linkages act as mechanisms for spillovers (Giroud, 2012). Early contributions to understand the impact of MNEs on host countries' development were made in the 1950s and 1960s in the fields of political economy and development economics (Hirschman, 1958; Gerschenkron, 1962). Hirschman (1958, 1970) focused on a perspective of unbalanced growth, suggesting that governments should support industries with multiplier effects, and attract MNEs towards those industries. The assumption is that MNEs can thereby create linkages that support the development process. In this approach, creating poles of economic activities, agglomeration or clusters would enhance localisation economies, and create a dynamic source of uneven regional growth, with the potential for trickling-down and polarization effects (Hirschman, 1970). Governments (in emerging markets) can thereby generate policies to foster multipliers such as linkages and kickstart the development process. These approaches were later complemented by contributions on the role of the state (e.g., developmental state in latecomer industrialization – e.g., Lall, 1980; Amsden, 1989). These perspectives showed how host governments can utilize FDI in line with their development strategies, and carefully design policies firstly to attract foreign firms within their national borders, to maximise positive impacts and minimize potential negative impacts from MNEs' presence in their country.

Economics and international business scholars demonstrate MNEs' impact occurs at a macro-economic (e.g. on a country's balance of payments, the local investment rate and stock of

capital, the employment level and local firms' competitiveness), meso-economic (e.g. changes in industrial structure) or micro-economic levels (e.g. changes in consumer behaviour, or increase in the local talent pool) (Narula & Pineli, 2019). There are five key means to generate FDI spillovers, namely demonstration/imitation, labour mobility, exports, competition, and vertical linkages with domestic firms (Crespo & Fontoura, 2007). Whilst spillovers result from the indirect externalities of MNE activities in host economies, linkages are the direct mechanisms for spillovers that occur via inter-firm transactions, interactions and on-going relationships (Giroud, 2012).

Vertical spillovers refer to the business relationships established by MNEs with local firms either as suppliers (backward vertical), as customers (forward vertical), or with competitors (e.g., through strategic alliances or innovation collaboration). Although some studies refer to MNE linkages as a *mirage* (Khan et al., 2015), over the past few decades, studies generally find a positive impact of vertical linkages in host economies (Havranek & Irsova, 2012; Giroud, 2012; Hynes et al., 2020). Research suggests backward spillovers tend to have greater impact on local firms than forward spillovers (Havranek & Irsova, 2012; Ha & Giroud, 2015).

There exist several mechanisms explaining positive externalities by MNEs on local firms through linkages and spillovers. The literature shows that externalities can result from direct or indirect effects, oftentimes not easy to distinguish. First, business exchanges lead to scale economies among domestic firms due to greater demand for locally produced intermediates goods or facilitated access to novel products on the local markets. This leads to pecuniary externalities derived from the rise in demand for local products and greater availability of products available on the local market (Castellani, 2012). Second, MNE presence can incentivize local firms to raise quality of their inputs and outputs, operate more efficiently to respond to MNEs' stringent requirements and to respond to greater competition amongst local firms wishing to serve foreign customers (Saliola & Zanfei, 2009). Third, in the process of business exchanges, MNEs interact with local firms, and intentional, or unintentional knowledge transfers occur (Newman et al., 2020).

In these cases, vertical linkages result in a potential increase in local firms' competitive advantages and competences. This occurs when linkages enable local firms to increase productivity, generate new ideas, adopt best practices, or explore novel production methods. Research shows domestic firms active in sectors with greater investments by MNEs show a stronger innovative performance (Crescenzi et al., 2015). Vertical linkages can foster diversification and upgrading in host economies. Focusing on the case study of IKEA in Poland, Baraldi & Ratajczak-Mrozek (2019) explain how one key supplier, Swedwood, progressively became a key business partner, and assumed a central role in the firms' value chain activities in the local market. Local firms can benefit from export upgrading, increase export volume (intensive margin effect), the number of exported products (extensive margin) and quality of products, and lower costs in foreign markets by learning from their MNE business partners (Giroud & Scott-Kennel, 2009).

MNEs' externalities on local firms can also be negative. For instance, some studies argue that foreign firms primarily engage in business relationships with other foreign firms located in the country (Pavlínek, 2018), or with very few top-tiers suppliers (Rugraff, 2010); others demonstrate stringent requirements and cost pressure can negatively affect local firms (Saliola & Zanfei, 2009), and some suggest domestic firms' vertical linkages can be more beneficial for host economies (e.g., Franco et al., 2019 ; Hynes et al., 2020 ; Cozza et al., 2021).

MNEs impact through linkages and spillovers are not automatic, nor systematic (UNCTAD, 2010). The literature points to several explanatory factors that explain differential outcomes (Giroud & Scott-Kennel, 2009; Narula & Pineli, 2019). Host and home countries are heterogenous, they differ in terms of level of economic development, local technological competences (such as R&D expenditures, IPR protection, technological parks, etc...), local competitive environment, or infrastructure (Meyer & Sinani, 2009). Local institutional environments differ, as do the quality of local host institutions (e.g., economic freedom, trade openness and policies, FDI policies, financial development). For instance, regarding contract enforcement, Pérez-Villar and Seric (2015) find good institutions in terms of contract enforcement led to a significant increase in MNEs-local firms' linkages. The potential to generate impact through vertical linkages also differ depending on the industry.

Firm-level factors are also key determinants in the degree and extent of vertical linkages. MNEs are heterogenous, depending on their global and supply chain strategies, export-orientation, technological capabilities (Giroud et al., 2012; Ha & Giroud, 2015), or country of origin (Amighini & Sanfilippo, 2014; Scott-Kennel et al., 2022). FDI motivation, or entry mode choice also affect the potential to generate vertical linkages (Amendolagine et al., 2013; Jindra et al., 2009). And – perhaps most important in explaining the potential for upgrading, not all local firms are the same; they differ in terms of size, international orientation, degree and extent of absorptive and innovation capacities (Crespo & Fontoura, 2007; Gentile-Lüdecke & Giroud, 2012), and MNE-local firms' technological gap.

