Change lives. **For good.**

What a way to make a living

Using industrial policy to create more and better jobs

Cover photo: Dung works in a footwear factory in Vietnam; she rarely gets a day off. She has high hopes for her 5 year-old daughter and new baby son. Rather than working in the shoe industry and mining sector, like their parents and grandparents before them, Dung hopes that they will have the opportunity to study and to get good jobs in medicine and engineering.

Photo: Ruth Kelly/ActionAid

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Summary

One in every three young people in the world is either unemployed or working yet living in poverty.[i]

Between 2010 and 2013, developing country economies grew almost twice as fast as the wages workers earn.[ii]

Mainstream macroeconomic prescriptions are leading to jobless growth and rising inequality. But some developing countries have taken another path, supporting the kind of profitable manufacturing that has the potential to catalyse the creation of decent and dignified jobs.

Global rules deny developing countries access to the policies that rich countries once used to industrialise; but a growing number of countries is pushing back against these rules. If they match these efforts with regional cooperation to protect workers' rights, they can make sure that economic growth delivers the much more important goal of ensuring that everyone lives a decent and dignified life.

Economic policy used to be focused on how governments could support economic transformation and job creation. But since the 1980s, it has focused on increasing GDP growth through liberalisation, privatisation and deregulation. For years, policy makers have had very little to say about jobs.

Many countries have followed these prescriptions to the letter; in the absence of manufacturing, people have to rely on vulnerable work in services and agriculture.

Vietnam is one of the outliers; active government involvement in the economy means that the country has a diverse and growing manufacturing sector. But new rules prevent the government from using policies that could help firms move into higher-value activities. New trade deals are likely to lead to a major shift in Vietnam's economy, away from producing machines and motorbikes and towards mass production of cheap clothes and shoes.

This shift is likely to expose Vietnamese workers to the same commercial pressures as garment workers face in Bangladesh. Pressure to supply clothes cheap, fast and flexibly means that factory owners cut costs wherever they can. By joining global value chains, Bangladesh has pursued a model of economic development that depends on the exploitation of millions of women, forced to work in terrible conditions for little pay.

According to the IMF, the failure to protect labour rights is responsible for two thirds of the increase in inequality in developing countries between 1980 and 2015.[iii]

Against a backdrop of rising global concern about inequality, it is increasingly urgent that developing country governments promote the kind of economic transformation that can generate decent and dignified jobs – especially for the women who make up the majority of the workforce in the world's factories. Far from undermining growth, higher wages have the potential to reinforce industrial policy by increasing demand for manufactured goods.

Key messages of this report

> **Developing countries' failure to develop thriving manufacturing sectors built on a foundation of workers' rights is leading to jobless growth and rising inequality.**

> **Developing countries can learn from rich countries about how they industrialised in the past – and they can do this in a way that generates decent and dignified jobs.**

> **Global rules stop developing counties from using the policies that rich countries used to industrialise in the past.**

> **Some developing countries have taken action to change the rules that stop them using these policies. Others could do the same.**

[i] 42.6 percent of economically active young people (2014).

[ii] GDP grew by 4.7 percent, wages by 2.6 percent, on average (Asia, Africa, Latin America and the Middle East).

[iii] 2 of the almost 3 percentage points average increase in the Gini coefficient.

Recommendations

The governments of developing countries should:

- Work with domestic firms and civil society to identify the barriers to industrialisation and job creation and to develop strategies to overcome them.
- Learn from the experience of rich countries to identify policies that will allow them to support the emergence of a high-value added, profitable manufacturing sector, paying particular attention to high-value services like design and marketing that are essential for maximising manufacturing earnings.
- Where they join global value chains, use performance requirements to get the best out of foreign investment and to promote spillovers for the rest of the economy.
- 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.
- Cooperate with their regional neighbours to catalyse a race to the top on workers' rights and wages, and to prevent a race to the bottom on tax incentives, helping them to escape the threat of companies taking their business elsewhere and tapping into the potential for this strategy to generate regional demand.
- Adopt unilateral measures to protect their policy space, such as revoking bilateral investment agreements, so that these can be renegotiated or replaced by more effective investment strategies.

The governments of 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.
- Review their own tax rules and revise them where they are harming poorer countries.

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.
- Ensure that international rules protecting workers' rights have at least as much force as those that protect investors.
- Work towards a global agreement to curb corporate tax competition, and consider a shift to unitary taxation to ensure that tax is paid where companies have their operations.
- Work in the longer term towards changing global rules that limit policy space for industrialisation and that reinforce the power of global oligopolies.

Foreword: Jayati Ghosh

This report comes at a crucial time, when policy makers around the world are coming to realise once again the need for industrial policies that focus on generation of good quality employment. This shift is badly needed, because that policy focus had been lost for almost a generation, to the serious detriment of the development project in many countries.

Sometime around the 1980s, economists stopped talking about development economics, the process of structural transformation that generates value and helps to lift the workforce out of low-paying activities. Instead, the focus was on "poverty alleviation", which in turn was based on a very limited view of what poverty is or how it is generated. In such discussions, typically no link is even hinted at between the enrichment of some and the impoverishment of others, as if the rich and the poor somehow inhabit different social worlds with no economic interdependence at all, and the rich do not rely upon the labour of the poor.

But we know that the processes of wealth creation and impoverishment can be closely related. To take only one example, a significant part of the economic boom experienced in India was related to the ability of the rich and powerful to take advantage of gender, caste and ethnic discrimination to pay workers very low wages and exploit resources by displacing people with no political voice from their lands and sources of livelihood.

These silences enable a rather two-dimensional view of the poor, who are given the dignity of being treated as subjects with independent decision-making power but apparently inhabit a world in which their poverty is unrelated to a wider social, political and economic context and is more a result of their own particular circumstance and their own often flawed judgments.

This shuttered vision that looks at poverty in isolation from broader economic processes is particularly evident in the neglect of the international dimension in such analyses. There are many ways in which global economic processes and rules impinge on the ability of states in less developed countries to even attempt economic diversification and fulfilment of the social and economic rights of their citizens.

Unfortunately, this is still not adequately recognised in the global discourse. The recently adopted Sustainable Development Goals recognise the importance of economic diversification and job creation, but are completely silent on the ways that the international architecture prevents countries from achieving these goals.

So this is the moment to think about alternatives. Governments need to generate more bargaining power vis-a-vis investors and to insist on retaining value within their economies. They need to act in solidarity with others, developing regional arrangements to enforce minimum wages and workers' rights, so that investors cannot say that they will simply move to the next country if these provisions are enforced.

In this report ActionAid have provided a rich, comprehensive and remarkably accessible overview of debates about economic transformation. Perhaps more importantly, they have started to fill a gap in thinking and practice about how to do this in a way that respects human rights and creates decent and dignified jobs. I hope that this report starts and stimulates a lively discussion about the models of development we really want to see in the future.

Jayati Ghosh is Professor of Economics at Jawaharlal Nehru University, New Delhi.

1. Responding to jobless growth

The world is obsessed with growth. Growth statistics can make or break political careers. Media outlets obsess over miniscule changes in Gross Domestic Product (GDP) growth rates. For many developing countries, the target of 7 percent GDP growth has attained almost magical status.

