COALITIONS OF THE WILLING: **HOW THE STATE, FIRMS AND CIVIL SOCIETY CAN ACHIEVE DEVELOPMENT THROUGH INDUSTRIALISATION**

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ABSTRACT

This paper argues that developing countries' sustainable development strategies should include industrial policy as a key component to reduce inequality, protect the environment and secure decent jobs and a fulfilling life for their people. Being long-term strategies to produce higher value added products, industrial policies can help domestic firms access more profits so they can pay better wages and sufficient taxes for the state to fund public services, further catalysing job creation and wellbeing across a country. So far liberalisation, privatisation and deregulation policies, narrowly focused on meeting GDP growth targets, have failed to deliver equitable development. But successful industrialisation experiences in the past offer plenty of lessons to draw from to revert this path – albeit with crucial adjustments to avoid perpetuating women's exploitation, anti-democratic practices and environmental damage. Pursuing a progressive industrialisation path will not be easy for developing countries: investment and trade agreements severely constrain governments' ability to support national firms and yet protect foreign investors' interests. So as governments design industrial policy, they must be prepared to find ways out of constraining investment models and switch to alternative ones that defend their national interests. ActionAid's engagement with workers, firms and governments in Vietnam and Bangladesh around industrial policy will illustrate the challenges that developing countries face.

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INTRODUCTION

Economic transformation and job creation were once a major focus of governments' economic policies. But since the 1980s, mainstream macroeconomic policies have focused on attempts to increase GDP growth through liberalisation, privatisation and deregulation. This has led to rising levels of inequality[1] and a world where corporate power and profits have been prioritised over human rights.[2] Drawing from ActionAid's work to date on using industrial policy to create more and better jobs, this paper argues that developing countries need to take back control over their citizens' future through inclusive and long-term industrial policies that respect human rights and the environment.

Industrial policies should be seen as more than isolated interventions to establish manufacturing sectors. They must be long-lasting, transformative, and contribute towards poverty alleviation by providing decent and well paid jobs for young women and men. Helping firms upgrade to higher value added activities translates into higher profits, which creates the potential for them to pay better wages and more taxes for the state to invest in public services. More jobs are then created for the carers, teachers, doctors and nurses who are key for people's wellbeing.

Industrial policies need to be part of an overarching strategy that aims not only to change the nature of the economy, but also to provide more and better public services. Decent public services are important for everyone, but are particularly vital for the realisation of women's rights, as the existence of good quality health and education (among others) helps to address the issue of women's burden of unpaid care.[3] At the same time, governments will need to find ways of improving infrastructure services as well as agricultural policies. This is a complex plan which will need to be drafted, implemented and monitored in a democratic and consultative manner, with citizens and other stakeholders at the table.

Global rules and complex power structures both at national and international levels pose serious challenges to the kind of industrial strategies that developing countries need to pursue to achieve these ends. But in the last few decades, a handful of countries have begun contesting Northern and corporate power in an attempt to regain precious policy space for industrial strategies. These cases can offer valuable lessons for those countries embarking in a structural transformation.

Lessons should be drawn from successful industrialisation experiences in East Asia in the 1960s and 1970s. Though national and international contexts are different from those developing countries find themselves in today, these offer useful insights on ways of supporting existing firms, interacting with foreign investors and mobilising national stakeholders. Those experiences show what needs to be avoided or dramatically changed so they can respect democratic principles and human rights obligations, and advance women's rights. Section one will provide an overview of what industrial policies are and how they have been used in the past.

Section two explains why and how global rules and trade agreements are blockers to industrial policy. It rounds up the experiences of countries that have stepped away from investment and trade agreements and launched alternative investment models. We then reflect on what else the global trade and investment system needs to do to leave sufficient policy space to governments and people so they can forge a brighter future.

Having identified what industrial policies should prioritise and improve on in the 21st century, section three will discuss how developing countries could go about designing and implementing them. In 2014 and 2015, ActionAid affiliates in Bangladesh and Vietnam engaged with firms, governments and young people to explore how industrial policies could support much-needed job creation. We will reflect on this work to sketch how progressive industrial policies might work in practice in Bangladesh and Vietnam, including thoughts on challenges and opportunities at the political and operational level.

WHY INDUSTRIAL POLICY MATTERS

An industrial policy is a government-led strategy to shape and develop "a robust manufacturing sector".[4] Over time, governments all over the world have used it to target different sectors: automobiles in Japan and the United States and electronics in Korea are well known examples. More recently, they have been used to mitigate negative impacts of recessions.[5] Industrial policies include instruments like import substitutions, local content requirements and targeting specific industries and types of firms. After being largely absent from national and international policy spheres, industrial policies are now back in the picture. Even the most arduous proponents of liberalisation are starting to openly talk about them. But why?

WHY LIBERALISATION CANNOT REPLACE INDUSTRIAL POLICY

Many economists and policy makers argue that liberalisation – a series of measures aimed at opening up a market to full competition[6] – offers developing countries a short cut to industrialisation. Rather than developing new industries, they are encouraged to exploit their static comparative advantage (in most cases, their existing resource endowments of cheap labour or natural resources) to slot into global value chains.

In theory, by working as part of a global value chain, firms in developing countries can learn from those responsible for high-value added activities like design or marketing. Eventually, so the argument goes, they will be able to upgrade, or move from low value added activities that generate relatively low profit margins into more profitable segments of the value chain.[7]

Some foreign investors have made genuine efforts to share skills and technology, training local managers and investing in suppliers. Trained staff moving from foreign-owned subsidiaries can bring new knowledge, skills and approaches to domestic companies.[8] Unfortunately, this is all too rare. It is in the interests of multinationals to limit the information they share with suppliers and subsidiaries in developing countries. After all, highly skilled suppliers may increase their prices or even become competitors.

Since the 1960s, buyers from the US have sourced shoes from the Sinos Valley in Brazil. In the 1990s, Brazilian suppliers faced competition from the Chinese footwear industry. With many years of experience in footwear manufacturing, they could have chosen to respond by diversifying into higher value activities like design and marketing. But US buyers did not share expertise in design and marketing with Brazilian suppliers and would have been unlikely to pay suppliers for these services. Instead, suppliers from Brazil continued providing the same shoes but at lower prices, moving production to regions in the country where wages were lower.[9] Some firms in the Sinos Valley have successfully moved into design and marketing; but they managed to do so because they produced for domestic and regional markets, not for global value chains.[10]

In reality, joining global value chains without first supporting the development of new highly productive sectors usually consigns developing countries to low value added and low-profit activities.[11] In the face of global competition, some firms have actively chosen to "downgrade" or stick to low value added segments of the value chain, where profits are lower but more predictable. But this has serious consequences for workers' rights and for economic development, especially where this choice comes to define the structure of an entire economy.

Extractives and agriculture, garments and footwear, and assembly work dominate developing country economies. As developing countries compete among themselves to offer very similar products or assembly services at lower and lower prices, intense downward pressure is put on wages. The tasks they do are of such low value, and contracts so unpredictable, that there is little point in investing in technology to help improve productivity.

LEARNING FROM SUCCESS

In the 1960s and 1970s, many governments around the world actively intervened in the economy to encourage industrialisation. Rather than relying exclusively on their *static* comparative advantage, or what they already had, successful industrialisers exploited their *dynamic* comparative advantage, or what they could develop. Like the best entrepreneurs, many of the strategies they tried out failed, but those that succeeded propelled rapid economic transformation.

> *"In 1958, one East Asian country attempted to export its first passenger car to the United States. It was a complete flop. Many economists said the country should stick to exporting silk, in which they said it had a 'comparative advantage'. The country ignored this advice and continued to invest public money in the company and in research and development, and to limit imports of foreign cars. The country was Japan, the company Toyota." Jubilee Debt Campaign, citing an example often given by Cambridge economist Ha Joon Chang."*[12,13]

Implementing successful industrial policies is a learning process. Governments worked with a range of experts – engineers, managers, business owners, and investors – to identify and respond to blockages and obstacles to the emergence of new sectors.[14] They balanced high-risk investment in emerging and capital-intensive manufacturing with support for industries and sectors that can be relied on to provide employment or export earnings.

Critics are right to point out that some of these efforts were less successful than others, pointing to the legacy of industrial policy in some countries in South America and sub-Saharan Africa. Import substitution policies come in for particular criticism; that is, where measures such as trade tariffs are put in place to prevent imports of products governments were encouraging firms to produce at home.[15] But the wholesale rejection of import substitution as a strategy misses the point. Almost all industrialised countries, including some of the most successful, started out by restricting imports of manufactured goods and by allocating subsidies to emerging sectors.[16]

Even those that are the greatest proponents of liberalisation and deregulation today protected and supported emerging sectors in the past. Britain maintained high tariffs on manufacturing until the 1820s and again from 1932. Between 1816 and the end of World War II, the US had one of the world's highest average tariff rates on manufacturing imports. Other European countries provided emerging industries with subsidies, financing and monopoly rights, and invested in research and technology.[17] The US government continues to invest heavily in specific firms and products as well as upstream research and development.[18]

So what distinguished successful industrialisers from those who were less successful? How can developing countries today draw from these experiences?

Discipline firms as well as protecting them

Alice Amsden spent decades combining theory, quantitative analysis and careful fieldwork in East Asia: she argued that the successful industrialisers used import substitution policies, but made support conditional on firms meeting certain results-oriented performance standards. She called this the "reciprocal control mechanism" and argued that it was the key factor in successful industrialisation in East Asia.

> *"The reciprocal control mechanism… transformed the inefficiency and venality associated with government intervention into collective good." Alice Amsden*[19]

Firms receiving support were compelled to improve their production processes. Performance standards included export targets, local content requirements, debt-equity ratios and others. If firms failed to fulfil the performance requirements, they lost the subsidies.[20]

The structure of the economy was key in determining the extent to which government had the leverage over domestic elites needed to bring about industrialisation. In Asia, a relatively equal distribution of land ownership

drove wealthy individuals to invest in new productive industries rather than in land. But in South America, elites were able to generate rents through their ownership of large tracts of land; as a result, they avoided more risky investments in industry. Where there are high levels of inequality, governments are prone to using subsidies as a way of preventing social unrest, rather than targeting them carefully to well-performing industries. Land and income inequality make it very difficult for government to impose performance requirements on investors.[21] Because we are living in an increasingly unequal world, developing countries today will need to convince the rich to contribute a fair share if they are to succeed.

Looking at the successful industrialisation strategies of South Korea and Taiwan can show us how these reciprocal control mechanisms worked in practice. The industrialisation path of these countries had a dark side, involving suppression of unions, low wages and environmental damage.[22] Nonetheless, lessons can still be drawn from what they managed to achieve.