An emergent body of literature increasingly focuses on the wider sustainable impact potential of MNEs through vertical linkages. One group of studies highlight the potential green impact of MNEs on local firms, either through encouraging adoption of environmentally friendly business practices or encouraging green innovation (Ha, 2023; De Marchi et al., 2023). Other studies explore how MNEs by promoting diversity and equality in local firms' practices (Giroud & Salguero-Huaman, 2019), focusing on human rights activities and impact, notably along the value chain (Wettstein et al., 2019). Increasing research addresses the difficulties of local firms in social upgrading specifically within the context of MNEs' global value chains (UNCTAD, 2020a; De Marchi et al., 2023). In the context of the current SDGs, it is imperative to better understand the wider socio- and environmental impact of MNEs on local firms through vertical linkages. Many of the mechanisms and boundary conditions presented above remain valid, but to devise more efficient policies, governments need to rely on increasing knowledge in the field of MNEs' vertical linkages and the wider SDG-related impacts.

3. Promoting Sustainable Linkages

a. *Historical perspectives*

It is well established that public policies play a key role in promoting business linkages and technological spillovers (Lall, 1980; Narula & Piteli, 2019). In the past, industrial policies that tended to protect domestic industries and/or impose local content, technological licensing or equity requirements have been adopted (Amsden, 1989). These policies did not always prove effective, as they turned out to either discourage MNEs from investing at all or to undermine the competitiveness and productivity of domestic suppliers. In the late 20th Century and early 21st Century, governments progressively moved towards increased liberalization of investment policies *per se*. However, FDI liberalization, on its own, did not necessarily result in linkages formation and technological learning (UNCTAD, 2006). The main reasons why MNEs often opted for purchasing a limited amount of good and services in host (developing) countries were mostly related to the limited capacity of local suppliers to meet their requirements in terms of quality, price and/or delivery (Amendolagine et al., 2015; Newman et al., 2020).

To address such recurrent constraint, government progressively adopted a soft approach to MNE linkages, which replaced the use of market-distorting measures, especially in those countries that succeeded in generating significant inflows of FDI (Narula & Pineli, 2019). To maximize the positive spillovers and to minimize detrimental effects of MNEs, the then-new generation of linkages policies had a twofold objective: 1. targeting FDI in key strategic sectors with high growth potential that were likely to generate considerable domestic linkage and spillover effects; and 2. upgrading local SMEs already linked to MNEs or with the potential of meeting higher MNE standards (UNCTAD, 2010). Rather than providing indiscriminate support to local SMEs and keep focussing policy interventions merely on the supply side, the new approach shifted the attention to the demand side and targeted SMEs specializing in activities that would complement large-scale production (Altenburg, 2000).

There are several examples of successful public linkages policies, such as those adopted in the mid-1980s and 1990s in Ireland or Malaysia, aimed at encouraging MNEs to create business linkages with domestic suppliers on a voluntary basis and following the rules of the market (Giroud, 2007; UNCTAD, 2010). They were intended as fast-track mechanisms for creating a dynamic SME sector, upgrading local productive capacities, and increasing the pool of domestic companies able to meet international standards. Namely, they were aimed at taking advantage of the new windows of opportunity created for specialized SME partners (such as domestic subcontractors, suppliers of parts and components, franchisers, after-sales services) within MNE-led integrated production systems, by addressing some of the barriers of entry that were not allowing domestic suppliers to become global players (Altenburg, 2000).

For example, Ireland's National Linkage Programme was established in 1985 as part of the Irish Government's efforts to enhance industrial development and maximize the number of components and services sourced locally by MNEs. It initially targeted the electronics sector but was expanded later to cover engineering, chemical, pharmaceuticals, food, and consumer products (UNCTAD, 2010). It assisted hundreds of domestic SMEs, which were upgraded and

became suppliers to companies such as IBM, Apple, and Dell. Many of them also became eligible to join international procurement panels and gained access to new export markets. In the case of Malaysia, the government launched a *Manufacturing ++ Strategy* under its Second Industrial Master Plan (1996-2005), with a clear focus on linkages creation and technological upgrading in selected industries with high growth potential. It offered approved SMEs an investment allowance of 60 per cent on qualifying capital expenses and MNEs tax deductions for five years to initiate their own supplier development programmes. It also worked with MNEs to monitor technology and business trends and to share criteria for successful buyer-supplier relationships (UNCTAD, 2006).

To achieve these objectives, and considering their dual institutional nature, Linkages Promotion Units were created in specialized government agencies, most notably in Investment Promotion Agencies. A bridge was finally created between worlds that were usually not communicating nor coordinating their respective areas of policy interventions, often promoting foreign investment on one side and SME development on the other in a totally disjointed manner. Linkages Promotion Units were assigned comprehensive tasks that addressed the needs of both domestic suppliers and international buyers, and embraced in a holistic and systemic way all the various steps involved in the linkage process (UNCTAD, 2001):

- adopting investment promotion measures (incentives) with the final objective of enhancing local supply capacity and upgrading local productive capacities.
- targeting lead companies (both SMEs and MNEs) operating within key strategic sectors.
- identifying the linkage requirements of participating companies.
- briefing participating SMEs on the market opportunities and on the type of skills required to establish linkages with MNEs and to complete the company selection procedure.
- matching the linkage requirements of participating companies through subcontracting exchange schemes as well as supplier fairs and exhibitions.
- preparing SMEs to become partnership-ready through the provision of business development services that would help participating suppliers meet all the standards required by the MNE customers.
- supporting SMEs during the mentoring/coaching process by MNEs.
- monitoring and evaluating the impact of the linkage programme.

Nowadays, current linkages policies are broadening their scope, are getting embedded in comprehensive national development strategies by integrating sustainability and inclusiveness principles and are very much directed to attaining the UN SDGs. Until recently, the decision to source locally depended on the cost, quality, reliability, and flexibility of local suppliers relative to suppliers abroad (UNCTAD, 2020a). At present, and especially since the adoption of the 2030 Agenda for Sustainable Development in 2015, local sourcing is expected not only to allow lower costs, closer monitoring, and greater flexibility in changing specifications and in developing new inputs (Montiel et al., 2021). It is expected to allow MNEs that are

rethinking their objectives, shifting from profit to shared value creation and integrating the SDGs into their core corporate strategies, to increase their positive externalities and/or reduce negative externalities – such as the environmental impact of freight transport in host-country communities along their entire value chains (Suhi et al., 2019).

b. *Promoting greater sustainable impact through MNE linkages*

Governments and markets are pushing the sustainability agenda, as part of global efforts to drive financing towards the achievement of the SDGs. Since the adoption of the United Nation's 2030 Agenda for Sustainable Development, governments across the world have integrated the SDGs into their national development programmes and priorities. More than 150 countries have adopted national strategies on sustainable development or revised existing development plans to reflect the SDGs (UNCTAD, 2020a). While few of these strategies contain concrete road maps for the promotion of investment in the SDGs, many of the policies and programmes within them have important implications for investment carried out by MNEs and for SDG-related investments (such as sustainable funds or sustainability bonds, or impact investment).