But GDP growth figures don't tell us very much about the world we live in. They don't tell us how many jobs are being created, or whether the benefits of growth are being shared equally. They don't tell us much about whether people are able to lead dignified and fulfilling lives.

Other statistics paint a more worrying picture. More and more of the world's wealth is held by fewer and fewer people.[1] Wages make up a smaller and smaller proportion of GDP.[2] In 2014, the World Economic Forum pointed to jobless growth and deepening inequality as the top two most concerning global trends.[3]

Between 2010 and 2013, developing country economies grew almost twice as fast as the wages workers earn. In Asia, Africa, Latin America and the Middle East, economies grew by an average of 4.7 percent, but wages only grew by an average of 2.6 percent.[4]

1.1 Jobless growth and vulnerable employment

Decent, well-paid jobs ensure that women and men spend their working hours in decent conditions, and that they can rely on a steady income that is high enough to allow themselves and their families to thrive.

But growth has failed to deliver a decent job for everyone who needs one. Jobless growth is often blamed on automation;[5] in countries that have already industrialised this does seem to be the cause. But in developing countries, the evidence seems to show that jobless growth is associated with the lack of economic transformation. Economies are not moving into higher-value and more productive activities and, as a result, not generating well-paid jobs. In fact, economies have been moving the other way, with the share of manufacturing in GDP declining over the past 40 years.[6]

The missing middle class

Some analysts suggest that the growing middle-class in developing countries – defined as those who earn between $10 and $100 a day[iv] – will catalyse job creation by driving demand for regional production of goods and services.[7] But the number of highly paid employees in developing countries is still far too small to boost demand enough to drive the creation of well-paid jobs in high-productivity manufacturing and highly valued services.[8]

ActionAid calculations show that 84 percent of people in low and middle income countries live on less than $10 a day. Just 12 percent earn enough to be considered middle class. In sub-Saharan Africa, the middle-class makes up only 6 percent of the population.[9]

Retailers have long hoped that the emerging middle-class in sub-Saharan Africa would offer a new market for their goods. But the persistence of low wages has caused retailers to revise their expectations. A few years ago, Shoprite, South Africa's largest retailer, had planned to open 600 to 800 stores in Nigeria. It currently has 12. In Kenya, Cadbury and Coca-Cola have closed factories.

> **"We thought this would be the next Asia ...But we have realised the middle class... is extremely small and it is not really growing."**
> Nestlé's chief executive for equatorial Africa[10]

In many countries, particularly in sub-Saharan Africa and South America, GDP growth is mainly associated with exporting raw materials, creating a very small number of jobs, rather than selling high-value products made out of those raw materials.[11] For others, notably in Asia, trade liberalisation has created jobs for women producing goods for export

[iv] In this report, $ will be used to denote US dollars.

markets, but these sectors only provide jobs for a small proportion of the population, and the jobs created are usually badly paid and insecure.[12]

It's not just experts and analysts who have pinpointed the importance of decent jobs. The need for better job opportunities was one of the top three issues identified by the 9 million respondents to a recent UN survey, attracting more than 5 million votes.[13] Unemployment is consistently one of the top priority issues raised by young activists in the 25 countries the ActionAid Activista network covers.[14]

This isn't surprising. 42.6 percent of the global youth labour force is either unemployed or working yet living in poverty.[15] Almost half of working women and men are in 'vulnerable employment', trying to scrape a living out of a range of activities, usually in the informal economy, or working, unpaid, for their families. Sub-Saharan Africa has the highest labour force participation rate of all regions, estimated at 70.9 percent, but nearly eight out of 10 of those who are employed are in vulnerable employment.[16]

> **"Many of the world's poor are forced into growing or making things to sell on a street corner, working for themselves out of desperation."**
>
> Gallup[17]

Gender inequality in work costs women in poor countries $9 trillion each year. This huge inequality exists because women get paid less than men – known as the 'gender pay gap' – and do not enjoy the same rates of employment – the 'gender employment gap'.[18] This calculation is a conservative estimate, as it doesn't include the potential value of women's unpaid care work if it were translated into monetary terms: women workers shoulder considerable responsibility for unpaid care in the home on top of their long hours in paid work.[19] The costs of economic inequality to women are not only monetary, but also affect their life choices, leaving them vulnerable to violence and other forms of discrimination and exploitation. The vast majority of working women in developing countries rely on precarious, underpaid and often unsafe work in the informal sector; gender inequality in society is reproduced in the workplace.[20]

> **"[U]nless policies are designed with awareness of connections between the nature of labor force participation and the unequal burden of unpaid work shouldered by women, and between macroeconomic policies and working conditions, women workers' choices can involve difficult trade-offs and their human rights can easily be compromised and violated."**
>
> Lourdes Beneria, Günseli Berik and Maria Floro[21]

Young activists campaigning for better job opportunities

ActionAid has been working with young people in Bangladesh and Uganda to help them design their own solutions to unemployment.[22] Scovia Aritaitwe, a young mother, belongs to the Ugandan Jobless Brotherhood, a youth movement fighting corruption and government policies that culminate in youth unemployment.

"Just go on the street and ask people if they are meaningfully employed. In every 10 people, eight are unemployed. Alarming is not the right word. I just don't have the right word to describe the situation.

"I graduated five years ago but I'm still unemployed. I am constantly told to 'go and rear animals – go and dig', but where? I wanted to apply [to the youth venture capital fund] but I had to have three referees and a bank account. You must have a registered company but to get a company you need to pay somebody.

"How else do you want us to be more enterprising?"

Scovia, from Kampala, Uganda.
Photo: Emmanuel Museruka

Scovia argues that the Ugandan government needs to prosecute corrupt officials,

"cut down the number of legislators, advisors, and cabinet ministers and invest the money in the production sectors, and get more youths in employment".

1.2 Jobs and industrialisation

Economic policy used to be focused on how governments could support economic transformation and job creation. But since the 1980s, it has been focused on how governments can promote GDP growth through liberalisation, privatisation and deregulation.[23] A series of micro-level fads – from registration of property to micro-credit to cash transfers – have replaced efforts to tackle the structural causes of poverty and to catalyse job creation.[24] For many years, policy makers have had very little to say about jobs.[25]

At the same time, the working age population is growing. When more people are looking for work than there are jobs available, people are increasingly forced to resort to informal employment, short-term work, and day labour markets. Bargaining power shifts in favour of employers and the owners of firms, making it harder for workers to negotiate for better conditions.

This has happened at a time when women are increasingly likely to look for work outside the home. Improvements in access to education and control over fertility have given women more choices. The opportunity to get decent, well-paid work outside the home plays a critical role in increasing women's financial autonomy and agency. But the lack of decent jobs on offer means that gender pay and employment gaps persist as women entering the workforce are pushed into informal or precarious work while continuing to be disproportionately responsible for unpaid care and domestic work.[26]

> **"Rather than incorporating more women into increasingly precarious and unrewarding forms of employment, labour markets must be transformed in ways that work for both women and men and benefit society at large."**
> UN Women[27]

A decade of high commodity prices and soaring GDP rates has meant that deindustrialisation and jobless growth have been easy to ignore. As commodity prices go into free-fall, the impact of wage stagnation and deindustrialisation on poverty is becoming all the more obvious. The financial crisis has not only given rise to job losses – destroying an estimated 13 million jobs for women[28] – but has also shaken confidence in the market.