South Korea's industrialisation was led by "national leaders", or large firms with quasi-monopolistic rights. From the 1960s on, Korea protected textiles and later heavy industries from competition by putting in place tariffs, quotas, export subsidies, credit, and other measures. Price controls were used to curb monopoly power and harsh capital controls played a role in preventing capital flight. Subsidies were subject to performance, notably against export targets.

Export targets were agreed at monthly meetings between government and business, which the President attended – these meetings helped bureaucrats learn about and address the problems that prevented businesses from exporting more. Representatives of Korean national development banks visited firms and engaged with engineers on the shop floor, helping and encouraging them to improve the quality and efficiency of their production. Firms that responded to performance-based incentives received further support. In contrast, if a targeted firm was a poor performer, it ceased being subsidised. If a firm went bankrupt, the state simply refused to bail it out.[23]

Taiwan's manufacturing sector is made up of lots of smaller firms working together and with foreign investors. Success was built on strong linkages between domestic firms and foreign investors, who were able to take advantage of the export opportunities offered by international trade. The 150 engineers in Taiwan's Industrial Development Bureau worked closely with domestic firms to help them improve the quality and reduce the price of their products. But they also worked to encourage investors to source inputs from Taiwan.

For example, the Bureau worked with the foreign investment board to ensure that applications by Phillips' Taiwanese subsidiary to import glass for televisions sets were subject to significant delays. This was sufficiently inconvenient to prompt Phillips to explore the potential of sourcing from local suppliers, which gave Taiwanese firms enough confidence to invest in improving production. After two Taiwanese glassmakers demonstrated that they were able to produce high quality glass at competitive prices, Phillips stopped importing and sourced from these firms instead.[24]

Build on existing technology

In order to improve the efficiency and quality of their production, firms need access to technology and know-how. In some cases, whether by accident or design, technology is developed based on a genuinely new discovery – usually involving significant state investment. For instance, technological breakthroughs that catapulted Apple's phones, music players and tablets to global success were initially funded by the US government.[25] But in most cases, firms use and adapt existing technology; building on what is already available to create something new. One of the key markers of the success of industrial policy was whether or not firms were able to learn from and innovate using existing technology. And this, in turn, depended on the ability of governments to impose performance requirements on investors, including technology transfer – which is currently severely restricted by trade and investment agreements as we will discuss in section 2.

Argentina and Mexico had historically high levels of foreign investment. In theory, these investors could have played an important role in sharing skills and new technology with domestic firms. However, in practice foreign firms spent virtually nothing on science and technology. Instead, foreign investors "crowded out" the domestic firms that may have made such investments, putting these less competitive companies out of business.[26] Similar results have been observed in the Mexican retail sector, where American giant Walmart's procurement policies drove local suppliers out of business.[27] Research on the textile industry in Mauritius and Bangladesh in the 1980s found similar results: "only a few of the 15 multinationals surveyed helped domestic firms acquire new technology."[28]

In contrast, successful East Asian economies chose to invest directly in new, risky ventures, learning from and building upon existing technology to establish modern industries. Instead of relying on foreign investors, firms bought technology or tried to figure out how it worked and copied it – this is known as "reverse engineering". Accessing the technology was only part of the equation; firms also needed to learn how to use it. The more advanced technology became, the more skill was required. So investment in skills, including project planning and management as well as engineering skills, was crucial. In China, India, Korea and Taiwan, the governments catalysed the development of new technology by putting in place requirements and incentives for nationally-owned or financed firms to invest in research and development.[29]

Keep going long enough to get results

For successful industrialisation, governments and firms need an environment conducive to learning – where they can try things out and make mistakes. Some countries will have more learning to do than others. Successful industrialisers in East Asia had a strong base of manufacturing experience to build on and a long history of regional trade in manufactured goods. In contrast, Africa's colonial history left the continent largely without manufacturing experience.

In the 1960s and 1970s, newly independent African states made significant efforts to make up for lost time. It was obvious that their newly formed bureaucracies were still learning.[30] Nonetheless, despite the lack of manufacturing and planning experience and the dire state of infrastructure on the continent, nascent manufacturing industries started to emerge.

This industry was still relatively weak and required significant levels of support. In many countries, periods of industrialisation were interrupted by political instability and conflict. Nonetheless, with more time for officials to build expertise and to try out different policies and more time for nascent industries to improve their production processes, a relatively healthy manufacturing sector might have developed.

But the imposition of structural adjustment policies in the 1980s meant that support was suddenly withdrawn; many domestic businesses did not survive strong competition from foreign competitors with more experience and better access to finance. Organisation for Economic Co-operation and Development (OECD) tariffs on manufactured goods were much higher than those on raw materials, discouraging African exporters from entering into higher value added activities.

This has had serious consequences for working people, as job opportunities in the emerging manufacturing sector dried up. In many countries, large proportions of the labour force have been forced into very low productivity agriculture and informal activities, which arguably does more to disguise unemployment than it does to create jobs.[31] Eventually – after a long period of economic stagnation – the early 2000s saw sub-Saharan Africa enjoy rapid growth rates, but these were largely due to high commodity prices. Wealthy elites have seen the benefits of growth, but these benefits haven't trickled down to the rest of the population. With the effects of the 2008 financial crisis still looming, economic growth in Africa and other parts of the developing world is at its lowest level since 2003.[32]

In spite of the continent's deindustrialisation, there is still a base of experience to build on. In Kenya between 1990 and 2007, virtually no new jobs were created in the formal manufacturing sector. But over this same period, the number of jobs in informal manufacturing increased from just over 300,000 to almost 1.6 million. Kenya is not unique: statistics from Nigeria indicate that half of the 11% of the population engaged in manufacturing works in the informal sector.[33]

> *"We need good jobs for the [African] continent and we can only do it by going back to the value chain and linkages and manufacturing… To create good jobs for our youth, we must also look at manufacturing." Ngozi Okonjo-Iweala, former Nigerian finance minister[34]*

DON'T NEGLECT THE IMPORTANCE OF AGRICULTURE

No country has managed to industrialise successfully without investing in agricultural productivity. Increasing productivity in agriculture reduces the number of people required to work on farms, freeing them up to work in newly established factories. Agriculture plays an important role in providing food for urban populations and raw materials for industry. Agricultural surpluses increase rural incomes, driving consumer demand for new products.[35]

Developing an agricultural processing sector is often the first rung on the industrialisation ladder, increasing value added significantly as compared to exporting raw commodities.[36] It has the potential to contribute to the growth of the rural non-farm economy, creating jobs closer to where people in poverty are living. Producing food domestically helps keep food prices in check and limits inflation, allowing people to feed themselves in spite of relatively low wages. It also links the rural economy into the industrial economy, facilitating more equal distribution of the benefits of industrialisation.

Investment in agriculture also ensures that industrialisation is equitable: pursuing industrial development without investment in agriculture risks trapping people in poverty.[37] About two thirds of those living in poverty live in rural areas, and agriculture provides work for an estimated 1.3 billion smallholders and landless workers.[38] Agricultural growth is associated with two to five times greater poverty reduction compared to growth in manufacturing or services.[39] Broad-based rural industrialisation in Taiwan and China is strongly associated with redistributive land reform.[40]

The ongoing expansion of large-scale land investments, incentivised by various policies including development cooperation and the blind quest for foreign investments by host countries in the Global South, jeopardise local communities' access and control over land. If this land-grabbing trend continues, it is likely to affect sustainable industrialisation negatively.

Unfortunately, neglect of agriculture has characterised economic development in many parts of South Asia[41] and South America as well as sub-Saharan Africa.[42]

INDUSTRIAL POLICIES VERSION 2.0

We need to draw lessons from the industrialisation strategies discussed in the previous sub-sections. But we cannot continue to support the kind of dirty and exploitative industrialisation that countries have relied on up to now. Strategies need to be updated to take account of present-day realities and global development priorities, including the achievement of the Sustainable Development Goals (SDGs).

In the light of climate change, we must transform production, using sustainable sources of energy and inputs that can be repurposed or recycled easily and cheaply. We need to move away from the production of cheap, disposable goods towards higher quality and longer-lasting products. Governments should incentivise investment in products and services that will help us adapt to a changing climate, including but not limited to genuinely renewable energy. This investment has the potential to stimulate the growth of newly profitable sectors.

Developing productive sectors like manufacturing in the Global South must also contribute to long-term stability and wellbeing for all. The best way of doing this is by creating decent and dignified jobs – but manufacturing hasn't always fulfilled its potential to generate them. Along with industrial agriculture, manufacturing is responsible for some of the most "dirty, dangerous and demeaning" work on the planet, notably in the segments of the production chain where inputs are developed (like leather tanning) and where products are disposed of (like shipbreaking).[43] Lessons must be drawn so as not to make the same mistakes.

Women's work must be valued and paid fairly. Export manufacturing industries in many developing countries today have relied on women – typically from poor communities – to provide the "cheap, flexible and plentiful labour needed for the manufacture of low value added goods. Women are segregated into the lowest paid roles, assembling parts or ready cut pieces in often informal, unregulated workplaces, where there is little, if any, respect for human rights."[44] In doing so, they have replicated societal discrimination against women, further entrenching gender inequalities.

Successful and profitable companies play a central role in creating decent, well-paid jobs for women and men. These firms also generate vital tax revenue that allows governments to invest in providing gender-sensitive public services and in protecting and preserving the environment (as long as they do indeed pay tax in the country where profit is created). Paying the salaries of teachers, doctors and carers ensures that people are healthy and well-educated, and that women can reduce the hours they spend on unpaid care and domestic work. This improves wellbeing and increases productivity. Protecting the environment also increases wellbeing and helps to preserve the ecosystem functions that companies rely on.

LINKING DOMESTIC AND INTERNATIONAL COMPONENTS OF INDUSTRIAL POLICIES

Developing countries are faced with changes in the reality of global trade. More fragmented value chains mean that governments have much less leverage over production choices and that multinationals have much more power. Governments need to get better at negotiating with multinationals and getting the best out of foreign investment.[45]

Key policies to get the best out of participation in value chains include local content rules and technology transfer requirements. Governments need to make a greater effort to support the growth of high-value segments like design and marketing that might have been more closely integrated with physical production in the past.

Local content rules are widely used in the oil and gas sectors,[46] as well as being key in the development of the motorcycle industry in Vietnam. These policies try to prevent the development of enclave investments, with few links to the local economy. Of course, local content rules are not enough by themselves. Governments will need to support and compel domestic firms to improve the quality of their production.