Recently, the COVID-19 response by governments included a significant investment policy component as they tried to retain, promote, and facilitate investment. Recovery investment and stimulus packages were adopted across the world – particularly in developed economies - and were oriented in large part towards SDG-related sectors including infrastructure, renewable energy, and health systems (UNCTAD, 2021a).

The ongoing war in Ukraine and its negative effects on food and fertilizer value chains worldwide is also influencing the policies of governments, with potentially important sustainability investment implications. In Brazil, for example, the government developed a national strategy to promote investment in the fertilizer sector to reduce import dependency and strengthen food security (Ministry of Agriculture of Brazil, 2022).

Several multi-government policy initiatives are also in line with fostering sustainable investment, including the ongoing negotiations at the World Trade Organization to promote *Investment Facilitation for Development* (World Trade Organization, 2021) which aims to strengthen the enabling environment for investment for development. An inventory of national policy measures to facilitate the flow of sustainable FDI has been developed with the aim to feed into these negotiations (Sauvant et al., 2022). The G20 has also developed a compendium of country policies promoting investment for sustainable development (G20 and UNCTAD, 2022).

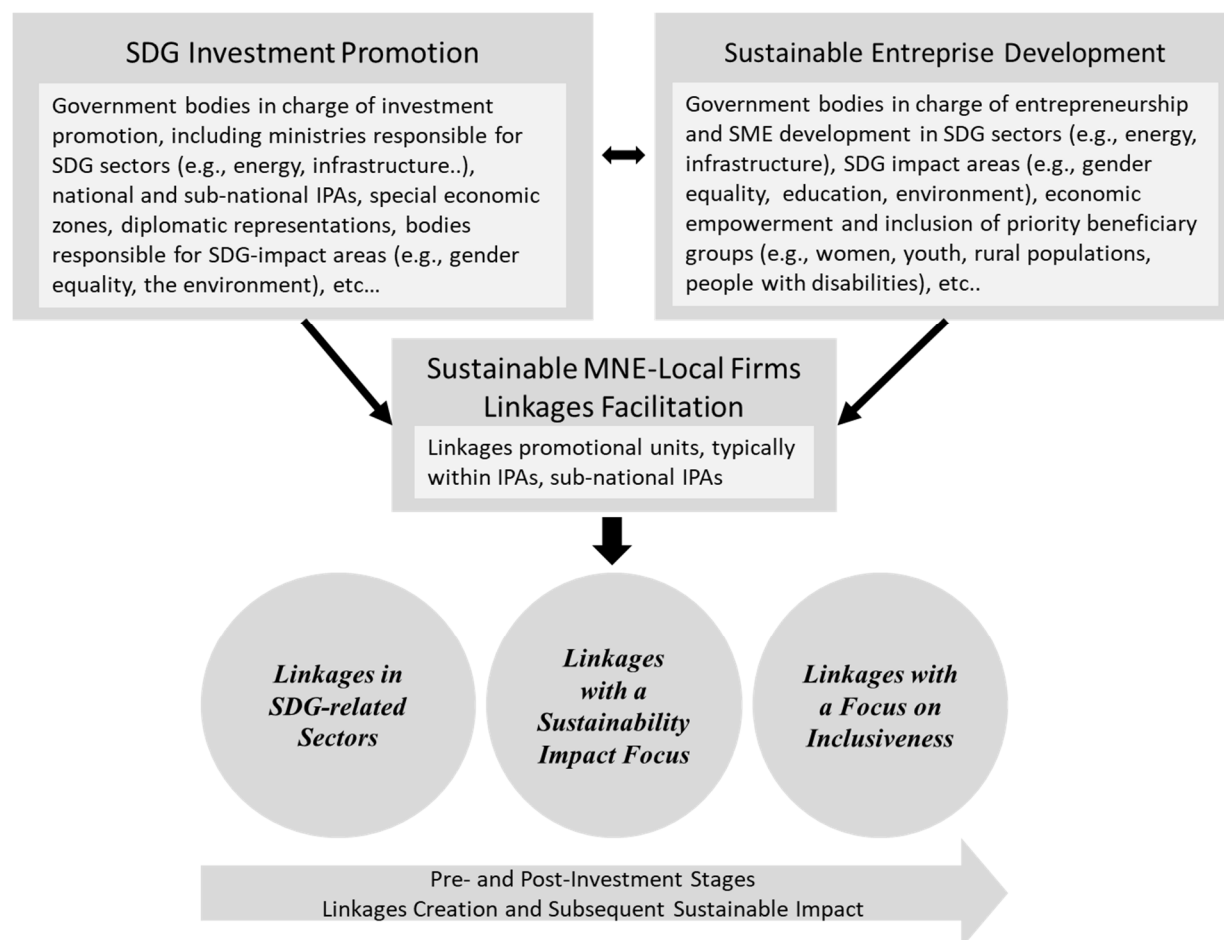
Against this background, this section focuses on examples of government policies and measures that promote linkages between foreign investors and local firms as a conduit for FDI to contribute to sustainable economic development objectives and the advancement of the SDGs. In this section, using several concrete examples, we propose that governments seeking to promote new era sustainable linkages are adopting similar policy measures as with traditional linkages but with a deliberate and defined focus on SDG sectors, cross-cutting sustainability impact and/or inclusiveness targets. We propose three types of sustainable

linkages, namely: (i) linkage policies and measures in SDG-related sectors, (ii) cross sectoral linkages policies and measures that have a sustainability impact focus, and (iii) linkages and measures with a focus on inclusiveness on vulnerable groups.