This has prompted a revived interest in the role of government in driving industrialisation. In the past 20 years, increasingly robust evidence has emerged about the strategies used by countries in East Asia that managed to industrialise successfully in the 1970s and 1980s, when governments implemented strategies to promote new, productive sectors.

But this has not yet been matched by serious discussion and debate about how to ensure that industrialisation achieves its potential to generate decent and dignified jobs. There are relatively few theorists who bring together research on economic transformation with research on job creation and distributional outcomes: industrial economists tend to be blind to the way that gender, social relations and vital unpaid care work interact with the development of manufacturing.

The theory is clear – highly productive companies generate higher profits, allowing them to employ more people at higher wages. Evidence shows that industrial and investment policies[29] and long-term public and private investment[30] help to generate jobs. Research suggests manufacturing generates better-paid jobs than agriculture and services and, if the manufacturing sector has strong links to firms in the rest of the economy, it drives the creation of many more jobs, as well as catalysing innovation and improvement in skills throughout the economy.[31]

But manufacturing hasn't always fulfilled its potential to generate decent and dignified jobs. 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).[32]

In many cases, industrial policies have undermined workers' rights, often intentionally. For example, industrial parks in export processing zones often operate outside normal rules on freedom of association and minimum wage – whether because the law explicitly excludes these areas or because employers within these zones can get away with ignoring labour rights.[33]

Over many decades, unions and workers' movements have seen hard-won improvements in working conditions and pay. Eventually, governments in some industrialised countries began to take their obligation to mandate and enforce workers' rights seriously.[34] But too often abuse of workers' rights and discrimination persists even as economies move into higher-value activities and services.

Gender discrimination in East-Asian economies

In South Korea and Taiwan, government support for key sectors resulted in rapid industrialisation and in job creation. In South Korea, real-wage increases were probably higher than in any other industrial revolution. But Korean women earned only half of what men earned.[35] In export processing zones in South Korea and Taiwan, wages of women workers were set at 10 to 30 percent below that of men for comparable work. Through gender-specific job advertisements and exclusion from access to training, women were prevented from entering higher-paid skilled jobs.[36]

At the same time, the failure to invest in social welfare led women to assume responsibility for a broad range of care services, reinforcing the unequal gendered division of labour.[37] Gender wage differentials persisted even as South Korea and Taiwan moved into higher-value activities, as the emerging service sector offered new employment options for women and as women developed new skills.[38]

Many policy makers argue that any job is better than no job. But this represents a shockingly low level of ambition. It could also mean that developing country governments miss out on the potential for rising wages to generate further demand. There is plenty of space for policies to ensure that jobs are decent and dignified alongside the implementation of industrial policies.

> "[T]here is no reason that safe working conditions, freedom of association, and collective bargaining cannot be introduced at earlier stages of development than has occurred historically. Just as political democracy need not wait for incomes to rise, strong labor standards need not lag behind economic development. Workers in low-income countries should not be deprived of fundamental rights for the sake of industrial development and export performance."
>
> Dani Rodrik[39]

1.3 A long-term vision for society

In 2014 and 2015, ActionAid affiliates in Bangladesh, Uganda and Vietnam convened a series of dialogues with firms and governments[40] and with young people[41] to explore what a more equitable approach to industrial policy and job creation might look like. This report is both a reflection on and a contribution to those discussions.

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?

ActionAid believes that it is eminently possible to promote industrialisation and to make sure that jobs are decent and dignified at the same time. In fact, we believe that this can generate a virtuous cycle that will contribute to further economic transformation and to fundamental improvements in the lives of millions of people around the world.

We need to learn from history about industrialisation strategies that have worked in the past. But we can't continue to support the kind of dirty industrialisation we have relied on up to now. 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.[42] We need to move away from the production of cheap, disposal 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 renewable energy. This investment has the potential to stimulate the growth of newly profitable sectors.

Successful and profitable companies play a central role in creating decent, well-paid jobs. These firms also generate tax revenue that allows governments to invest in providing public services and in protecting and preserving the environment. 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 as well as increasing productivity. Protecting the environment also increases wellbeing and helps to preserve the ecosystem services that companies rely on.

Tax revenue funds infrastructure, housing and public services, reducing living costs and allowing women and men to live better lives with the wages that they earn. Higher wages for those at the bottom of the economic pile allows those who don't consume nearly enough to consume more, with the knock-on effect of increasing domestic demand for goods and enabling people to pay more for services they value. This has the potential to generate even more decent jobs.

> "Majorities everywhere have to engage in activism to bring about political and long-term economic reforms, to tackle inequality in its various forms and launch economies on sustainable paths… high levels of income inequality and insecurity are the product of political choices, not the inexorable workings of economic forces over which we have no control."
>
> Lourdes Beneria, Günseli Berik and Maria Floro[43]

2. Workers and profits in global value chains: lessons from Bangladesh

Many economists and policy makers argue that liberalisation offers developing countries a short cut to industrialisation. Rather than developing new industries, they are encouraged to exploit their static comparative advantage – that is, 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.[44]

Some foreign investors have made genuine efforts to share skills and technology, training up local managers and investing in suppliers. Trained staff moving from foreign owned subsidiaries can bring new knowledge, skills and approaches to domestic companies.[45] 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 where wages were lower.[46] The firms in the Sinos Valley that have successfully moved into design and marketing have been involved in production for domestic and regional markets, not for global value chains.[47]

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.[48] 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 characterises 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.

2.1 Workers' rights in global value chains

Trade liberalisation has created jobs producing goods for export markets, but these jobs are often concentrated in the lowest paid and most insecure segments of global value chains. Pressure from global buyers combined with weakening bargaining power of workers has pushed wages down and undermined labour rights, especially in garments and horticulture sectors.[49]

Women dominate the workforce in labour-intensive sectors like horticulture, garments and footwear, and assembly work. Cultural stereotypes are reinforced at work: women are preferred because they are perceived as docile and easy to supress in case of labour disputes.[50] Deep-rooted gender discrimination means that employers can get away with paying them less than men would receive for the same work, and much less than their labour is worth.

Low wages are justified by defining manual dexterity and the ability to do very detailed work as skills that comes 'naturally' to women rather than skills requiring learning and training. Some analysts have called this "the comparative advantage of women's disadvantage".[51] The monotony of assembly-line production de-skills the women who do this work, leaving them with few transferable skills and reinforcing women's economic inequality.[52]

As living costs rise and factory workers start going on strike to demand higher wages in China and elsewhere in Asia, many analysts have suggested that Africa should welcome factories seeking to relocate to where they can get away with paying workers much less.[53] But industrialisation must not and need not be based on the exploitation of women and men living in desperate poverty.

For emerging markets and developing countries, the IMF find that labour market flexibility is the most important factor in rising inequality, responsible for two of the almost three percentage points average increase in the Gini coefficient3 between 1980 and 2015. As labour market regulations have been weakened, the top 10 percent have become richer.[54]

This has impacts beyond income inequality. Despite falling prices, transforming raw materials into useable products and providing valuable services has a cost. People living in poverty are forced to subsidise this production, by working long-hours at jobs that don't pay them enough to live on, damaging their health and undermining their dignity in the bargain. Women are forced to subsidise this production when they are paid much less than men would be paid for doing the same work, reinforcing gender inequality outside the workplace.