In China, the government required foreign investors to form joint ventures with Chinese companies, most of which were state-owned or closely linked to the state. The government also acquired foreign companies with more advanced technology and put in place incentives for foreign firms to carry out research and development in China.[47] Performance requirements in Singapore have led foreign investors to locate research and development activities in the state, resulting in innovation in production processes.[48] Admittedly, China and Singapore were successful in imposing performance requirements due to their state-led, authoritarian structure; replicating their achievements elsewhere will be less straightforward.

But governments should take advantage of the potential for technology transfer to spur further innovation. State investment in cutting-edge, green industries is a good direction, not just because it is part of the response to climate change, but also because it is a relatively new sector with more potential for developing countries to

get involved in the high-value innovative segments of the chain – before these become dominated by powerful global oligopolies. This is crucial in order to maximise the potential of manufacturing to generate profits and well-paid jobs and to spur innovation in the rest of the economy.

Commercial pressures on workers rights' in global value chains make it all the more urgent to ensure that workers' rights are protected. In the past, governments and firms colluded in keeping wages low in the manufacturing sector in order to keep their exports competitive. This has had negative consequences for women's economic inequality.[49] However, if governments stop competing with their regional neighbours and instead cooperate to implement and enforce a living wage and other labour rights, this could catalyse a race to the top, helping them escape the threat of companies taking their business elsewhere.[50]

To support their efforts, governments may want to tap into the pressure that campaigners in the OECD can put on multinationals to improve working conditions in their supply chain.[51] Governments could supplement these efforts by requiring investors to employ local people and invest in training and skills development.

Far from undermining growth, these efforts can reinforce industrial policies. Higher wages across an entire region would stimulate regional demand,[52] offering an alternative to traditional export markets in the OECD, where consumer demand is stagnating[53] and where consumption patterns need to dramatically change anyway.

OVERCOMING GLOBAL BARRIERS TO INDUSTRIAL POLICY BY CHALLENGING RESTRICTIVE BILATERAL AND FREE TRADE AGREEMENTS

While today's industrialised countries used a range of policies to protect and promote emerging industries, including a combination of import substitution and export orientation, many of these policies are now prohibited to developing country governments. In some cases, they are prohibited under trade and investment rules and, in other cases, use of these policies puts aid receipt under threat.

Despite the lessons of the recent global economic crisis, deregulation, privatisation and liberalisation remain ubiquitous in the advice that the World Bank group and other donors give to developing country governments, and have often anyway been internalised by Western-educated ministers and their civil servants.[54] The weakness of states in sub-Saharan Africa is due at least in part to privatisation and liberalisation policies promoted by donors like the World Bank.[55]

World Trade Organisation (WTO) negotiations have stalled for many years, but liberalisation and negotiations on investment and trade-related issues continues apace through bilateral, plurilateral and mega-regional (often called free trade) agreements, with the intention that some of these issues will be "multilateralised", or incorporated into WTO rules in the near future.[56] Since the 1980s, global rules have become more and more restrictive, outlawing many of the strategies followed by countries that have already industrialised successfully.

In section 1.4, we argued that an industrial policy version 2.0 should be informed by industrialisation experiences from the past, but making sure that human rights and the environment are protected. Developing country governments can begin to align and improve social policies to, for instance, improve women's access to childcare services and bridge the inequality gap they face to get into decent employment. They can also start engaging with firms and associations in higher value added manufacturing sectors to map out what support mechanisms (with their respective performance requirements) will be needed and how best to upgrade technical training programmes for future workers. They can identify which green technology investments they should prioritise, too.

But unless developing countries de-link from constraining bilateral and free trade agreements, they would be unable to implement most policies linking the national economy with international actors and spheres without negative consequences. Limitations will vary depending on the particular content of each agreement, but they could broadly include controls over foreign investors, tariffs, corporate tax rates and even readjustments to labour and social protection standards. The remainder of this section will go into further detail on how investment and trade agreements are blockers of industrialisation, but the list below shows some of the main constraints (via prohibited policies or proscribed actions) to industrial policy version 2.0 by bilateral and free trade agreements:

- Import substitution (key to protect domestic firms from foreign competition)
- Local content requirements for foreign firms
- Joint venture requirements for inward FDI
- Equity caps on foreign capital
- Technology transfer requirements for foreign investors
- Protecting domestic firms from foreign competitors

A BRIEF BACKGROUND ON INVESTMENT AGREEMENTS

International Investment Agreements (IIAs) – the vast majority of which are Bilateral Investment Treaties (BITs) - broadly refer to agreements that establish binding rules on investment protection, for example the expropriation of company assets by the state. They have been part of investment policy since the late 1950s (the very first IIA – the Germany-Pakistan BIT – was signed in 1959). By the end of 2015, there were 2,928 BITs and 358 other IIAs. Governments often feel compelled to agree to IIAs, because they perceive (usually mistakenly) that they are a necessary condition to attract much-needed FDI.[57]

But the evidence shows that IIAs do not increase flows of FDI to poorer nations.[58] They restrict the ability of host governments to get the maximum benefit of inward investment through the use, for example, of local content requirements. Instead they offer unparalleled legal rights to foreign investors yet impose no enforceable responsibilities on these companies regarding their impact in host countries. Over half of all Investor-State Dispute Settlements are brought against developing countries with serious implications for poverty reduction, human rights and development. As the United Nations Conference on Trade and Development (UNCTAD) confirms, there is a pressing need for IIA reform to achieve inclusive growth and sustainable development.[59]

Many nations – particularly the United States and the European Union – are now insisting that investment chapters should be included in regional and bilateral free trade agreements (also called other IIAs). The major difference is that BITs, as their name indicates, focus on investment issues, while free trade agreements (FTAs) are becoming more comprehensive and ambitious in terms of the issues covered.

FTAs have expanded to go beyond WTO commitments and cover many other "trade-related' issues such as investment, competition, government procurement, intellectual property, services, export tariffs and non-tariff barriers. Whilst BITs offer protection to investment once it has been established, the vast majority of BITs do not include provisions covering liberalisation of investment.[60] In contrast, the majority of recent FTAs, if ratified, now include both. Alongside protection provisions, they include liberalisation commitments that strip away domestic regulations that discriminate against foreign investors with regards their entry and operations, such as local content requirements. What all this adds up to is a major blockade against governments implementing successful industrial policies.

SO WHAT'S IN IT FOR DEVELOPING COUNTRIES?

To this day, the EU and other developed nations continue to argue that investment protection provisions are important for investment flows even when there is insufficient evidence to support this claim.[61] Many were casting doubts on this causality decades ago. In 2003, the World Bank, noting the findings of a recent survey of FDI flows from OECD members to 31 developing countries over 20 years, as well as previous UNCTAD research reported, "Countries that had concluded a BIT were no more likely to receive additional FDI than were countries without such a pact."[62] Previous work by UNCTAD shows that the key factors influencing inward investment for poorer nations are their size and proximity to key markets, infrastructure, vulnerability to shocks, the sizes of the projects and the cost of doing business.[63]

This conclusion is ably illustrated by Brazil. Brazil has not ratified any bilateral investment treaties with a third party (and even the Mercosur Investment Protocol remains unratified). Yet this has not deterred inward FDI. Depending on the year, recently Brazil has been the 6th or 7th largest recipient of inward investment in the world. Elsewhere, it was found that US BITs do not influence FDI flows to Latin America and the Caribbean.[64] And the evidence also suggests that the presence of an EU-US investment chapter in the Transatlantic Trade and Investment Partnership (TTIP), if agreed between the two parties "is highly unlikely to encourage investment above and beyond what would otherwise take place".[65]

HOW TRADE AND INVESTMENT AGREEMENTS INTERFERE WITH INDUSTRIAL POLICY

Encouraging foreign direct investment (FDI) and maximising its development benefits have been important domestic policy tools for just about every country as part of their development and structural transformation. Historically, countries have discriminated positively to get the best from inward FDI. These include market access provisions and performance requirements.

Market access provisions may require foreign investors enter partnerships with domestic enterprises through joint ventures or equity caps on foreign capital participation. Performance requirements maximise the spill-over effects of FDI operations through, for example, "local content" or "local employment" requirements or via requirements that a percentage of profits from FDI are not repatriated. Performance requirements are often in place so that the investment must procure a certain amount of local/domestic goods and services, and that a percentage or quota of products from an investment be processed in-country with the aim of building backward or forward linkages. Local content requirements are the most common performance requirements. Increasing the local content is a way of supporting infant industries, creating jobs for local people, enhancing skills and building industrial capacity in host countries.

However, such measures are increasingly precluded under agreements seeking to ensure liberalisation of investment.

Liberalisation of investment is not part of the vast majority of BITs, but mega FTAs like the North American Free Trade Agreement (NAFTA), the Trans-Pacific Partnership (TPP) or the recent negotiations of EU FTAs (some of which remain unratified as of 2016) do impose liberalisation commitments.

With regard to performance requirements (similar wording is found in the latest EU FTAs), the TPP, if ratified states that: "No Party shall [...] impose or enforce any requirements, or enforce any commitment or undertaking:[66]

> To export a given level or percentage of goods or services;
> To achieve a given level or percentage of domestic content;
> To purchase, use or accord a preference to goods produced in its territory, or to purchase goods from persons in its territory;
> To relate in any way the volume or value of imports to the volume or value of exports or to the amount of foreign exchange inflows associated with the investment;
> To restrict sales of goods or services in its territory that the investment produces or supplies by relating those sales in any way to the volume or value of its exports or foreign exchange earnings;
> To transfer a particular technology, a production process or other proprietary knowledge to a person in its territory;
> To supply exclusively from the territory of the Party the goods that the investment produces or the services that it supplies to a specific regional market or to the world market."

BITs were introduced to offer protection of investment, which in turn would offer a more predictable investment climate for attracting FDI. But investment protection clauses can bring negative consequences to developing countries, including:[67]

- BITs and other IIAs often contain broad definitions of investors and investment;
- Some clauses give significant rights to investors through a broad interpretation of the principle "fair and equitable treatment" and many tribunals have interpreted the provisions broadly thereby giving foreign investment added protection;[68]
- Expropriation clauses cover both direct expropriation (government takeover of company assets) and indirect expropriation. The latter has often been interpreted to mean compensation where regulations and other government actions that significantly harm, affect or interfere with the value of a foreign investment. This can cover a wide range of government measures, ranging from taxation to environmental regulation;[69]
- National treatment and most favoured nation clauses: these clauses provide that investors are not discriminated against – i.e. treated no less favourably – when compared to local and other foreign companies;
- Many BITs have umbrella clauses; these oblige the host state government to take other commitments and obligations that it has with the investor (i.e. its investment contract) and elevate them to the level of a treaty obligation; i.e. the host state must comply with obligations contained in contracts that would not otherwise breach the BIT;[70]
- Capital control clauses require host states to allow unrestricted movement of capital by investors; and
- The survival clause, whereby even when a BIT is terminated, withdrawn or expires, the provisions of the BIT still apply to investment from that country for an additional period, often 10-15 years.