Drawing on existing literature, our analysis of previous linkages policies and concrete policy examples, we further propose a framework of the ecosystem of policy areas and actors to foster sustainable linkages in host countries (see Figure 1). Policy measures can be grouped into three main categories: 1. *SDG investment promotion* including targeting of lead companies in priority SDG-related sectors and incentives linked to defined SDG-impact, as well post-investment measures to support the expansion of existing investors; 2. *Sustainable SME development* including supporting local firms to become SDG-partnership ready through targeted business development services for firms in key SDG sectors, targeted beneficiary groups, as well as the adoption of sustainability standards for firms across sectors; and 3. *Sustainable linkages facilitation* including measures that reduce information asymmetries and foster visibility, connections and collaboration between MNEs and SMEs in SDG sectors, working towards SDG impact and involving target beneficiary groups.

Sustainable linkages policies involve a wide range of actors across government, much in the same way as investment projects in SDG-related sectors tend to involve a broader range of actors than “traditional” investment projects (UNTAD, 2018). Beyond those responsible for investment promotion and SME development, government bodies that may have an important role may include ministries in charge of SDG sectors like energy (that may also be involved in the promotion of government-initiated investment projects in the sector), as well as ministries responsible for areas related to SDG impact like education and gender equality. For sustainable linkages with deliberate inclusiveness targets, ministries, and other government institutions responsible for the economic empowerment of vulnerable groups including women, youth or rural communities may be relevant. IPAs continue to play a key role as bridges between institutions in charge of investment promotion and SME development as well as between MNEs and local SMEs (see Figure 1).

Figure 1. Framework to understand the ecosystem of policy areas and actors to foster sustainable linkages



Source: Authors' own elaboration

i. Policy measures that promote sustainable linkages in SDG-related sectors

Policy measures in this category deliberately target SDG sectors for investment, often in line with broader sustainability objectives at the national level. Measures include targeting investors in SDG sectors through investment promotion activities and incentives. In the case of Namibia, where the government is seeking to develop its green hydrogen sector, the IPA's efforts to promote sustainable linkages are part of a wider, whole-of-government approach to prioritizing green investment and promoting government green hydrogen investment projects in the government's pipeline (see Box 1).

The presence of a strong local enabling environment and absorptive capacity in priority SDG sectors is both a determinant to attract investment, as well to maximize the impact of SDG-sector specific linkage programmes. Accordingly, measures in this category include the development of local firms operating in the target SDG sector, through business development services and market information. They also include initiatives to facilitate connections between

local firms and investors through SDG-sector focused matchmaking platforms and supplier databases, among others. In the case of Brazil (see Box 1), the *ScaleUp* programme serves as a landing pad for international tech companies and connects them with local customers, suppliers, services providers and other actors during their entry and establishment phase in the country.

In the post-establishment phase, measures can include aftercare services to existing MNEs in SDG-sectors. For example, Ireland's IPA defined priority SDG sectors for investment which include those related to SDG 12 on *Responsible consumption and production*, SDG 13 on *Climate action* and SDG 14 on *Life below water* (see Box 1). It has set metrics to support existing MNEs with their environmental sustainability initiatives, guided by the European Union's taxonomy for sustainable activities (European Union, 2020).

Box 1. Examples of policy measures that promote sustainable linkages in SDG-related sectors

Brazil:			
<i>APEXBrasil</i> , the Brazilian IPA developed the <i>ScaleUp</i> programme designed to attract foreign tech companies to the country and facilitate partnerships with local investors and SMEs. The 2022 edition of the programme facilitated the establishment of 15 tech companies in Brazil working SDG sectors including SDG 1 on No Poverty, SDG 3 on <i>Zero Hunger</i> , SDG 4 on <i>Quality Education</i> , SDG 6 on <i>Clean Water and Sanitation</i> , SDG 11 on <i>Smart Cities and Communities</i> , SDG 12 on <i>Sustainable Consumption and Production</i> and SDG 15 on <i>Life on Land</i> .			
Actors involved	SDG investment promotion	Sustainable linkages facilitation	
<ul style="list-style-type: none"> - The national IPA - Brazilian Venture Capital and Private Equity Association - IPAs from Israel, Japan and Singapore 	<ul style="list-style-type: none"> - Target innovative tech companies in priority sectors - Requirements include that companies have a clear intention of opening a local office, hiring a local team, setting R&D facilities or investing in the country - Companies with a proven ESG value proposition receive higher scoring 	<ul style="list-style-type: none"> - Provide market entrance support and business advisory services to identify and coordinate meetings with Brazilian customers, suppliers, service providers and technical experts - Facilitate access to large corporations in the country as well as private equity and venture capital fund managers 	
Ireland:			
The country's IPA, <i>IDA Ireland</i> , has a strategy framed by 5 pillars, namely, growth, transformation, regional development, sustainability and impact (IDA Ireland, 2021-2024). Under the sustainability pillar, numerous measures are included that promote sustainable linkages in SDG 3 on <i>Climate Action</i> , SDG 14 on <i>Life under Water</i> SDG 15 on <i>Life on Land</i> .			
Actors involved	SDG investment promotion	Sustainable enterprise development	SDG knowledge management
<ul style="list-style-type: none"> - The national IPA - Agency in charge of SME development, <i>Enterprise Ireland</i> - Sustainable Energy Authority of Ireland - Environmental Protection Agency - International organizations (IOs) 	<ul style="list-style-type: none"> - Target investments related to climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to the circular economy, pollution prevention and control, protection and restoration of bio-diversity ecosystems - Set targets and metrics to position the country as a home for lead MNEs 	<ul style="list-style-type: none"> - Development of a sustainable sourcing programme that benefits MNEs, SMEs and the environment to promote environmental sustainability initiatives and technologies between foreign and Irish enterprise 	<ul style="list-style-type: none"> - Exchange best practices through established platforms and fora (e.g., Corporate Social Responsibility Stakeholder Forum) - Share advice and assist in training IPAs