If firms carried out high-profit as well as low-profit activities, the profits in one area – like design and marketing – could subsidise higher wages for workers involved in production. And if there was a range of firms – some involved in more profitable activities, some in less – in each country, the tax revenue from the more profitable activities could subsidise labour inspectorates and social protection schemes. But when an entire economy is characterised by low-value activities with slim profit margins, and when that economy is competing against other countries offering the same goods at lower prices, the prospects for improving workers' rights are poor.

Shilpy, a woman's leader trained in one of ActionAid's Rights Cafes.
Photo: Nicola Bailey/ActionAid

Supporting garment workers in Bangladesh

The growth of the garment sector has brought some benefits to Bangladeshi women, giving them new opportunities, freedom and autonomy. But these benefits do not compensate for the endemic exploitation in the sector.

In September 2015, garment workers in Dhaka told ActionAid that jobs are scarce and employers hire at their own discretion, often recruiting on the basis of age and physical appearance. Far from offering job security and the opportunity for promotion, the garment factories provide young women with work for only 10 to 15 years of their lives.

While the garment workers we spoke to confirmed that they were getting paid the minimum wage, they also told us that their employers were funding the increase by cutting the number of helpers on the factory floor. This means that workers now have more to do in the same amount of time, and they often end up working longer hours.

Shilpy left school at the age of eight and joined her parents in one of Bangladesh's many garment factories when she was just 12. Before the advent of workers' rights education, she says, conditions were much worse in her factory.

"Garment workers were never respected in our society. If the factory owners know that their employees are not aware of their rights then they will try to exploit them. We used to work 14 or 15 hour days, we didn't get any leave, and often the wages we did earn were paid a month late."

Shilpy then got involved in an ActionAid rights café. Set up next to factories, these groups are led by factory workers, informing women about their rights and organising them to take part in peaceful protests and lobby the government about their working conditions.

"It's not just in the café where we disseminate information but also on the factory floor. Now they don't delay paying our salary; and they pay us our overtime accurately. They know that now we know how to calculate what they owe us."

ActionAid also supports activists working full-time on labour rights in Bangladesh. Shameema has been supporting garment workers to negotiate for better conditions for over 22 years. Before becoming a labour leader, she worked in a garment factory. Management were unresponsive to complaints about conditions and delays in or underpayment of wages, leading Shameema and other workers to mobilise alongside workers in other factories and students to campaign for improvements.

Management agreed to some of their demands but, as a result of the protest, Shameema was fired. This is a common experience for many women. Those who raise their voices risk getting laid off, named and publicly shamed. Their pictures are posted outside factories and circulated on social media, preventing them from getting a job elsewhere. Female workers are blackmailed by managers to keep sexual harassment claims quiet; they are told if they report incidents, factories will be shut and women will lose their jobs.

Shameema continues to work with garment workers and says that, though some improvements have been made thanks to international pressure, there are still many battles to be fought. Pressure from multinationals and global buyers to deliver clothes cheap, fast and flexibly makes it difficult for suppliers in Bangladesh to improve conditions and increase wages. If they increase their prices, buyers are likely to change their sourcing arrangements, buying from cheaper suppliers elsewhere.

2.2 Hearing from business in Bangladesh[55]

It may appear that a garment exporter like Bangladesh is on the first rung of industrialisation, set to move into yet higher-value activities. But the value generated by manufacturing has consistently hovered around 17% of GDP, despite ambitions to increase this proportion.

Garments make up more than 80% of the value of Bangladesh's exports. Given the attention that the garment sector receives from donors and international media, you could be forgiven for assuming that it employs a large proportion of the population. But the industry employs only 4 million workers out of a total population of more than 159 million.[56]

Fewer than two in 10 young Bangladeshi women are employed. In Bangladesh, the working-age population has grown at a rate of more than 2 million people per year over the past two decades and is expected to grow at a rate of 2.2 million per year in the next ten years. Formal job creation has averaged only 200,000 per year in the past decade.

The garments sector benefits from a range of tax incentives unavailable to other industries and enjoys substantial export facilitation support.[57] Some firms have managed to upgrade into high-value activities like design. But the success of the garment sector has failed to have ripple effects across the whole economy. Other industries struggle to grow in the absence of government support.

When ActionAid Bangladesh was invited to participate in processes to formulate the country's new Five-Year Plan and Industrial Policy, we found ourselves coordinating inputs from some medium-sized businesses as well as inputs from our civil society partners.

Two industries began to emerge as candidates to help the country diversify into higher-value activities, while also generating economic growth elsewhere in the economy by sourcing from and supplying inputs to other firms: engineering and electronics.

Without any support from the government, the engineering sector has managed to meet the demands of most if not all domestic industries: with support it would be capable of becoming more competitive and increasing export volumes quite quickly. The electronics industry, while predominately assembly-based and struggling in the face of competition, especially from China, has succeeded in supplying the domestic market with affordable goods and in providing skilled and unskilled jobs for Bangladeshi workers.

In September 2015 we carried out key informant interviews with business leaders in these emerging sectors to understand their concerns and the challenges they face.

> **"Every year Bangladesh produces around 1 to 1.5 million fresh graduates, who are unemployed... I want to know whether this new industrial policy will play an important role in creating a skilled workforce."**
>
> Business representative in ActionAid workshop

The owner of a plastics company told us that the government is subsidising a scheme to train young apprentices. But it takes time for workers to acquire skills in light engineering and apprentices start at a relatively low wage. He told us that most young people, and their parents, want a better salary immediately, so they go for jobs in the garment or service sectors instead of training for skilled jobs in industry that would pay better in the long run.

According to the director of a think tank we spoke to, while the government offers a subsidy to source motorcycle parts in Bangladesh, over 93 percent are imported from China. Bangladeshi businesses produce only seven motorcycle parts out of a potential three thousand. There is also a perception that "foreign is best". Sometimes the quality of imported parts is higher, but not always. The director of a television assembly business told us that the parts that they import from China are of lower quality than those supplied to other markets. For example, many of the picture tubes they import are actually second-hand, although sold as new.

If it can't just depend on global value chains, how can the Bangladeshi government support these sectors and ensure, at the same time, that they provide decent and dignified jobs?