The majority of BITs and other IIAs contain Investor to State Dispute Settlement (ISDS) procedures. ISDS allows investors to challenge governments at private international tribunals if they feel there has been a breach of a treaty, particularly breaches to the principle of Fair and Equitable Treatment. Arbitration is held at dispute resolution organisations such as the International Centre for Settlement of Investment Disputes (ICSID) and the UN Commission on International Trade Law (UNICTRAL).

Signing BITs and IIAs therefore expose countries to the threat of legal disputes in private courts. Investment protection regimes – and the possibility of an arbitration ruling via ISDS – can erode policy space and undermine the right of states to regulate in the public interest. This is problematic for governments trying to weave together different components of industrial policy.

Investors have already challenged a broad range of governments' public policies such as emergency measures during financial crises (Abaclat, Italy as the claimant v Argentina, 2007), during the crisis in Greece (Cyprus Popular Bank v Greece, 2014), public health (Philip Morris, Switzerland v Uruguay, 2010), bans on toxic substances (Ethyl Corporation, US v Canada, 1997), labour rights (Veolia, France v Egypt, 2012) and many more.[71]

It is often argued that ISDS cases have in fact ruled in favour of the state (36% of cases) more often than the investor (26%).[72] But this hides two important points that both relate to regulatory chill – that regulation is weakened, repealed or not adopted because of the threat or cost of an action.

Firstly, just over a quarter (26%) of cases are settled out of court, but the terms of the settlement are often not known. It is likely that these contain payments or other concessions to investors. Germany agreed to lower environmental requirements on a coal-powered plant rather than defend a claim. Canada repealed environmental regulation on toxic Polychlorinated biphenyls (PCBs) rather than defend another claim.

As part of South Africa's Broad-Based Black Economic Empowerment legislation, its mining charter stipulated that 50% of mining companies should belong to Historically Disadvantaged South Africans (HDSA). This required company owners to sell shares to black purchasers.

Foreign companies brought an investment claim in 2006 against South Africa under the Italy-South Africa and Benelux-South Africa BITs, claiming that this measure was tantamount to expropriation and breached the fair and equitable treatment (FET) and national treatment (NT) guarantees. The case was "settled" but the terms of the settlement are not known; two months later, the government lowered the HDSA minimum ownership to 26%.[73]

Secondly, it is extremely likely that the mere threat of a claim against a government has become more important and occurs more frequently than actual claims: "There is clear evidence that proposed and even adopted laws on public health and environmental protection have been abandoned or watered down because of the threat of corporate claims for damages."[74] Whilst the state won in the arbitration case brought against Uruguay by Philip Morris over anti-smoking legislation, this case (along with the one in Australia) appears "to have contributed to delays in the adoption of anti-smoking legislation in New Zealand."[75]

ISDS means that disputes bypass domestic courts and allow investors to go straight to international arbitration. Moving straight to international arbitration also reduces pressure on governments to improve their domestic legal systems. The international community should be creating incentives for all governments to strengthen their domestic legal frameworks so that they are capable of developing and enforcing laws that protect and regulate business activities.

REFORMS OR ALTERNATIVES TO BITS AND OTHER IIAS

UNCTAD has long advocated that there is a pressing need to reform BITs and other IIAs to address sustainable development, and has identified four possible options for reform of the International investment regime:[76]

- maintaining the status quo;
- introducing selective adjustments;
- engaging in systematic reform;
- disengaging from the regime.

The first three reform options have a series of problems, not least because the focus remains on reform of BITs and other IIAs with little consideration of alternative models:

- They do not deal with the current stock of BITs, i.e. those BITs that were agreed to before the current reform process kicked in;
- Key elements such as human rights continue to be omitted;
- Even where there is recognition of human rights, labour laws, environmental regulation, etc., these are often contained in the preamble to treaties and whilst this helps to clarify the context for arbitrators, it is not legally binding;
- The reform options continue to give precedence to ISDS (and hence special rights to investors) – and do not give primacy to dispute prevention and resolution, and domestic courts; and
- Reforms on the rights of governments to regulate in the public interest are limited, such as in the EU-Canada FTA; and these rights are still likely to be undermined by investors' rights via broad interpretation of investment protection provisions.

And developing countries have also been cognisant of the problems and dangers of BITs, IIAs and ISDS, not least because of large arbitration rulings against governments. Developing countries are in general more vulnerable because they are net importers of FDI and lack the resources and legal expertise to defend cases and afford arbitration rulings.

As a result, many developing countries have become disillusioned with current investment policy as defined by IIAs and are conducting their own reviews and audits with a view towards alternative investment policies (these include Ecuador and South Africa); and in many cases, governments are now terminating BITs. Such has been the displeasure with some countries regarding arbitration processes and rulings that some – Bolivia, Ecuador and Venezuela – have withdrawn from the ICSID, the main global arbitration forum for the settlement of investment disputes.

Momentum is building

As more and more countries undertake reviews of their investment frameworks, a 2015 Traidcraft report summarises developments around the world on IIAs as follows:[77]

- The NAFTA members, the U.S., Canada and Mexico, have undertaken modest reforms redefining some treaty clauses to widen their policy space.
- The Australian government treats ISDS in FTAs on a case-by-case basis.
- Ecuador, Venezuela, Bolivia, South Africa and Indonesia have terminated several IIAs.
- Bolivia, Ecuador and Venezuela have withdrawn from ICSID.
- The Union of South American Nations (UNASUR) has created a regional investment arbitration centre as an alternative to ICSID.
- India has frozen all negotiations on bilateral investment agreements.
- The European Commission has carried out a public consultation on ISDS in TTIP.

Ecuador

In 2013, the Ecuadorian government began an audit of existing BITs and their arbitration rulings. One of the reasons for this is the proliferation of arbitral proceedings against it, not least of which was a $1.77 billion award against the country in favour of Occidental. The main finding of the audit is that BITs contradict the current constitution, which prohibits the ratification of treaties where the state yields sovereignty to international arbitration entities.[78] To date, the country has terminated ten BITs, the termination of a further five has been agreed by the National Assembly (all in the EU), and the termination of a further eight is pending (of these for example, BITs with the US, Switzerland, Argentina and Canada have been deemed unconstitutional by Ecuador's Constitutional court).[79]

Furthermore, Ecuador has established a domestic law to protect investments. The country strives to sign investment agreements which only resort to international arbitration once domestic jurisdiction is exhausted. They also allow for regional arbitration (in Latin America), but stipulate that it be based on national laws and regulations. Arbitration cannot include regulatory or tax policy space. For Ecuador to sign investment contracts, investors must agree to performance requirements as well as rights and duties for both parties.[80]

Indonesia

In 2014, Indonesia adopted plans to terminate some of its approximately 66 BITs, in part following the controversial arbitration brought by Churchill mining against the government, claiming some $1-2 billion.[81] Nine BITs were terminated in 2014 and 2015 upon their effective termination dates. A further 11 BITs will be terminated upon their termination date between 2016 and 2018. One of these will be with India. But India has recently commenced arbitration under the Indonesia-India BIT.[82] Termination of BITs is complicated by "survival" clauses that provide for the continued application of treaties, typically for 10 or 15 years after their termination.

Despite complications in terminating BITs, the overall review process did not appear to affect foreign investment flows to Indonesia. A record high figure of IDR 78.7 trillion (around US$ 6.1 billion) in foreign investment was recorded in 2014. [83]

South Africa

In 2008, South Africa began a review of its international investment policy. In consultation with the domestic private sector and other stakeholders, the government assessed the costs and benefits of the international investment agreements they had signed. The review was initiated in part by the arbitration claim from foreign-owned mining companies challenging the country's Black Economic Empowerment legislation (see above). Among some of the concerns identified were the broadly worded standards of protection and the risk of disputes. Overall, they found that these agreements had no impact on the decision of an investor to locate in South Africa. Rather, the provisions of these agreements prevented the country from putting in place public policy measures to tackle inequality.

In response, South Africa began to unilaterally revoke their bilateral investment agreements or to let them lapse, replacing them with a domestic investment strategy.[84] For example, South Africa has made support to the car industry conditional on export performance: "The way the programme was structured was if [a manufacturer] exported, [the firm] could reap the export duty but only if its exports were at the competitive price and if it had improved its efficiencies."[85]

The 2008 review of BITs was prompted by the government's realisation that many of the treaties South Africa had entered into were inconsistent with the transformation agenda set in the post-Apartheid Constitution. The agenda "seeks to overcome deeply rooted inequities inherited from apartheid's exclusionary policies. There is little disagreement with the need to pursue this agenda to ensure an inclusive and just society."[86] As of 2016, the country has terminated nine BITs[87] and doing so has not resulted in a reduction in investment growth.[88]

Brazil

Brazil has never ratified 20 BITs or any other IIA with investment liberalisation and protection provisions because Congress found the provisions on indirect expropriation and ISDS were not in line with the country's constitution.[89] Even the Mercosur Investment Protocol, which was signed in 1993, was repealed before it came into force.[90] The country has never been a member of the ICSID. Yet this has not deterred inward FDI. Depending on the year, recently Brazil has been the 6th or 7th largest recipient of inward investment in the world.

As such, Brazil is not bound by provisions in IIAs; and has used performance requirements – particularly local content – as an important component of its industrial policy. The country's national agency for oil, gas and biofuels (ANP) uses local content as one of its requirements when allocating petroleum rights, and these have increased over the years: from 25% local content when the programme started to 80% in the latest rounds of bidding. This scheme has forced interested international suppliers to establish Brazilian subsidiaries and/or build up local manufacturing and operational capabilities to participate in the bidding process. State-run oil and gas company Petrobras has championed local content for many years.[91]

Brazil is also mindful that investment agreements do have a place in investment policy; but that current models of BITs and other IIAs are flawed. Brazil has recently made moves to again negotiate an intra-Mercosur investment agreement which would include a system for settling disputes state-to-state.[92] The country has also started to sign Joint Investment Co-operation and Facilitation Agreements (CFIA) with other countries – Angola, Chile, Colombia, Malawi, Mexico, Mozambique and Peru. The CFIAs aim to facilitate and promote investment though cooperation between the parties. The agreements also clarify substantive and problematic provisions, such as expropriation, and provide for dispute prevention and resolution and state-to-state dispute settlement.