	<p>working at the forefront of the green transition</p> <ul style="list-style-type: none"> - Support MNEs in their environmental sustainability initiatives - Support de-carbonisation and responsible production across the IPA's client base - Identify lead companies in the IPA's client base 		<p>from developing countries in partnership with IOs</p>
<p>Namibia: In line with the country's objectives to promote the development of renewable energy in the country, the national IPA, the <i>Namibia Investment Promotion and Development Board (NIPDB)</i>, is charged with numerous tasks that aim to promote sustainable linkages in the green hydrogen sector. NIPDB sits in the inter-ministerial <i>Green Hydrogen Council</i> and leads the <i>Namibia Private Sector Green Hydrogen Task Force</i> which aims to ensure the inclusive participation of Namibian actors across the green hydrogen value chain.</p>			
Actors involved	SDG investment promotion	Sustainable enterprise development	
<ul style="list-style-type: none"> - The national IPA - National Planning Commission, ministries of finance, mines and energy, agriculture, water, and land reform - Sectoral associations (tourism, mining, logistics) - Start-up and SME development agencies 	<ul style="list-style-type: none"> - Promotes investment and finance in green hydrogen projects in the government's pipeline, both grand scale and smaller pilot demonstration projects 	<ul style="list-style-type: none"> - Provide support to Namibian companies in the green hydrogen value chain - Ensure that Namibian firms are informed and aware of the developments and opportunities in the green hydrogen sector - Develop database of local enterprises in the sector that investors can access 	

Sources: Elaborated by the authors based on multiple sources accessed online in February 2023. Scale up in Brazil: <https://www.scaleupinbrazil.com/>; IDA Ireland: <https://www.idaireland.com/driving-recovery-and-sustainable-growth-2021-2024>; Green Hydrogen Namibia: <https://gh2namibia.com/about/>; NIPDB: [Namibia Investment Promotion and Development Board – NIPDB](#)

ii. Linkages across sectors with a sustainability impact focus

Policy measures in this category are not sector-specific, but rather focus on enhancing a cross-cutting sustainability impact of linkages. Those related to strategic FDI attraction will include investment promotion activities and incentives linked to a pre-defined SDG impact. Israel's *Global Enterprise R&D Collaboration Program* is one example. It targets foreign MNEs with innovative Israeli start-ups and provides incentives for investment in joint cross-sectoral R&D projects.

Measures also focus on strengthening the visibility of the sustainable impact of local enterprises, which can contribute to the value proposition of the country as an investment destination for MNEs looking to have specific SDG impact in the host country. This is the case of the Cambodian IPA, that developed a database of local suppliers that highlights their sustainability contributions (see Box 2).

Other policy measures focus on SME development. They focus on supporting local supplier firms access information about and adopt sustainability standards and better integrate ESG

considerations in their enterprises, as in the case of Singapore's *Sustainability Enterprise Programme*.

Post-investment policy measures in this category can include initiatives to support existing investors to improve and better evaluate their sustainability impact performance. Both Chile and Costa Rica provide aftercare services to strengthen the monitoring and visibility of the sustainability efforts of MNEs.

Other countries, such as India (see Box 2), require companies of a certain turnover and profitability (both foreign and national) to invest 2% of their net profit in the past three years on corporate social responsibility (CSR) activities (Government of India, 2013). To facilitate this, it has developed an online portal with a large database of CSR impact opportunities for investors in sectors including health, rural development, gender equality, the environment and technology incubators engaged in conducting research in science, technology and engineering aimed at promoting the SDGs. As of 2021, funding for activities related to combat COVID-19 are also included as CSR activities.

Box 2. Examples of policy measures that promote sustainable linkages across sectors with sustainability impact focus

Cambodia: In 2021, <i>The Suppliers' Database with Sustainability Dimension (SD2)</i> was launched by the <i>Council for Development of Cambodia</i> , the national IPA. It aims to promote linkages between foreign investors and local firms and contribute to significant sustainable development impact.		
Actors involved	Sustainable linkages facilitation	
<ul style="list-style-type: none"> - The national IPA - Cambodia Partnership for Sustainable Agriculture - World Economic Forum 	<ul style="list-style-type: none"> - Increase the visibility and accessibility of local suppliers and their sustainability characteristics across six sustainability areas including quality standards and certifications; gender and inclusion; responsible supply chains; environmental sustainability; employee capacity-building and employee care. 	
Chile: In 2020, the national IPA, <i>InvestChile</i> , launched its "Measures what Matters" programme to support selected MNEs in measuring and increasing the visibility of their sustainability impact in areas including community engagement, the environment and governance, among others.		
Actors involved	SDG investment promotion	SDG knowledge management
<ul style="list-style-type: none"> - The national IPA - B Lab partner for Latin America (Sistema B) 	<ul style="list-style-type: none"> - Provide support to MNEs operating in the country to define sustainability metrics and targets - Support MNE's with the obstacles that they encounter in their sustainability activities 	<ul style="list-style-type: none"> - Compile and share best practices
Costa Rica: In 2022, <i>CINDE</i> , Costa Rica's national IPA, recently developed, together with the Entrepreneurial Alliance for Development and 24 MNEs with sustainability strategies operating in the country, a tool to track data on how the top 400 MNEs established in the country are contributing to the SDGs.		
Actors involved	SDG investment promotion	SDG knowledge management
<ul style="list-style-type: none"> - The national IPA 	<ul style="list-style-type: none"> - Developed a self-assessment tool for MNEs to monitor whether they are 	<ul style="list-style-type: none"> - Information sessions and

<ul style="list-style-type: none"> - Entrepreneurial Alliance for Development (AED) - MNEs with sustainability strategies operating in the country 	<p>actively promoting sustainable practices along their supply chains, to what extent they work with local suppliers, provide targeted training in areas such as women and STEM, and the sustainability characteristics of any corporate social responsibility programmes in the communities where the MNEs operate</p>	<p>webinars about the survey results and allowing companies to share sustainability practices</p>
<p>India: The government of India has developed an online “<i>India Investment Grid</i>” a database of cross-sectoral investment project opportunities. It includes a portal that supports investors to identify CSR projects for investment.</p>		
<p>Actors involved</p>	<p>Sustainable linkages facilitation</p>	
<ul style="list-style-type: none"> - The national IPA - Sub-national IPAs - Sectoral ministries - Chambers of commerce 	<ul style="list-style-type: none"> - Facilitate information online for MNEs about CSR legal requirements and provide support to comply with them - Facilitate information for investors about CSR activities, including at the grass root level with filters by sector, sub-sector and at the state and district level 	
<p>Israel: Israel’s IPA, <i>Invest in Israel</i>, developed an investment guide in which it outlines incentives for prospective MNEs from target countries to establish R&D centers in the country through its <i>Incentive Programmes for the Encouragement of the Establishment of Project Centers of Multinational Companies</i> in Israel. The country also provides incentives to MNEs to partner with and invest in local start-up companies through its <i>Global Enterprise R&D Collaboration Programme</i>.</p>		
<p>Actors involved</p>	<p>SDG investment promotion</p>	<p>Sustainable linkages facilitation</p>
<ul style="list-style-type: none"> - The national IPA - The Innovation Authority 	<ul style="list-style-type: none"> - Provide incentives in the form of financial support to encourage cooperation between local and foreign companies in areas related to technology, innovation, and R&D 	<ul style="list-style-type: none"> - Provide support to MNEs help find a suitable local company partner
<p>Singapore: The enterprise development agency, <i>Enterprise Singapore</i>, has an <i>Enterprise Sustainability Programme</i> that aims to develop the sustainability capabilities of local SMEs through support services.</p>		
<p>Actors involved</p>	<p>Sustainable enterprise development</p>	
<ul style="list-style-type: none"> - The enterprise development agency - Industry partners - MNEs - Global Compact 	<ul style="list-style-type: none"> - Provide training in key sustainability areas such as decarbonization for SMEs - Facilitate mentorship programme for SMEs with lead MNEs working on sustainability in the country - Raise awareness about sustainability standards and provide support to SMEs to adopt standards to achieve their specific sustainability objectives - Provide financial support for SME sustainability projects 	