Supporting the vision and ambition of young entrepreneurs

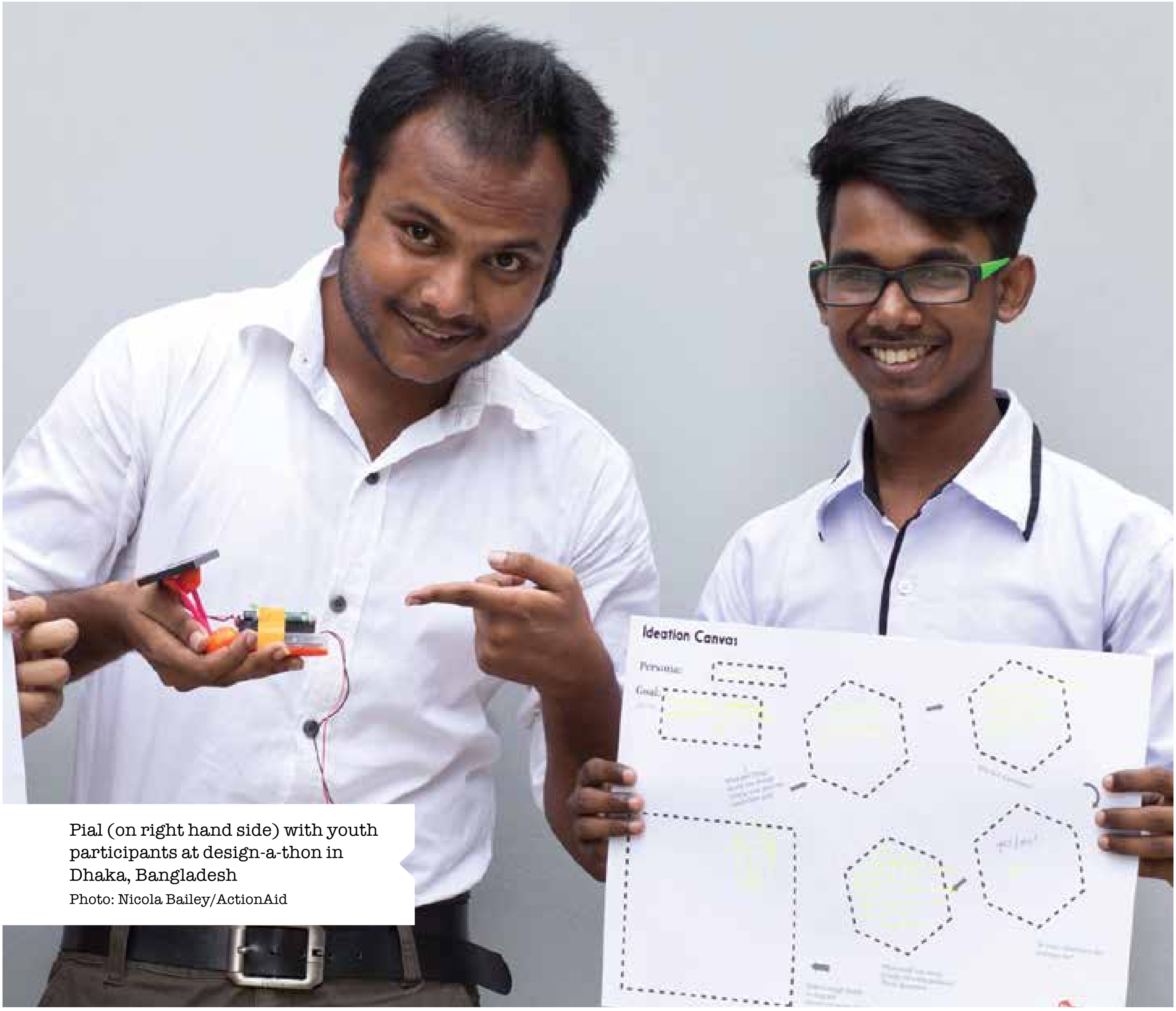
Pial (17), a student from Sutrapur-Ghuntighor Urban Slum in Dhaka, was one of the participants in an ActionAid workshop supporting young people to design their own solutions to unemployment.[58]

"I dream to do something that can benefit me and the society as well.

"As mobile phones are an essential part of people's lives, I want to get involved in this flourishing industry.

"Unfortunately many electronic and micro electric parts are unavailable in the local market. I want to produce those parts here in Bangladesh.

"This way we don't have to import the mobile phone parts or software from outside of the country. We could be the sole supplier of mobile phone software and parts in Bangladesh."



Pial (on right hand side) with youth participants at design-a-thon in Dhaka, Bangladesh
Photo: Nicola Bailey/ActionAid

3. Industrialisation in the past: factors for success

Industrialisation in the past: factors for 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 [59]

Implementing successful industrial policies is a learning process. Governments worked with a range of experts – engineers, managers, business owners, investors – to identify and respond to blockages and obstacles to the emergence of new sectors.[60] 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 are put in place to prevent imports of products governments were encouraging firms to produce at home.[61] 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.[62]

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 as late as the 1820s. 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.[63] The US government continues to invest heavily in specific firms and products as well as upstream research and development.[64]

So what distinguished successful industrialisers from those who were less successful?

3.1 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[65]

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.[66]

Fearless female economists

In industrial policy as elsewhere in economics, the work of men tends to get more attention than that of women.[67] We think that Alice Amsden's work, which provided the basis for much of the work done on industrial policy in the following years, leading to an emerging recognition of its importance in East Asia, deserves more attention.

"Goliath wouldn't have intimidated [Amsden], and because of that she intimidated many - especially male economists in her profession that never questioned their theories, never read economic history or the history of thought, and never conducted fieldwork to visit plants and peasants in the countries they supposedly knew something about."
Kevin Gallagher [68]

Tackling inequality was a key factor in whether or not 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. Both of these forms of inequality make it very difficult for government to impose performance requirements on investors.[69]

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.[70] Nonetheless, lessons can still be drawn from what they managed to achieve.

At the Hasnam Machinery Company, manufacturer of nozzles and valves, Mr. Kim H.C., Engineering Consultant from the Extension Services Department of the Medium Industry Bank, discusses the company's products with the chief engineer. [1969]
Photo: UN Media

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 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.[71]

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.[72]

3.2 Build on existing technology

Of course, 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. But in most cases, firms use and adapt existing technology; building on what was 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.

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, investors "crowded out" the domestic firms that may have made such investments, putting these less competitive companies out of business.[73] 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." [74]

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.[75]

3.3 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.[76] 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 could 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. 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. In the past decade, sub-Saharan Africa has seen 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. 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.[77]

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 percent of the population engaged in manufacturing works in the informal sector.[78]

"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[79]

3.4 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.[80]

Developing an agricultural processing sector is often the first rung on the industrialisation ladder, increasing value-added significantly as compared to exporting raw commodities.[81] 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. By keeping food prices in check, it limits inflation, allowing wages in factories to be relatively low. 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.[82] 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.[83] Agricultural growth is associated with two to five times greater poverty reduction compared to growth in manufacturing or services.[84] Broad-based rural industrialisation in Taiwan and China is strongly associated with redistributive land reform.[85]

Unfortunately, neglect of agriculture has characterised economic development in many parts of South Asia[86] and South America as well as sub-Saharan Africa.[87]

Supporting agricultural processing in Uganda

In Uganda, ActionAid is supporting women farmers to move into small-scale agricultural processing activities. Irene Cheptoek is part of an intrepid group of 120 women, Kapteret Multipurpose Cooperative Society, who are growing and processing carrots for sale.

"After they are harvested, we wash and grade them to remove the damaged and sick ones. They are then peeled and chopped into thin long pieces before being taken to the solar dryer."

The chopped carrots are laid on a metallic display tray and placed into the dryer, a device that uses solar energy to dry food. An external air collector absorbs air, heats it and conveys it through a pipe to the dryer.

It takes a maximum of three days for the carrots to be completely dried. When dry, they are weighed in order for a selling price to be attached to them and are later ground with a blender and packed.

"The processed and packed ones earn us more income because five grams of carrot powder costs Shs 3,500, 10gms - Shs 5,000 and 200gms - Shs 15,000. On the other hand, one kilo of unprocessed carrots costs Shs 8,000."