Tanzania and Nigeria

The EU has been negotiating an Economic Partnership Agreement (EPA) with East African countries for over a decade. Tanzania assessed the pros and cons of opening up to European imports before developing its own domestic industries and decided to pull out in the summer of 2016. According to Aziz Mlim, Tanzania's foreign affairs permanent secretary: "Our experts have established that the way it has been crafted, the EPA will not benefit local industries in east Africa. Instead it will lead to their destruction as developed countries are likely to dominate the market".[93]

In early 2016, Nigeria made a similar assessment with regards to the EPA between the EU and the Economic Community of West African States. The Nigerian president, Muhammadu Buhari, said at an address to the European Parliament that "the Manufacturers Association of Nigeria and Associated Trade Unions raised concerns over the negative impact of the agreement on Nigeria's industrialisation programme."[94] He pointed out that the huge gap in manufacturing and technological expertise between the European and African region would be problematic. Nigeria will not sign the EPA until "technical issues" raised by the Federal Government are addressed by the EU.

THE ALTERNATIVE SYSTEM WE NEED

As the examples above show, governments are realising that they need to claw back policy space in the interest of creating an economy that serves their national interests – not those of multinational businesses. As part of this shift, South-South alliances must be created and be strong enough to capitalise on the momentum to build alternative trade and investment regimes.

Such a system should be guided by the following principles (which may require the termination or renegotiation and substantial reform of existing IIAs):

> Strengthened domestic legal systems (e.g. in South Africa) and the exhaustion of local remedies;
> Inclusion of binding investors' obligations;
> Precise and restrictive language regarding investors' rights;
> Abolition of one-sided and selective ISDS mechanisms; a new mechanism should be based around a dispute prevention policy, domestic dispute settlement and/or state-to-state arbitration settlement as in the CFIA Brazilian model;
> Exclusion or restriction of the scope of national treatment and most-favoured-nation principles;
> Strengthened requirements for investors to take out political risk insurance;
> The right of governments to regulate in the public interest should be explicitly incorporated into relevant parts of the new policy (i.e., not just in the preamble);
> The right of governments to establish entry and operational conditions for foreign investment in the interest of the public good and to get the maximum benefits from inward FDI from market access conditions, performance requirements and other policies; and
> Substantive provisions on human rights and environmental and social issues.

Moving these treaties to alternative systems will take time and capital-exporting countries will resist changes. There is an urgent need to address the continuing imbalance of investors' rights in relation to their obligations at an international level. And developing countries are increasingly showing themselves ready to take on this argument in international fora.

In September 2013, a group of countries led initially by Ecuador and including the African Group, the Arab Group, Pakistan, Sri Lanka, Kyrgyzstan, Cuba, Nicaragua, Bolivia, Venezuela and Peru issued a statement at the 24th Session of the UN's Human Rights Council.[95] The group recognised that human rights violations by companies were increasing despite the endorsement within the UN of the Guiding Principles on Business and Human Rights in 2011. The statement continued by saying that they are mindful that soft law instruments such as the Guiding Principles fall short of addressing the problem of lack of transparency in corporate activities and the absence of legal remedies for affected people and communities. The statement calls for:

"An international legally binding instrument, concluded within the UN system, would clarify the obligations of transnational corporations in the field of human rights, as well as of corporations in relation to States, and provide for the establishment of effective remedies for victims in cases where domestic jurisdiction is clearly unable to prosecute effectively those companies."

NGOs have long been concerned that the Guiding Principles would be inadequate to hold corporates to account. But many rich nations, including the EU and the US, have resisted a binding treaty and believe that more attention needs to be given to the implementation of the Guiding Principles.[96] But it is five years since the Principles were endorsed, and yet violations of human and environmental rights continue. In addition, only

eight member states of the EU have to date published National Action Plans for the Guiding Principles.[97] The call for a binding treaty has been supported by over 1000 non-governmental organizations and individuals in both 2013 and 2015, not only to address the urgent need to stop human rights violations but to provide access to justice, remedy and reparations for victims.[98,99]

In June 2014, Bolivia, Cuba, Ecuador, South Africa and Venezuela drafted a resolution to the Human Rights Council calling for an international legally binding instrument on transnational corporations and other business enterprises with respect to human rights.[100] The resolution was passed, which established an Intergovernmental Working Group to develop a legally binding instrument. The resolution was adopted by affirmative votes by 20 countries, almost exclusively developing countries; abstentions by a further 13 countries; and 14 countries voting against, almost exclusively developed nations.[101] The EU's and US's lack of support for the development of such an instrument is in sharp contrast to the securing of privileged treatment for corporations in BITs and other IIAs.

IMPLEMENTING LESSONS LEARNED FROM PAST INDUSTRIALISATION EXPERIENCES: THE CASES OF VIETNAM AND BANGLADESH

Most policy-making takes a relatively short-term perspective: either project cycles or electoral cycles. But truly transformational change is complex, non-linear, and can take many years to achieve. Effective policy makers need to have a long-term horizon. What do they want society to look like in twenty or thirty years? What goods and services do they want to make available to their citizens? And how will they make sure that women and men can access decent and dignified jobs? How will their economic policies help their countries adapt to new challenges like climate change and aging populations?

In 2014 and 2015, ActionAid affiliates in Bangladesh and Vietnam convened a series of dialogues with firms and governments and with young people to explore what a more equitable approach to industrial policy and job creation might look like. This section will reflect on those discussions in an attempt to show how progressive industrial policies could become a reality.

INDUSTRIAL POLICY IN VIETNAM: LIMITED DIVERSIFICATION COULD POTENTIALLY GO FURTHER

Vietnam, a "socialist market economy under state guidance", has grown rapidly and seen dramatic reduction in poverty levels over the past thirty years. The economy has proved remarkably resilient in the face of economic crises.

Economic reforms since the 1980s, when central planning was abandoned, have increased the country's export orientation, but the state remained actively involved in the economy. The government consciously applied many of the lessons from the East Asian success stories while also taking advantage of the potential of regional production networks. Vietnam is distinguished from other Asian economies by its sheer range of exports, which include textiles, garments and footwear, but also automobiles, machinery and electronics.[102]

The government took a gradualist and pragmatic approach to liberalisation. Crucially, reforms in agriculture, land tenure and eventually agricultural diversification lifted families out of poverty and created demand for goods produced by domestic industry.[103] State-owned Enterprises (SoEs) and joint ventures between the government and foreign investors have played an important role in the development and diversification of its economy.[104]

The motorcycle industry in Vietnam has developed remarkably rapidly as compared to other countries in the region. The first manufacturer entered the country in 1994; since then, the proportion of local components in the final vehicle has increased to about 80% in 2008. Thailand and Indonesia took about 30 years to reach this ratio. In 1999, only 20 to 42% of motorcycle components were produced in Vietnam. The Vietnamese government implemented policies to encourage local production of components between 2000 and 2004; by 2005 more than 70% of components were sourced in Vietnam. Unusually, Vietnamese companies managed to meet foreign investors' higher quality standards as well as supplying parts to domestic firms.[105]

However, in other industries the government has struggled to implement consistent and coherent industrial strategies. Incentives to improve performance of SoEs have been relatively weak. Arguably, small and medium sized private firms have been neglected and need more support,[106] mainly because they account for 98% of all enterprises and provide around half of all the country's employment.[107] An industrial policy needs to work with the actors that are already there and ready to be developed.

Failure to adequately support SMEs to improve productivity and competitiveness has been accompanied by large efforts to attract FDI through tax and other types of incentives.

Stuck in assembly manufacturing

Vietnam has managed to establish itself as a manufacturing hub for assembly activities in the region, but there is still far to go to move from assembly to higher value added activities and to improve the quality of production. As a manufacturing hub, Vietnam has been faced with intense competition from other suppliers in the region, giving the government much less leverage over industrial development than South Korea and Taiwan had in the past.[108]

In 2015, ActionAid Vietnam and Vietnam's Central Institute for Economic Management (CIEM) carried out a series of interviews with representatives of food processing and electronics sectors. The firms we talked to are struggling to upgrade into higher value activities.

Seafood processing is a big success story for Vietnam, which ranks first in the world for exports of pangasius (a large catfish) and third for shrimp exports. Export value reached $6.7 billion in 2013. Despite investment in machinery and technology, this figure includes a relatively low level of value added. The firms we interviewed explained that this was because they could not afford to invest in the development of trademarks or marketing. Marketing and distribution activities, which generate the highest profit margins in the value chain, are generally left to foreign buyers.

Foreign investors dominate Vietnam's burgeoning electronics sector. The sector has seen annual growth rates of 20 to 30% between 2000 and 2010, and by 2014 exports were worth $32.2 billion. Despite this early success story, electronics manufacturing in Vietnam is concentrated in low value added tasks like assembly and packing, and relies heavily on imported materials due to inadequate supply from domestic firms (in 2007, between 14.3 and 43.4% of export value was derived from imports). This limits the impact growth in this sector can have on broader economic development.

Some commentators are worried that Vietnam is facing a "middle-income trap". It is highly dependent on foreign capital and technology, stuck in a low value added segment of global value chains, unable to diversify into higher-skilled and more technologically sophisticated activities.

Liberalisation is likely to undermine diversification

WTO accession in 2007 required Vietnam to phase out industrial policy tools like export-performance requirements and local content requirements, as well as reducing tariffs. This limits the range of policy tools available to implement a more coherent and strategic industrial plan. Nonetheless, Vietnam responded creatively to WTO rules. For example, instead of cutting off subsidies to SoEs entirely, they transformed them into internal transactions so they could not be detected or easily sanctioned.[109] Now they need to effectively put in place incentives for SoEs to improve performance, as suggested above.

Vietnam has recently signed two new trade and investment agreements, but as of late 2016, both have yet to be ratified: the Trans-Pacific Partnership (TPP) with the US and others; and a Free Trade Agreement with the EU. These agreements open up the possibility for the country to consolidate its position as a regional manufacturing hub. For rich trading partners like the EU, US and Japan, these agreements offer access to Vietnam's burgeoning consumer market and to investment opportunities in previously unexploited sectors. But increasing imports of manufactured goods may undermine the development of higher value added sectors in Vietnam.