Sources: Elaborated by the authors based on multiple sources accessed online in February 2023. Cambodia suppliers database: <https://sd2.cdc.gov.kh/>; Costa Rica CINDE: <https://www.cinde.org/es/noticias/costa-rica-lanzan-herramienta-para-medir-aporte-de-multinacionales-en-los-objetivos-de-desarrollo-sostenible>; Invest Chile Measure what Matters: <https://www.investchile.gob.cl/digital-launch-of-the-measure-what-matters-program/>; India Investment Grid: <https://indiainvestmentgrid.gov.in/csr/>; Israel Innovation: <https://innovationisrael.org.il/en/program/rd-collaboration-multinational-corporations-program-mnc>; Enterprise Singapore: <https://www.enterprisesg.gov.sg/grow-your-business/boost-capabilities/sustainability/enterprise-sustainability-programme>

iii. Linkages policies and measures with a focus on inclusiveness

The third category of policy measures aims to broaden the diversity and inclusiveness of inter-firm relations between MNEs and the local economy. Rather than - or beyond - focusing on specific sectors or cross-cutting sustainability impact, they specifically target vulnerable groups in the economy. The profiles of targeted beneficiaries vary and may target specific groups that are under-represented or marginalized in the economy and that may face particular barriers. In countries including Mali, for example, a dedicated support window for female entrepreneurs has been created. In partnership with the national standards board, it supports the adoption of standards to facilitate their market access, including through linkages with large national and foreign investors. Rwanda's *National Skill Development and Employment Promotion Strategy* includes linkages programmes that prioritize youth, women, and people with disabilities, while South Africa's Broad Based Economic Empowerment Act targets historically disadvantaged people, in particular black people (see Box 3).

An important component in this category is the tracking and reporting on the participation of beneficiaries from target groups. *ProColombia*, the agency in charge of investment and export promotion and tourism development, regularly publishes sustainability reports which include disaggregated data on the beneficiaries of its SME sustainability development programmes, including by sex, region, ethnic group and vulnerable populations. It also reports on lead companies attracted to the country with a high social impact (see Box 3).

Box 3. Examples of policy measures that promote sustainable linkages with inclusiveness targets

Colombia:			
<p>The national agency <i>ProColombia</i> is responsible for investment and export promotion as well as tourism development in the country. The agency has sustainability commitments that it reports on in each of its areas of work. In 2020, it developed its first investment sustainability strategy which aims to position the country as a destination for sustainable investments. Both its investment and export development work target vulnerable populations, remote areas and special populations, including persons of African descent and of Afro-Caribbean ethnic groups in the country.</p>			
Actors involved	SDG Investment Promotion	Sustainable enterprise development	SDG knowledge management
<ul style="list-style-type: none"> - The national agency in charge of investment and export promotion and tourism - Ministry of Commerce, Industry and Tourism - Private sector - IOs - Foreign governments 	<ul style="list-style-type: none"> - Target lead companies in sectors with a high social inclusion impact - In 2020-2021, attracted impact funds to the country that invested in agro-industry enterprises in rural areas and in the fintech sector targeting persons with limited access to traditional bank loans - Development of a "Colombia for Build Back Better World – B3W" document with list of investment projects for promotion with high sustainability and social impact in Colombia 	<ul style="list-style-type: none"> - Export-training programmes for SMEs focused on sustainability targeted at different beneficiary groups including vulnerable populations, remote areas and "special populations" - Sustainability focused programmes for SMEs targeted to micro-enterprises and women 	<ul style="list-style-type: none"> - Platforms to share best practices targeted at beneficiary groups, including sustainability dialogues for micro-enterprises - Since 2018, the agency has published regular sustainability reports on progress

<p>Mali: In 2020, the Malian IPA, <i>API Mali</i>, in collaboration with UN Women Mali, created a one-stop-shop for women-led enterprises entitled <i>Women's Business Center (WBS)</i>. Among other support services provided, the WBS signed an memorandum of understanding (MOU) with the <i>National Standards Board (MANORM)</i> to support women entrepreneurs adopt standards that would allow them to better upgrade and gain market access, including through linkages with large national and foreign companies.</p>				
Actors involved		Sustainable enterprise development		
<ul style="list-style-type: none"> - The national IPA - The national standards board - Women Business Center - Agency in charge of exports, APEX-Mali - UN Women Mali - Ministry of the Women, the child and the Family - Women's entrepreneurship networks 		<ul style="list-style-type: none"> - Creation of a one-stop-shop for women-led enterprises - Targeted capacity-building programmes for women-led enterprises on standards and export requirements 		
<p>Rwanda: As part of its mandate covering investment promotion, skills development and tourism, the Rwanda Development Board is responsible for developing the <i>National Skills Development and Employment Promotion Strategy (2019 – 2024)</i>, which has a special focus on women, youth and people with disabilities.</p>				
Actors involved		Sustainable enterprise development	Sustainable linkages facilitation	
<ul style="list-style-type: none"> - The national IPA in charge of investment and export promotion and skills development - Ministries of Labour, Education, ICT and Industry - Chief Skills Office - Agency in charge of enterprise development 		<ul style="list-style-type: none"> - Development of an <i>Access Markets Program</i> to provide technical support for SMEs to reach domestic and regional value chains, business development support and skills training 	<ul style="list-style-type: none"> - Incentives to encourage anchor firms, including MNEs, to develop <i>Local-intensive Sourcing Plans</i> - Develop value chains by creating incentives around procurement from SMEs and access to marketing platforms 	
<p>South Africa: Through the <i>Broad Based Black Economic Empowerment Act (BBBEE)</i> and the <i>Black Economic Empowerment Strategy (BEE)</i>, the Government of South Africa aims to advance economic transformation by promoting the participation of historically disadvantaged people, in particular black people as well as women, youth, the disabled and rural communities. The original act was amended in 2013 with a stronger focus on the growth of black entrepreneurs through enterprise and supplier development elements.</p>				
Actors involved	SDG investment promotion	Sustainable enterprise development	Sustainable linkages facilitation	SDG knowledge management
<ul style="list-style-type: none"> - BEE Commission - Department of Trade and Industry - Ministries and agencies in charge SME 	<ul style="list-style-type: none"> - Promotion of investment in black owned enterprises as well as joint ventures with substantive skills-transfer 	<ul style="list-style-type: none"> - <i>Black Business Supplier Development Programme</i>: a cash grant incentive scheme for black-owned enterprises 	<ul style="list-style-type: none"> - <i>Sector Partnership Fund Linkage Programme</i>: facilitation of business linkages between anchor firms and BEE enterprises. 	<ul style="list-style-type: none"> - Support to ensure a coherent voice of black business in the country's economic advisory bodies