Photo: ActionAid

The biggest challenges so far have been the limited capacity of the dryer and the frequent occurrence of pests and diseases.

4. New realities for industrialisation

While there is growing recognition of the role of industrial policies in the success stories of the 1980s, there is also a growing concern that the global economy has changed so fundamentally in the past few decades that these lessons may no longer be relevant.

Unable to break into high-value segments of the value chain, or to generate substantial levels of employment in the small niches of the chain they occupy, countries with small manufacturing sectors are moving into services much more quickly than happened in the past. Developing countries without an established manufacturing sector are finding it hard to compete with established suppliers, who have the infrastructure and economies of scale that allow them to supply at much lower prices than new entrants can manage.

In light of the challenges associated with upgrading within global value chains, some argue that the industrialisation path pursued by now-industrialised countries is no longer available to developing countries.

4.1 Will services replace manufacturing?

In countries with small or non-existent manufacturing sectors, the services sector often provides work for a large proportion of the population and contributes a significant proportion to GDP. [88] Some analysts suggest that modern services like transport, finance, and telecommunications can foster economic transformation just as manufacturing did in the past.[89]

Unfortunately only a handful of services are productive and tradable, like manufacturing. The vast majority of services can't be traded on international markets. They are the bread and butter of our societies, but the wages that retail and care services attract depend on how much other people in the society earn and how able they are to pay well for services they value highly. The only ways to increase productivity in these non-tradable services is to push down wages or to cut corners.[90]

Well-paid jobs in the service sector are few and far between. In India, high-value services in finance, insurance, real estate, IT and telecommunications account for nearly 20 percent of GDP. But those sectors only employ 2 percent of the workforce.[91] In the US, total employment in six of the most innovative firms – Apple, Microsoft, Facebook, Cisco, Google and Amazon – was 291,391 in 2012. This is about an eight of Walmart's 2.2 million employees in 2011.[92]

Even in the world's richest economies, the jobs market is hollowing out in the middle, dividing between low-paid jobs in care, retail and hospitality for the majority and highly-paid jobs in finance, law and IT for the lucky few.[93] This trend goes to the extreme in developing countries where the absence of alternatives drives the vast majority into precarious and underpaid jobs in the informal sector, while elites and a small middle class secure well-paid jobs in global service industries.[94]

In a recent study of 21 low and middle-income countries, the Hay Group found that wage disparities between skilled workers and senior managers increased by 12 percent between 2008 and 2014. It's notable that they didn't study the gap between the highest paid and lowest paid workers, but used a more conservative estimate of the gap between two increasingly polarised groups of employees.[95]

IMF analysis shows that if the share of global income going to the bottom 20 percent increases, GDP increases over the medium term. GDP growth is also associated with an increasing share of income going to the middle classes. In contrast, an increase in the share of income going to the top 20 percent is associated with falling GDP.[96]

The services sector is unlikely to replace manufacturing as a driver of growth. In fact, a key factor in determining whether the service sector can create and sustain high levels of employment is the linkages between services and manufacturing.[97] A key factor in determining whether countries can capture the profit associated with manufacturing is whether they have managed to diversify into the service segments of the production chain, like design and marketing.

4.2 Opportunities and challenges with global value chains

Global value chains have existed for a long time, and countries like Taiwan and South Korea participated in these production networks as part of their industrialisation strategy. But these networks have become dramatically more fragmented than they were in the past.

Production of a final product or service has been divided and subdivided into a long sequence of separate tasks. Revolutions in transport and communications mean that each of these tasks can be carried out in a different location, often in a completely different part of the world. Global trade in intermediaries, or inputs and unfinished products, has exploded.

The fragmentation of global value chains presents an opportunity insofar as countries with limited or no manufacturing experience may find it easier to develop a manufacturing sector. Rather than having to put in place the network of different industries necessary to develop a final product, they can specialise in one segment of the value chain, importing inputs and exporting components of products that will be finalised elsewhere. Foreign investors have the capital, technology and know-how to establish higher-value added activities more quickly than domestic firms could. Parent firms or global buyers can push domestic firms to improve their supply-side capacity through the quality standards they demand, just as some governments have done in the past, for example in Taiwan.[98]

But these changes also limit the potential for industrialisation. As we have seen above, many developing countries that are integrated into global supply chains are stuck in low-value added segments of production and struggle to move into more profitable activities. They may struggle to meet quality standards associated with higher-value products, whether these are set by parent firms in a multinational group, by independent buyers, or by importing governments.

Even if they can break into higher-value added production, their position within the global supply chain means that firms don't have enough control over where different tasks are carried out to source goods and services from other domestic firms. The success of a firm that is linked into a global value chain may not spill over into the rest of the economy by generating work for employees of other businesses. This can make such firms highly vulnerable to financial or economic crisis, or falling demand in key export markets.

As production has fragmented, low-value activities have become less and less profitable. In the early 1980s, producing countries received about half of the total income from the sale of coffee. Today, 90 percent of the income goes to the country where a multinational's headquarters is located or buyers are based.[99] The price of low-technology products that developing countries tend to specialise in – like garments, footwear, furniture and toys – has dropped by approximately 40 percent, relative to US consumer prices, between 1986 and 2006.[100] Part of this price drop reflects lower costs of trade and transport, but part of it reflects the competition among suppliers to provide goods at lower and lower prices. In low-technology manufacturing, the easiest way to reduce costs is to reduce wages.

As low-value activities become less profitable, more and more profit is associated with intangible activities and manufacturing-related services like design and marketing. These activities tend to be located in countries where parent firms and buyers are based or in low-tax jurisdictions.

ActionAid calculations show that a single fashion designer in the US, paid USD $6,133 a month on average, earns more than the combined monthly wages of 27 garment workers in Asia.[101]

These changes aren't just due to increased competition among all firms. Rather, they are a result of the degree to which multinationals or buyers in global value chains control the market – and the degree to which society is willing to subsidise their profit margins.

There are relatively few global players; in many industries, global oligopolies consolidate their market power through product differentiation and brand, making it more difficult for new players to enter the market. In contrast, the market is saturated with many suppliers doing more or less the same thing. Buyers are able to play suppliers against each other to source products at lower and lower prices. This allows multinationals to maintain and increase their profit margins even as prices fall – US firms have increased profits as a proportion of value created in the US from approximately 24 percent in 1986 to approximately 32 percent in 2006.[102]

Towards responsible corporate tax behaviour

There is a growing recognition by companies and across a wider community of stakeholders that corporate tax behaviour (like corporate investments, operational decisions and sourcing decisions) can have impacts – for good or bad – on the realisation of fundamental human rights.

Disconnection between the place where business operations really happen and the place where income/gains are booked on paper matters: governments and citizens in the places where a company carries out its operations have a legitimate expectation that tax will be paid by the company in return for the tax-funded public goods – from functioning roads to an educated workforce – that help to create and sustain those operations.

Corporate behaviour that jeopardises revenue collection may deprive governments of the funds they need to realise the fundamental rights of their citizens. Human rights impacts can also be economic and social: tax-motivated corporate decision-making can affect the creation of good quality jobs, the transfer of technology and skills to developing economies, and investment and prices – all of which affect the human rights of employees, customers and citizens in the countries where companies operate.