Before the agreements were concluded, the European Commission carried out an impact assessment of the EU-Vietnam Free Trade Agreement.[110] The Viet Nam Institute for Economic and Policy Research undertook a similar assessment of the potential impact of the Trans-Pacific Partnership on Vietnam.[111] Both studies suggest that emerging high-value sectors will lose out to low value added production in garment and footwear sectors.[112]

The assessment of the Trans-Pacific Partnership finds that liberalisation will prompt a structural shift in Vietnam's economy, away from high-value manufactured products and machinery and automobiles sectors, towards apparel, leather manufacturing and services and construction.[113]

According to the European Commission, a similar shift will follow implementation of the EU-Vietnam agreement. "The motor vehicles and parts sectors, and electronic and machinery equipment sectors, in which Vietnam was a late arrival" will all see a decline in output "as these sectors have not yet been able to build up the strength to withstand competition." The study finds that there will be substantial increases in employment in the footwear and leather sectors, but "prices are projected to decline as well, implying that output and exports – in the long run – will be concentrated in mass produced lower value added products".[114]

The agreements will make it harder for Vietnam to resist these trends. These agreements are much more restrictive than WTO rules, restricting the country from using the vast majority of industrial policy tools that have been used successfully by others.[115] Most policy tools that continue to be permitted require significant levels of expenditure, which Vietnam cannot afford to divert from social development. This limits the government's ability to support a shift to higher value added activities in the food processing and electronics sectors, or to support the emergence of new higher value added sectors in the future.

Working conditions in Vietnam's factories

ActionAid is concerned that the shift away from high-value sectors into low-value assembly work, garments and lower value added footwear will expose Vietnamese workers to the same commercial pressures as garment workers face in Bangladesh, putting downward pressure on wages and working conditions.

Arguably, there is a stronger tradition of workers' rights and more equal gender relations in Vietnam than elsewhere in Asia, in spite of restrictions on independent trade unions. But labour rights have been undermined as the country has opened up. The minimum wage, originally set at a "living wage" level, has been cut and overtaken by inflation, and the bargaining power of state-sponsored unions has been weakened.[116] Conditions in long-established, often state-owned factories are reported to be better than those in newer, private factories.[117]

The growth of exports in textiles/garments and electronics has not given rise to positive economic spillovers like the growth of firms supplying to those industries and investment in workers' skills. Rather, in these low-skilled assembly sectors, "mostly young female workers join the labour force with non-liveable wages and substandard working conditions".[118]

Yet workers seem to be increasingly prepared to fight for their rights. Though strikes and protests have been rare in Vietnam, in 2011 alone there were 994 strikes, with around 450 per year since.[119] In March 2015, thousands of workers held a five-day strike at a Chinese-run footwear factory in Ho Chi Minh City that supplies major foreign sports brands. They were protesting against a social insurance law due to kick in from 2016, "which restricts the scope of entitlements for a lump sum payment if they leave".[120]

Labour mobilisation will play an important role in Vietnam and elsewhere in achieving sustainable development. All gains from collective actions improve workers' and their communities' livelihoods in the short-term, but they also strengthen workers' role in shaping economic development in the long run.[121]

Planning for the long term

Vietnam's path so far suggests that the government's gradual approach to liberalisation is guided by short-term fixes to industrial development. Instead of pursuing a long-term vision, where FDI is forced to contribute to the development of productive sectors led by Vietnamese firms, the country's industrial policy relies on finding global value chains to slot into.

There is recognition at various political and technical levels of the importance of developing "supporting industries" – i.e. productive sectors – for long-term industrial growth. And they are aware of their shortcomings so far, despite having many of the necessary structures and political machinery to succeed.[122] Table 1 at the end of this section summarises strengths, weaknesses and key improvements required within the Vietnamese system for an "industrial policy 2.0" to materialise.

Based on ActionAid's engagement with ministries, think tanks, chambers of commerce and business associations, we believe that a visionary, long term industrial policy focused on growing supporting industries can emerge in Vietnam. But it will only happen if it is driven by senior voices in the National Assembly and the highest ranks within the Party. In turn, they would need to find allies at the provincial level who are prepared to set up the necessary channels to bring financial and technical resources to SMEs in key productive sectors.

Successfully implementing an industrial policy will be politically challenging and financially difficult, particularly because it would require pulling out of constraining free trade agreements like TPP and the EU-Vietnam FTA. But inspiring stories from which to learn can be found at provincial levels. The Danang municipal authority is comparatively more progressive and forward-looking than others and has seen a successful seafood industry emerge. As discussed earlier in this section, the fish and seafood industry has been a priority sector for Vietnam , linking farmers to the national economy and contributing to the country's export earnings. Why not improve its chances of survival and continued success, and replicate these efforts in other priority sectors?

But convincing senior leaders and their allies to move ahead with a new vision for industrial development will require presenting them with a thorough analysis and action plan. ActionAid believes that it would be worthwhile for proponents to invest time and effort in research and consultations to develop a fully convincing proposal. Relevant ministries (including Industry and Trade as well as Science and Technology), civil society, unions, academia, think tanks and chambers of commerce could provide support in the organisation of open and closed door dialogues to work out further details. The National Assembly, as the entity in charge of monitoring policy implementation, should also be included when working out a detailed action plan.

Engaging youth will be key to ensure that industrial policy works out in the immediate and long term future. According to figures released by the Ministry of Education in January 2016, 225,000 young people with a university degree or above were unemployed, up 13.3% from the third quarter of 2015.[123] Youth unemployment is a huge problem affecting Vietnam and many other countries. It is not only a violation of their right to work (Art 6 International Covenant on Economic, Social and Cultural Rights (ICESCR)) and to an adequate standard of living (Art 11 ICESCR); it may also become a problem for national stability. That problem can notably be addressed through industrial policies that create more and better jobs.

Table 1. Towards an industrial policy 2.0: Status quo in Vietnam

COMPONENTS OF A SUCCESSFUL INDUSTRIAL POLICY 2.0	ACHIEVEMENTS SO FAR	LIMITATIONS
Government is able to impose local content requirements and technological spillovers on foreign investors	No significant achievements	Vietnamese firms have failed to achieve quality standards to become support industries. No measures in place to control linkages of FDI with national firms. These measures are now restricted by bilateral and trade agreements.
Government is able to protect domestic firms through import substitution, tariffs or subsidies	Subsidies to SoEs have been maintained	No support mechanisms for SMEs, which constitute 98% of domestic firms. Import substitution and tariffs are restricted by WTO and trade and investment agreements
Government is able to put in place reciprocal control mechanisms to firms receiving support	No significant achievements	SoEs have received continuous support, yet no performance requirements have been put in place
Government designs and implements programmes to provide technological support to firms (in collaboration with academia, chambers of commerce, associations, etc.)	The motorcycle industry in Vietnam managed to thrive thanks to reverse engineering.	Government programmes have been limited at best and mainly targeted at SoEs, not private firms Supporting firms for innovation and upgrading in quality standards has been consistently missing from government strategies
Financial programmes in place for firms to access affordable finance (e.g. through national development banks)	SoEs have continued receiving support	Smaller and growing private firms have no access to these loans
Political and economic stability, including long-term planning for inclusive industrial growth	The Doi Moi reforms succeeded in bringing a stable and rapid growth pattern to Vietnam	Vietnam is now facing a "Middle Income Trap" Youth unemployment is a growing concern that needs to be urgently addressed
Social protection policies (labour, education, health) conducive to decent jobs, living wages and women's rights	Arguably, Vietnam has better labour standards – particularly in SoEs. Minimum wages were fixed as living wages for a period of time	As the country has opened up labour rights have been undermined; living wages have been cut and overtaken by inflation; unions' bargaining power has been weakened; restrictions on independent unions are in place Migrant workers do not have secured access to healthcare Women's unpaid care burden is largely unsupported
A democratic, multi-stakeholder dialogue approach to industrial policy design and implementation	Economic development has been centrally planned, which in a way allowed for such rapid development	Industrialisation has so far followed short-term cycles, where foreign investors are the biggest winners Concerns of private firms have not been taken on board

INDUSTRIAL POLICY IN BANGLADESH: DIVERSIFY AND CONQUER?

Bangladesh has taken liberalisation very seriously. It became a member of the WTO in 1995 and has signed 34 investment agreements – both bilateral and multilateral.[124] It is also a member of several multilateral bodies and signatory to regional preferential trade agreements like D-8 and the South Asian Free Trade Area.[125] Measured in terms of simultaneous rise in export and import, its openness has increased from 22.3% in 1990 to 26.2% in 2000 and 50.5% in 2011.[126] Bangladesh imports a large range of goods, including food, fuel and capital machinery,[127] while export earnings are predominantly from garments (84%), with a smaller proportion coming from other products.[128]

Bangladesh has been praised as being one of the developing world's biggest Millennium Development Goals (MDG) success stories. It "has reversed some of the worst poverty indicators in the world in recent years, managing to reduce maternal mortality by 40% between 2001 and 2010. Girls outnumber boys in school and extreme poverty rates were cut in half between 1990 and 2015."[129]

Increased garment exports have been a major factor in Bangladesh's growth story, contributing about 10% to GDP each year. As wages in China rise, more production may move to Bangladesh.[130] Continued growth of this and other export sectors could help Bangladesh achieve its ambition of becoming a middle income country by 2021.[131] In July 2015, the country was upgraded from low to lower middle income status[132], but further progress up the World Bank's rankings will require increasing the average annual GDP growth rate to 7.5-8%[133] (from 5.6 % registered in 2014). Gross National Income (GNI) per Capita for 2014, at US $1,080 is still half the US $2,012 average for lower middle income countries, and a quarter of the lowest GNI per capita (US $4,126) of the next group.[134]

But so far, Bangladesh's focus has been on hitting growth rate targets alone, instead of ensuring that the benefits of growth can be better distributed among the population. This has been a common problem in the North and the South and one that needs urgent attention if the SDGs are to be achieved. An ActionAid study found that "only three of ten developing countries had over 65% of key inequality-reducing policies in place" to achieve SDG 5 on gender equality and SDG 10 on reduced inequality within and among countries.[135]

In 1970 Bangladesh was a largely agricultural economy, with a very limited range of products and services to trade in the global economy – jute and agricultural products mainly.[136] However, it did have a large population and so an abundance of cheap, flexible labour. Building on a small industry producing garments for the domestic market, Bangladesh began exporting garments in the late 1970s, when the Multifibre Arrangement (MFA) (a trade agreement) was still in operation. The MFA (1974-2004) imposed export quotas on garment producing countries when "surges in imports of particular products caused, or threatened to cause, serious damage to the industry of the importing country."[137] Entrepreneurs from countries unable to increase their exports because of MFA quotas were able to expand their businesses by establishing subcontracting relationships with Bangladeshi garment firms.[138]

The garment sector in Bangladesh is made up primarily of domestic firms selling directly to international buyers, rather than subsidiaries of multinational firms.[139] The industry boomed in the early 1980s[140] and today Bangladesh is the world's second largest exporter of garments after China.[141] Figures collected by Human Rights Watch show that "the growth of the industry has been dramatic. In the 1983-4 fiscal year, Bangladesh exported garments worth just over US $31.5 million, and employed 120,000 workers in 384 factories. By 2013-14 it exported garments worth more than US $24 billion, and employed some 4 million workers in 4,536 factories."[142]

The development of some manufacturing in Bangladesh may look like the first step towards industrialisation and economic transformation. However, over-reliance on just one low value added manufacturing sector has put a brake on economic development in the country.