development, education, labour, export etc... - Development finance institutions - civil society	- Financial incentives for BEE enterprises	- SME support schemes	- Preferential procurement by government and the private sector for black-owned firms	- Creation of a BEE Council to advise on the implementation of the BEE Strategy
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Sources: Elaborated by the authors based on multiple sources accessed online in February 2023. ProColombia Sustainability Report 2020-2021: <https://rse.procolombia.co/es/cultura-nuestros-informes>; Creation of Women's Business Center in Mali (République du Mali, 2020) Rwanda: <https://rdb.rw/wp-content/uploads/2019/07/NSDEPS.pdf> ; South Africa Broad Based Economic Empowerment Amendment Act (2013): https://www.thedtic.gov.za/wp-content/uploads/BEE-code_gud_practice10102013.pdf

4. Critical assessment, conclusions, and way forward

The path towards designing and adopting novel policies to promote sustainable linkages is challenging. Traditional approaches to linkages involve government policies and programmes that do not automatically, nor systematically benefit all sectors of the economy and society equally. A key challenge for many policy makers is to first identify what they mean by sustainable linkages, and second to work towards developing methods to promote such linkages as well as assess impact of policies on linkages. Moreover, as there are numerous new private and public initiatives, the boundaries between these can be blurred.

In this chapter, we analyse several existing policies and propose a framework to understand the ecosystem of policy areas and actors to foster sustainable linkages (see Figure 1). Governments have long sought to promote MNE-local firm linkages and academic research assessing the needs and effectiveness of such policies shows mixed results. In the age of the SDGs, we put forward three key categories to achieve sustainable linkages, namely Linkages in SDG-related sectors, Linkages across sectors with a sustainability impact focus, and Linkages with a focus on inclusiveness. Regarding the third category, we believe that novel policies for sustainable linkages should pay attention to the promotion of linkages that are inclusive and benefit the local economy more widely, including disadvantaged groups of society including women, youth, rural or social entrepreneurs.

We acknowledge the complexity in devising and implementing sustainable linkages policies and identify several challenges. An important challenge is the lack of disaggregated data about the local economy, particularly in developing countries, that is crucial to properly target sustainable linkages with an inclusivity objective. There are specific challenges in the development of policies for sustainable linkages because barriers to linkages can be unique to specific SDG sectors (i.e., MNE linkages in health or education are distinct from linkages in manufacturing), or to certain groups in society. Many countries, especially least-developed countries (LDCs), lack resources and capabilities to devise complex new policies, and possess limited bargaining power to negotiate with MNEs. A recent survey has shown that a significant percentage of investors in LDCs, are not aware of the IPAs in the country where they operate, thus clearly limiting the impact that they can have in fostering linkages programmes with them (UNCTAD, 2023b). Another challenge is related to institutional coordination within government, as successfully promoting sustainable linkages can involve a wide range of

government and non-government actors. The rise of the digital economy and digital FDI also constitute a challenge since this type of investment is more intangible and less capital intensive (UNCTAD, 2017), and new technologies and adoption of artificial intelligence will likely shift the nature of MNEs' inter-firm linkages and collaboration in host economies, a phenomenon that evolves and is not easy to fully understand yet.