In 2015, ActionAid, Christian Aid and Oxfam published a discussion paper to advance the debate about "what good looks like" when it comes to corporate tax behaviour. We proposed that a tax-responsible company or group should be able to show it is taking steps progressively to align its economic activities and tax liabilities. When reconsidering or unwinding (at least partly) tax-driven structures or transaction, they should progressively improve the international equity of its tax payments, that is, ultimately to aim to pay a larger proportion of the group's overall global tax bill in poorer countries, where that is consistent with transfer pricing rules and the reality of the group's operations.[103]

"The asymmetry of market structures found in many value chains – powerful lead firms able to maintain and increase markups and competitive supplier firms subject to pressure from buyers on supply price, delivery time, quality and payment schedule at the bottom... is at the core of the oligopoly firms' cost-cutting strategy that has helped them maintain their cost markups."

William Milberg and Deborah Winkler[104]

4.3 Global rules limit the range of industrial policy tools available

Changes in global economic regulations have made it much easier for powerful multinationals to move goods, services and profits around the world. Investment treaties and clauses in investment contracts protect investors from changes in domestic regulations that might have an impact on their profits. The global network of tax treaties facilitates transfer of profits into low-tax jurisdictions.[105]

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 unavailable to developing country governments. In some cases they are prohibited under trade and investment rules, in other cases use of these policies puts aid receipts at 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.[106] 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. The 'good governance' agenda, while it sounds like a good thing, continues to push developing country governments to become more 'efficient' rather than promoting institutions and policies that promote learning, which are crucial for structural transformation.[107]

World Trade Organisation (WTO) negotiations have stalled for many years, but trade liberalisation and negotiations on non-trade matters continues apace through bilateral, mega-regional and plurilateral agreements, with the intention that these approaches will be 'multilateralised', or incorporated into WTO rules in the near future.[108] Since the 1980s, global rules have become more and more restrictive, outlawing many of the strategies followed by countries that have already industrialised successfully.

Crucially, the export performance requirements that were a core part of the reciprocal control mechanism in South Asia are no longer easy to apply. Subsidies contingent on domestic sourcing or export performance are prohibited under WTO rules.[109]

> **"Industrial policy per se—that is, the support for domestic industries at least in part because they are domestic—is not recognized as a public policy worthy of reprieve from the strictures of WTO rules... Many of the fundamental WTO rules have historically been drafted to prevent WTO Members from protecting their domestic industry at the expense of, and to the exclusion of, foreign producers or traders."**
> Jan Bohanes[110]

WTO rules and bilateral trade and investment agreements prevent governments from getting the best out of foreign investment: requirements for investors to share technology and know-how and to source from local suppliers are increasingly difficult to apply. New generation trade and investment agreements cover an even wider range of issues, including competition policy, government procurement and other policy tools to promote industrialisation.[111]

In the past, governments could take the risk of bending the rules; if another government challenged them and they lost a dispute at the WTO, they would be asked to stop or, if they weren't prepared to do so, to pay compensation.[112] Trade disputes might take several years – in the meantime the policy could continue to be applied. Under investor-state dispute provisions in new trade and investment agreements, foreign investors are able to sue governments directly in international arbitration for implementing policies that discriminate in favour of domestic firms or that threaten investors' future profits. If governments lose, they could be liable to pay the investor millions of dollars in compensation. Even if they win, the costs of defending an investment dispute far exceed those of defending a WTO dispute.[113]

In the light of these restrictions, governments may choose to turn to other tools like competition policy and monetary policy to catalyse industrialisation. But using these tools usually requires a better-financed bureaucracy than most developing countries can afford.

4.4 Global rules protect powerful players, not workers

Proponents of industrial policy often focus on how international economic regulations limit the policy space of developing country governments. But they shouldn't forget the other ways that global rules reinforce the status quo. Global rules consolidate the power of firms from already industrialised countries, making it difficult for new firms to enter the market. At the same time, they undermine the power of workers.

Once their manufacturing sectors were competitive, European and North American governments used a range of policies to reinforce the competitive advantage of those industries, attempting to stifle industrialisation elsewhere and forcing developing countries to open their markets. Britain also put in place policies to prevent industrialisation in its colonies.[114] This had long-term consequences for new firms trying to enter the market: "the same multinational companies whose innovations had secured them market power in the late nineteenth century were still exercising that power over nascent companies in "the rest" in the late twentieth century."[115]

The skills, technology and brands of dominant firms are protected by what is arguably the only effective international regulatory regime, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Proponents of such protectionism argue that firms would not invest in innovation if they couldn't guarantee that they would profit from its exploitation. But the reality is that rather than incentivising and rewarding research and innovation, intellectual property is increasingly used to shore up the competitive advantage of dominant multinationals.

> **"[Patents] are increasingly used as strategic assets to influence the conditions of competition rather than as a defensive means to protect research and development outcomes."**
> Max Planck Institute[116]

This system is exacerbated by the global tax system. It is almost impossible to say what intangible assets like brands and patents are worth, and so it is easy to claim that they generate a very high proportion of the profit realised from the sale of a product. Because they are intangible, these assets are easily moved into the tax havens and low-tax regimes, many of which are controlled by the world's richest economies.[117]

Mariana Mazzucato – one of the three most important thinkers about innovation, according to the New Republic[118]– argues that these tax breaks are not even effective in terms of catalysing innovation in the OECD. By offering tax breaks on income associated with patents rather than the research itself, governments further inflate profits already protected by intellectual property law. All this does is reduce government revenue, while failing to make research happen that would not have happened anyway.[119]

Intellectual property laws protect profits associated with intangible assets like brand, but there is no international legal regime to ensure that workers in the retail sector selling those branded goods are paid a living wage. In fact, at the same time as intellectual property law has got stronger, regulations to protect workers have got weaker.

The past thirty years have seen an erosion of labour rights, increasing economic insecurity for workers. Foreign investors can threaten to move their operations to another country, giving them more bargaining power with governments than workers have. Countries have been engaged in a race to the bottom to attract investment and to provide ever-cheaper products to international buyers. Labour market flexibility – where it is easier to fire workers and employ them on precarious contracts – reduces the bargaining power of lower-income workers.

> **"The World Bank, in its most influential flagship publication, Doing Business, included the Employing Workers Indicator (EWI), withdrawn on 27 April 2009, which ranked countries on the basis of information pertaining to such issues as minimum wage levels, maximum hours per work week, requirements for advanced notice for layoffs, and severance pay. This ranking of countries created a strong incentive among Governments in developing countries to compete in dismantling labour regulations."**
> United Nations[120]

The World Bank and others have claimed that labour rights contribute to unemployment by increasing the cost of labour and pushing more workers out of the formal sector into vulnerable, informal employment. But empirical studies show that they have at most a modest impact on the number of jobs available. On the plus side, labour rights are associated with increases in the total income of low-paid workers and have been critical when countries faced dramatic changes, whether rapid growth or economic collapse.[121]

5. Manufacturing in Vietnam: diversification at risk

Vietnam, a 'socialist market economy under state guidance', has grown rapidly and seen dramatic reduction in poverty levels in 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.[122]

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.[123] 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.[124]

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 percent in 2008. Thailand and Indonesia took about 30 years to reach this ratio. In 1999, only 20 to 42 percent 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 percent 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.[125]

However, in other industries the government has struggled to implement consistent and coherent industrial strategies. There has been little financial support available to SoEs and incentives to improve performance have been relatively weak. Arguably, small and medium sized private firms have been neglected and need more support.[126]

An array of motorbikes crossing Long Bien Bridge on the Red River in Hanoi, Viet Nam

Photo: UN Photo/Kibae Park

5.1 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.[127]

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 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 percent 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 percent 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", stuck in a low-value added segment of global value chains and unable to diversify into higher skilled and more technologically sophisticated activities.