Lack of decent and dignified job opportunities for women and men

Garment manufacturing is seen as an industry that creates jobs for women, whose socially-ascribed gender roles determine that they have the nimble fingers and docile attitudes required by their employers. But it replicates societal discrimination against women; women are paid less than men and often dismissed when they start a family, so jobs are not life-long careers. Garment jobs involve long hours and, even if minimum wages have increased over time, they still do not pay a living wage. Those women brave enough to stand up for their rights are often blacklisted and struggle to find another job.

Job creation in the garment industry barely addresses unemployment in Bangladesh. On average, only 200,000 formal jobs per year were created in the past decade, while the population is growing at a rate of more than 2 million people per year. The lack of alternatives forces the vast majority of Bangladeshis into precarious, underpaid and often unsafe jobs in the informal sector.[143] A 2015 ILO report found that youth are particularly affected by the lack of jobs: in 2013, the youth unemployment rate was 10.3%, higher than the Asian average (at 9.45%). The same study reported that more than 95% of Bangladeshi youth worked informally in 2013, mainly as self-employed (31.7%), or in unpaid family work (11.1%).[144]

A new national development strategy driven by productive sectors

To lift the country out of poverty, the government will need to do a lot more to support economic transformation. Starting with established sectors that have significant potential to grow (like electronics and engineering), the government should support the emergence of a diversified and high value added manufacturing economy for the future.

For years, the government has sought to increase the contribution of manufacturing to the country's GDP. Though some progress has been made, figures have been way below target. The draft 7th Five Year Plan (FYP), aims at increasing the contribution of the manufacturing sector to 21.5% of GDP by Financial Year (FY) 2019-20 from 17.8% in FY 2014-15. This ambition is not new: the expiring 6th FYP had also set the target for manufacturing's contribution at 21.5% of GDP by the FY 2014-15 – up from 17.9% in FY 2009-10. Manufacturing Value Added increased from 13.7% in 1985 (the decade when garments boomed in Bangladesh) to 15.3% in 1995, at which it remained for over a decade. In FY 2014-15 it increased to 17.2%.[145]

The latest FYP sets an industry growth target of 12% (up from the current level of 9.6) and highlights the importance of leveraging private sector investment. The government also wants to see a six-fold increase in FDI.[146] But for Bangladeshi women, youth and men to really benefit from industrial growth, the government should see its industrial policy as part of their strategy to achieve the SDGs. Linking job creation in manufacturing to SDGs 5 and 10 as suggested above, but also 8 (decent work and economic growth) and 9 (industry, innovation and infrastructure) would maximise long-term success.

During 2015, ActionAid Bangladesh was invited to contribute to the development of Bangladesh's new Five Year Plan (its new National Development Strategy). Through this experience we realised that, while there is a wealth of expertise to draw from and will to make industrialisation happen, the national political and financial architecture is incredibly complex, and global rules add an additional layer of complexities.

Bangladesh is highly constrained by having to reduce tariffs and custom duties, remove quantitative restrictions and relax local content requirements for products. Other WTO rules are moderately constraining, and include government procurement, intellectual property and export subsidies in agriculture. A third set of rules regulating devaluations, investment incentives, trade finance and export taxes are the least constraining of them all, but are nonetheless there.[147]

An economy that is increasingly open to free trade and regulated by the rules listed above makes it difficult for domestic businesses to enter the market: they are put out of business before they have any chance to become competitive. For instance, a Bangladeshi businessman told ActionAid that the engineering industry is

set up to manufacture machinery for other sectors, but imports get so many tax breaks that it often turns out cheaper to import finished goods rather than produce them in Bangladesh.[148]

Hearing from businesses in Bangladesh

In the summer of 2015, ActionAid held interviews with business owners and representatives of business associations in the engineering and electronics sectors – two potential industries for helping the country step into higher value added markets. Through our participation in the discussions around the FYP, we realised that their voices, among others', were not being heard, and we wanted to explore what the challenges, opportunities and needs of these industries are.

The first industry, engineering, is referred to as "the mother of all industries", because it produces and repairs light machineries and spare parts that are used in every other sector in the country. Over 90% of the needs of the local people are met by domestic engineering industries.[149] Some of its 10,000 products include plastic moulds for fuel filters used in motorcycles and light machines used in pharmaceuticals or to increase agricultural productivity. The industry requires low and medium technologies for most products, which means that Bangladesh could realistically start becoming more competitive without requiring huge leaps.

Most firms in this industry are Small & Medium Enterprises (SMEs). Currently about 40,000 firms are generating employment for 0.6 million people. There are about 1,200 engineering industries presently enlisted with Bangladesh Small & Cottage Industries Corporation (BSCIC).[150] Some firms are already quite successful; others still need significant support to improve their production processes. But together, they could be a true powerhouse for the future because they could create demand for each other's products and other manufacturing industries.

The second sector that has been talked about is electronics. Though mainly an assembly industry in Bangladesh and at the moment struggling to compete with imported final goods, demand for electronics is not going to disappear anytime soon. If the Bangladeshi economy becomes complex and diversified enough to increase people's purchasing power, there can be more demand for televisions, refrigerators, air conditioning units, radios, etc. And with a growing population comes an increasing demand for housing and office spaces, which means a market growth potential for both consumer electronics and electrical components.

The domestic industry is currently dominated by two big players, which are gradually pushing small and growing competitors out of the game. Despite facing severe competition and daily struggles, some of the smaller firms are still reluctant to give up because they see the industry as one that could really supply the domestic market if it were appropriately supported.

The case of engineering is particularly important. Without any support from the government, it has managed to successfully substitute a good amount of imports. As discussed, it meets the demands of most if not all domestic industries and is eager and capable of increasing export volumes. It could be much more productive with tailored support programmes from the government.

The sector has been able to absorb both skilled and unskilled labour – a big contribution to the economy, which in the short and medium run will need jobs for both types of workers. In a technology intensive world, global demand is likely to grow in the future. The key will be to protect and support Bangladeshi firms as they become competitive.

A proposed recipe for governmental support

So what will it take to boost those productive sectors? Where should the government start? How can we make sure policy planning is as participatory as possible? A study commissioned by ActionAid Bangladesh to Business Initiative Leading Development (BUILD) identified the following key issues that need addressing – many of them in line with what businessmen told us in the summer of 2015, as described above:

a) Mapping out how best to protect and support emerging productive sectors, in line with national policies and restrictions imposed by WTO rules and investment and trade agreements.
b) Pull together existing incentive programmes to domestic industries under a new subsidy policy, mainly to ensure that cash and other forms of export and import subsidies reach those who need it the most.
c) Lower interest rates on loans that are desperately needed by SMEs in emerging industries; a new public development bank could be created to support this.
d) Design technology support programmes for medium and growing enterprises, so they can access new and better technologies and acquire the skills to operate them.
e) Improve budgetary allocations to all ministries responsible for one or more areas related to industries and industrial policy.

The government would need to ensure that all national policies relevant to the industry sector support and complement each other: Industrial and SME policies, but also export and import policies, monetary and fiscal policy, competition policy and skill development policy to name a few.[151] Table 2 at the end of this section summarises the main achievements and constraints within the Bangladeshi system to materialise an "industrial policy 2.0".

Coordination would need to happen both at the planning and implementation stages, which would require bringing together at least 24 ministries and government agencies. In turn, these agencies would need financial and expert human resources to do their job well. Three of the ministries that are key to get an industrial policy off the ground in Bangladesh are Textiles and Jute, Industries and Commerce. But none of them are high in the government's priorities for budget allocation. For them to work well together and for strategic ones to play their catalyst role, ministries need clear and fair mandates.

South Korean and Taiwanese governments invested in policy research and planning capacity within ministries for industrial development so that they could work better with the private sector in identifying opportunities for upgrading and innovation. The Bangladeshi equivalent would be the Ministry of Industries, and while its overall budget has remained more or less stable and has actively participated in industrial policy planning activities, its main focus is state owned enterprises. This leaves very little room for it to meaningfully support domestic private sector actors. The Ministry could turn to the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the SME foundation – entities already working closely with Industries – to plug its capacity gaps. But experts agree that coordination among the three bodies is already complicated and satisfactory results would only be achieved through a comprehensive reform of the Ministry of Industries.

As part of this reform, the Ministry should be allocated a separate policy research and planning budget, and allow for the income generated by its subsidiaries like BSCIC to be used for industrial policy purposes. Currently, all income generated by BSCIC (mainly from the sale of land) must be put into the government's exchequer account.

But industrial policies need not be exclusively driven by government. Some of the tasks, like research and development, can be better achieved in collaboration with other domestic actors like academia. Budget support for universities and technical colleges would be a wise investment.

Bangladesh's industrial policy ought to be shaped by and for its people right from the start, including citizens, civil society and the private sector. A multi-stakeholder approach to monitoring, e.g. that government support mechanisms to firms are working, will ensure that incentives are not captured by traditional elites.

Business associations and chambers like the ones ActionAid spoke to are willing and able to get involved, too. Because productive sectors like engineering and electronics are still emerging, there are no clear winners and losers, nor huge disparities in power among firms, so associations and chambers truly represent the interests of the sector and could very easily support government efforts to provide and monitor different forms of financial and technical support to firms.

Business chambers like the Dhaka Chamber of Commerce and Industry (DCCI) and the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) have permanent, specialised staff with vast experience in the challenges and opportunities of business operations within the country. Using their applied knowledge and day-to-day experience would make Bangladesh's industrial policy more feasible.

One way in which the government could reach out to firms in emerging sectors is by having the Parliamentary Standing Committees of the key ministries coordinate submissions from the private sector. Committee hearings could also be organised. Together, these activities would bring an additional bonus of involving Parliament in industrial policy discussions from their early stages.

While there is recognition at the technical and ministerial levels of government that their approach to industrialisation is not working, political circles have not yet been brought on board. ActionAid believes that champions of this new kind of industrial policy within the bureaucracy could begin campaigning for it among political circles, perhaps framing it as a necessary tool to achieve the SDGs, with a particular emphasis on innovation, skills development and the creation of decent jobs for all.

It is no secret that the garment sector has a significant amount of political and economic power in the country – after all, their success has boosted Bangladesh's export record. Sharing subsidies and government support with other manufacturing sectors is something they are unlikely to easily accept. This would not be the first time they mobilised against diversification and keeping hold of precious policy space.