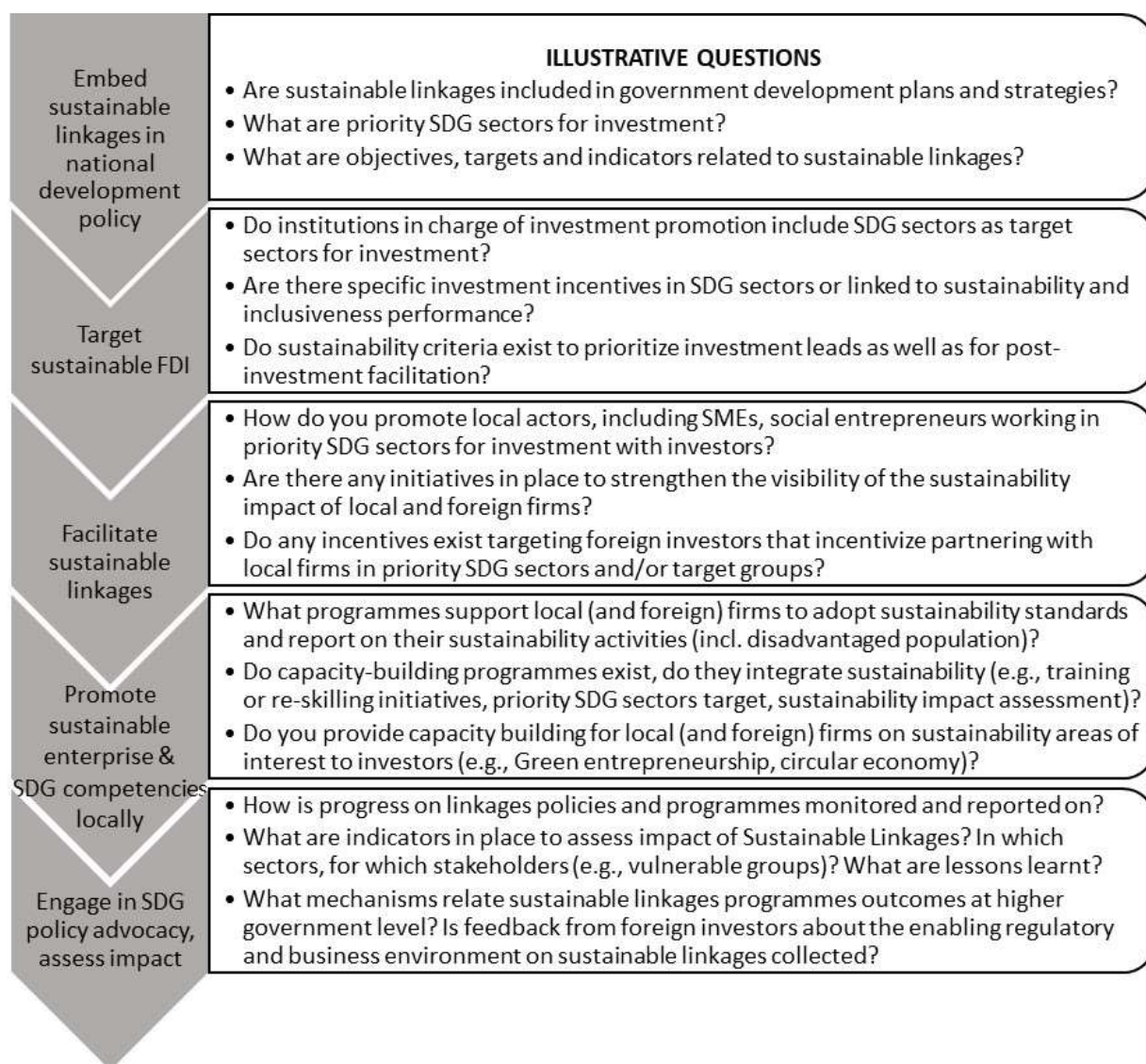
In a time of rising uncertainty, gathering resources to promote sustainable linkages can be even more challenging. We know that uncertainty directly impacts upon global FDI flows. For instance, FDI collapsed in 2020 due to the global health pandemic, and although it recovered in 2021, geo-political tension led to further decline in 2022 as investors react to ongoing geopolitical and economic crises (UNCTAD, 2023c). This decline is particularly problematic for structurally weak, vulnerable, and small economies (82 countries), those only account for a small fraction of global FDI inflows, but they often critically depend on FDI as a key source of finance to boost economic activities linked to the SDGs. For many countries, therefore, the priority often lies more in attracting investment, rather than attracting quality investment and promoting sustainable linkages. Even for other more advanced countries, navigating FDI policies in times of uncertainty means governments are likely to try to mitigate the effects of FDI disruptions, contain the drop in FDI, as well as try to promote quality investment.

At the same time, better targeting of policies with clearly defined goals can lead to more efficient and effective utilization of scarce government resources. Policies with a deliberate focus of inclusivity acknowledge one of the underlying obstacles to sustainable socio-economic development, namely inequality. By targeting disadvantaged groups of society, linkage policies have the potential to generate greater development impact.

Equally important are the new opportunities emerging from reshoring and nearshoring trends that are currently restructuring global trade and industrial production because of raising protectionism, as well as of the uncertainties brought along by the COVID-19 pandemic crisis and the war in Ukraine (UNCTAD, 2020a). Such back shoring trends are re-establishing production in home countries of MNCs that were once used to offshoring practices, or in their proximity, and represent indeed a window of opportunity for developing countries that are strategically located. However, this requires a "reshoring readiness" that seems to be lacking based on the preliminary evidence analysed in the literature (Pietrobelli & Seri, 2023). Sustainable Linkages Programmes, considering the strategic interests of FDI in digital technologies and the quality of logistics and infrastructure with sustainability lenses, could represent a key mechanism to attract and benefit from current and future relocations taking place within global production networks.

Our analysis of existing policies and measures related to sustainable linkages, while still relatively new, guide our elaboration of a roadmap (see Figure 2) to support policy makers in identifying considerations and elements that can be replicable.

Figure 2. Policy roadmap to foster sustainable linkages



Source: Authors' own elaboration

We suggest it is imperative for policy makers to first define key target beneficiaries, set clear development objectives, identify priority SDG sectors for investment, in line with those defined at the national level. Given limited resources, prioritization is important, as is adopting a progressive approach which can include starting with one SDG priority sector for example. One good first exercise is to conduct an overview of what is already being done, both on the investment promotion side – focusing on key questions such as *are priority investment sectors aligned with the SDGs?* – as well as on the enterprise development side – e.g., *are there dedicated programmes that target specific groups of the population?, or is there available data on existing initiatives by region, gender, etc.?* Doing this requires access to data that would support careful design in linkages policies. Partnerships to strengthen quantitative and qualitative data collection can be an important mechanism to feed into the design, monitoring and adaptation of sustainable linkages policies and Programmes. Adopting a pro-active multi-

stakeholder approach and consultation when devising sustainable linkages policies can help and can feed into more inclusive collective policy advocacy efforts to provide feedback at higher government level about how to improve the enabling environment for sustainable investment linkage development. Governments should seek to improve the availability and transparency of information that can influence the sustainability impact of linkages, for example by ensuring that investors have access to gender-balanced databases of local suppliers, and information about sustainability contributions of local firms.

Following our proposed roadmap will support policy makers in their efforts to promote MNEs' sustainable linkages. Given limited resources, targeting of policies will allow for more efficient use of resources where they will have higher SDG impact. Many developing or least developed countries actively see sustainable finance to help them achieve their SDG targets. The framework and roadmap presented in this chapter will help them identify services that will facilitate stronger linkages within the local economy. The current push towards greater sustainable business opens novel opportunities for governments to respond to new demands and adjust existing policies for greater MNE impact. One way to achieve this and overcome challenges mentioned above could be through public-private and/or cross-sectoral partnerships, as examples we provided pointed to the multiplicity of actors involved in sustainable linkages initiatives.

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