Up until the mid-1970s, there was a larger textile industry in Bangladesh[152] that could have thrived on the expanding garments industry – and increased the latter's profits in the medium and long run. But garment factory owners were reluctant to cooperate with textile businesses because getting the textile industry ready to play a strong role required investment, infrastructure development and relative protection from the liberalisation that was rapidly happening in the early 1980s. The garment industry saw a better route in further opening up the economy so they could accumulate capital from immediate market access to the US and the EU. Instead of sourcing from a domestic textile industry, they could just as easily import cheap inputs from neighbouring India, Thailand or Malaysia.

Civil society can play a huge role in creating momentum for change, including by brokering difficult conversations like those between employers and workers. Once a new industrial policy is up and running, NGOs and grassroots movements will be key for monitoring what impacts it has on people and the environment.

Promoting social dialogue by bringing trade unions and workers into the planning and implementation phases of industrial policy will be a necessary step. Bangladesh's industrialisation must ultimately create more and better jobs, and there is increasing realisation among employers that they need good workers if they are to stay in business – particularly in medium- to high-skilled industries like engineering and electronics. One way in which industrial policy could contribute to skills development for workers is by increasing and improving support programmes to firms so that they can train workers on site. With more resources and a strong mandate, the National Skills Development Council (NSDC) could lead on the development and implementation of these programmes. Because firms will want to benefit from investing in people and retaining them for as long as possible, ActionAid believes that they will want to offer good wages and working conditions. Firms could boast this as part of their brand to continue attracting the best workers.

Table 2. Towards an industrial policy 2.0: Status quo in Bangladesh

COMPONENTS OF A SUCCESSFUL INDUSTRIAL POLICY 2.0	ACHIEVEMENTS SO FAR	LIMITATIONS
Government is able to impose local content requirements and technological spillovers on foreign investors	No significant achievements	Bangladesh's industrialisation has been predominantly focused on garments, where domestic firms import the majority of the inputs, including designs, and mainly assemble or stitch them together. So there is no room for spillovers. Emerging, higher value added sectors are still too nascent to attract FDI.
Government is able to protect domestic firms through import substitution, tariffs or subsidies	There are existing subsidies for certain manufacturing industries, including garments, but also engineering and electronics.	Import substitution and tariff controls are restricted by WTO rules. The majority of export subsidies and support mechanisms are only available to garment suppliers. Chinese and Indian imports have flooded the country which makes competition impossible for electronics firms.
Government is able to put in place reciprocal control mechanisms to firms receiving support	No significant achievements	Ministries and other government bodies in charge of these types of controls are mainly geared towards SoEs. Given the political economy structure of Bangladesh, politically powerful individuals and groups are the main recipients of support and subsidies, which limits capacity to impose accountability controls.
Government designs and implements programmes to provide technological support to firms (in collaboration with academia, business chambers and associations, etc.)	No significant achievements so far	While there are few programmes available to support firms and workers with accessing and using technologies, these are way out of date. Ministries with the mandate to support with these tasks have no budget or expertise in house to do a good job.
Financial programmes in place for firms to access affordable finance (e.g. through national development banks)	Mainly available for garment-supplying firms	No functional national development bank No affordable loans for smaller and growing firms in emerging manufacturing industries
Political and economic stability, including long-term planning for inclusive industrial growth	Bangladesh has halved extreme poverty and was an MDG success story.	Bangladesh has remained focussed on hitting growth targets, following recommendations from donors; targets have also been regularly set for contribution of industry and manufacturing to GDP. So far, no long-term planning has meaningfully explored industrialisation through higher value added activities.
Social protection policies (labour, education, health) conducive to decent jobs, living wages and women's rights	After the Rana Plaza disaster in 2013, the government has been working with foreign buyers to improve working conditions; the minimum wage was raised in 2014.	Improvements in the garment industry have not really been applied as umbrella policies in other sectors and changes barely scratch the surface. Bangladesh has relied on the competitive advantage of cheap labour, which leads to the violation of workers' rights. Women are the hardest hit in the country's export-oriented strategy.
A democratic, multi-stakeholder dialogue approach to industrial policy design and implementation	The Bangladeshi institutional structure, to a certain extent, offers channels to support firms – though they need to undergo serious reforms to function efficiently. Discussions around the latest Five Year Plan included consultations with civil society and businesses.	Businesses in manufacturing industries other than garments are rarely listened to. Workers' voices have not been sufficiently represented. The garment industry could oppose diversification and, with the huge political and economic power they concentrate, they are a force to be reckoned with.

CONCLUSION AND RECOMMENDATIONS

Truly transformational change is complex, non-linear and takes many years to materialise. This is the type of change that developing countries need to embrace if they are to transform their economies. However, a tried and tested way to succeed is by using industrial policy. Policy makers need to think carefully what they want their countries to look like in 20 or 30 years; what sort of jobs women, men and youth will have equal access to; and what products and services they want to make available to their citizens. This should be the starting point to designing an industrial policy, nested in an overall national development strategy.

Industrial policies help governments shape and develop a robust manufacturing sector. Supporting domestic firms into higher value added activities helps increase the amount of profits that stay in the country. These translate into living wages for workers and taxes for the state to invest in agriculture, infrastructure and public services that not only bring wellbeing to society but also create more jobs for teachers, doctors, nurses and carers.

In the long run, industrial policies can contribute to developing countries' achievement of the SDGs too – particularly around decent job creation (Goal 8), industry development (Goal 9) and reduction of inequalities (Goal 10).

Successful experiences from the past like those of Taiwan and Korea exist as a source of inspiration and lessons to be learned on how best to use industrial policy today. But ensuring that past mistakes (denial of human rights, women's exploitation and environmental damage being the most notable) are not repeated will be key, as will recognising that there are new challenges that will need overcoming. Making sure that all national stakeholders are at the negotiating, implementing and monitoring table throughout the entire industrial policy's cycle should also be a priority.

One of the biggest challenges that developing countries currently face is the tight restrictions that global rules and trade and investment agreements put on governments' policy space. While today's industrialised countries relied on import substitution, tariff controls and subsidies to protect nascent industries until they were strong enough to compete with foreign products and services, these measures are now prohibited under WTO rules.

Most developing countries' hands are further tied under bilateral, regional or plurilateral trade and investment agreements. These prevent them from getting the most out of foreign investors – i.e. through local content requirements and technology spillovers – and from putting national interests first. When national economies open up to foreign goods and services without having built up strong domestic industries, firms are often unable to compete and eventually close down for good.

Alongside planning for long-term industrial policies, developing countries need to consider how best to engage with foreign investors and markets without compromising their national interests and long-term success. Section 2 of this paper discussed how several countries are leading the way towards an alternative investment model as they review their frameworks and cancel FTAs. Countries that already signed onto trade and investment agreements with clauses preventing any type of protection to domestic firms can plan as many components of an industrial policy as they want; but implementing them will bring costly consequences.

The case of Vietnam as discussed in section 3 of this paper illustrates how local manufacturing firms will be at a huge loss vis a vis European and American imports if the EU-Vietnam FTA and the TPP are ratified. The government's industrial strategy has prioritised attracting FDI rather than growing strong manufacturing industries of higher value added. So further opening up the economy means assembly-based and low value added participation in global value chains instead of becoming a competitive source of a wider range of production inputs.

Changing this outcome would involve realigning the industrialisation strategy for Vietnam toward developing supporting industries. This will require strong leadership from within the Party and the National Assembly as well as support and buy-in from relevant ministries. But most importantly, Vietnam would need to be prepared to pull out of restrictive FTAs.

In contrast to Vietnam, Bangladesh's ability to kick off a progressive industrial policy is not directly constrained by FTAs. But it faces its own set of considerable challenges. Its over-reliance on garment exports in past decades has left other manufacturing industries side-lined. Paving the way to channel resources into emerging industries like engineering and electronics – of higher value added and potential drivers of a new industrial policy – will be politically and financially complex.

The institutional design within Bangladesh will need considerable reforms so that relevant ministries and other governmental bodies can help drive industrialisation. And financial resources will need to be sought and channelled to firms in emerging sectors in a way that improves their prospects for upgrading while monitoring their performance.

Based on the conclusions above and the lessons learned through ActionAid's work in Vietnam and Bangladesh, we conclude this paper with a series of recommendations for the international community as well as developing and developed countries to pave the way for progressive and sustainable industrial policies.

The governments of developing countries should make sure that the design and implementation process of industrial policies is inclusive, consultative, democratic, and draws from strengths and expertise of civil society, unions, academia and businesses.

Industrial policies will need to respond to and be influenced by the specific national context where they are being set up. Some countries already have institutional setups that can be readily adapted to drive industrialisation – as is the case of Vietnam and, to an extent, Bangladesh. But more research is needed to determine the right combination of resource allocation and policy reforms required to get an industrial policy off to its best start.

In ActionAid's experience, there is still a huge amount of convincing and brokering to do within policy and political circles in countries like Vietnam and Bangladesh so that industrial policies can get a green light. There is a need for more consultations, workshops, desk-based research and roundtable discussions where different ministries and other relevant bodies come together to flesh out opportunities, challenges, risks and priorities.

Developing countries should see industrial policies as an indispensable tool for the realisation of the SDGs. The challenges of women and youth to access decent and dignified jobs should be explicitly addressed. Countries should implement laws and policies that guarantee women equal pay and equal access to job opportunities as men, as well as a living wage, secure contracts, social protection (including parental and sick leave and unemployment benefits) and protection from discrimination. A land reform component could be added to industrial policies in order to secure communities' fair access to decent housing and vital resources.

Investment in green energy and environmentally friendly industrialisation components will be key – much more research needs to be done to fully link green and inclusive growth policies.

In countries like Vietnam, where joining global value chains is likely to remain a priority for industrialisation, governments should focus on how best to use performance requirements to get the best out of foreign investment and to promote spillovers for the rest of the economy.

Developing countries must put their national interests first and resist internal and external pressure to sign BITs and FTAs. Where they have already signed up to IIAs, they should cancel them and instead look towards alternative investment models like those championed by Brazil, Ecuador or South Africa.

Developed countries should review their own trade and investment agreements and revise them when they limit developing countries' ability to industrialise or when they could be used to undermine human rights.

The international community should reform the international investment regime to ensure that it does not limit developing countries' ability to industrialise and to protect human rights, including labour rights. Support must be given to developing countries so they can strengthen their domestic legal system (like South Africa has done) so that dispute resolution can meaningfully be exhausted with local remedies before reaching international courts.

International rules that protect workers' rights – including ILO conventions – should have at least as much force as those that protect investors.

ENDNOTES

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