5.2 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, changing the way they support SoEs rather than cutting off support entirely.[128]

Vietnam has recently signed two new trade and investment agreements: the Trans-Pacific Partnership 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.[129] The Viet Nam Institute for Economic and Policy Research undertook a similar assessment of the potential impact of the Trans-Pacific Partnership on Vietnam.[130] Both studies suggest that emerging high-value sectors will lose out to low-value added production in garment and footwear sectors.[131]

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.[132]

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".[133]

The agreements will make it harder for Vietnam to resist these trends. These agreements are much more restrictive than WTO rules, preventing the country from using the vast majority of industrial policy tools that have been used successfully by others.[134] 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.

5.3 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. 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.[135] Conditions in long-established, often state-owned factories are reported to be better than those in newer, private factories.[136]

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 labor force with non-liveable wages and substandard working conditions".[137]

The question, then, is whether developing countries like Vietnam have a choice. In light of the challenges of the global economic system, will they be able to develop a manufacturing sector? Or are the lessons of the past no longer applicable in today's context?

Supporting workers' rights in Vietnam

In 2011, ActionAid Vietnam surveyed female migrants in three urban areas in Vietnam. Respondents working in the formal sector (58 percent) mainly worked in garment and shoe factories. The vast majority of respondents found it easy to find a job after migrating, but only two thirds had work contracts; 23 percent have occasionally had contracts while 12 percent have never had a contract. Without a written contract, workers may struggle to access their rights.

A key challenge for respondents was accessing childcare for their children during the long and unpredictable hours they are required to work. On average, respondents in the formal sector worked between nine and 15 hours a day. Financial penalties were imposed if they took days off. Delays in paying workers' wages were quite common. When factories failed to obtain orders, hours and wages were reduced accordingly.[138]

Dung lives with her husband and daughter in the outskirts of Uong Bi. The city is well known for its coal mining industry, where Dung's husband works as a machinery operative. Dung works in a Chinese-owned footwear factory, carrying out quality control of shoes for a major UK brand.

Dung receives a basic salary plus a bonus for working every day of the month. The financial cost means that she rarely takes a day off. Normally she works from 7am to 5pm, but as she was in the late stages of pregnancy when we talked to her, she was able to leave work at 3.30pm instead. While she is at work, her five year-old daughter goes to kindergarten. Dung recently gave birth to a baby boy: her mother-in-law has now moved to Uong Bi to care for the children.

Dung has high hopes for her children. Rather than working in the shoe industry and mining sector, like their parents and grandparents before them, Dung hopes that they will have the opportunity to study and to get good jobs in medicine and engineering.

ActionAid and its local partners have established information kiosks near factories and where factory workers live to provide workers with information about their rights. We are currently facilitating discussions among more than 8,000 textile and leather workers and their employers to help workers claim their rights and to encourage companies to improve working conditions.

Dung with her 5 year old daughter.
Photo: Ruth Kelly/ActionAid

6. New strategies and signs of change

6.1 Opportunities to change global rules

Recently, some developing countries have begun pushing back against restrictive global rules to get more out of their negotiations with foreign investors. For example, in 2010 South Africa carried out a detailed assessment, in collaboration with the domestic private sector, of the costs and benefits of the international investment agreements they had signed. 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.[139] 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."[140]

South Africa joins Brazil, Argentina, Bolivia, Ecuador and Indonesia in rejecting or renegotiating investment agreements.[141] In the next few years it will be possible to unilaterally revoke almost half of all bilateral investment agreements.[142] Momentum is building.

At the same time, OECD countries are ignoring many of the global rules that prohibit industrial policies, undermining their credibility and reinforcing the need for change. For example, direct support to the automobile industry and policies to encourage car sales were common responses to the 2008-9 crisis: the US bailout of General Motors and Chrysler received extensive attention, but other countries adopted similar strategies, including Canada, China, Estonia, France, Israel, Japan, the Netherlands, Norway, Portugal, South Korea, Spain and the UK.[143] In another well publicised example, the WTO has ruled that subsidies to Boeing and Airbus are illegal, but the EU and US continue to support their respective airline companies.[144]

"In their responses to the 2008 financial crisis, European and North American government measures such as massive financial bailouts and subsidies to automakers transgressed the terms of trade agreements, underlining the limits that agreements place on policy space."

UN Women[145]

6.2 New strategies for fragmented value chains

But even with more policy space, 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.[146]

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[147], as well as being key in the development of the motorcycle industry in Vietnam, as discussed above. 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: as above, 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.[148] Performance requirements in Singapore have led foreign investors to locate research and development activities in the state, resulting in innovation in production processes.[149]

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 horrific consequences for women's economic inequality. 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.[150]

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.[151] 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,[152] offering an alternative to traditional export markets in the OECD, where consumer demand is stagnating.[153]

7. Conclusion and recommendations

Over the next few years, ActionAid will continue our work with young people, women workers and growing businesses in developing countries.

We want to take advantage of the excellent relationships we have developed with chambers of commerce and national manufacturing associations in Bangladesh, Uganda and Vietnam. We are planning to do more in-depth research with firms in emerging sectors, as well as analysing how development banks could better to support these firms and to stimulate economic transformation. We hope to work with these firms to lobby for better industrial policies at a national level.

We know that unemployment and decent jobs are major priorities for the young people we work with and we want to make sure that we reflect that in our campaigning and advocacy. We plan to extend the analysis in this report to look in more detail at what rights-based and sustainable industrialisation might look like. We have set ourselves the challenge of communicating this agenda clearly in a way that responds to the priorities of the women and young people we work with, and in a way that gets them interested in and passionate about this agenda.

And we will be working to challenge barriers to industrialisation, particularly as new opportunities open up to reform the global investment regime.

The governments of developing countries should:

- Work with domestic firms and civil society to identify the barriers to industrialisation and job creation and to develop strategies to overcome them.
- Learn from the experience of rich countries to identify policies that will allow them to support the emergence of a high-value added, profitable manufacturing sector, paying particular attention to high-value services like design and marketing that are essential for maximising manufacturing earnings.
- Where they join global value chains, use performance requirements to get the best out of foreign investment and to promote spillovers for the rest of the economy.
- 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.
- Cooperate with their regional neighbours to catalyse a race to the top on workers' rights and wages, and to prevent a race to the bottom on tax incentives, helping them to escape the threat of companies taking their business elsewhere and tapping into the potential for this strategy to generate regional demand.
- Adopt unilateral measures to protect their policy space, such as revoking bilateral investment agreements, so that these can be renegotiated or replaced by more effective investment strategies.

The governments of 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.
- Review their own tax rules and revise them where they are harming poorer countries.

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.
- Ensure that international rules protecting workers' rights have at least as much force as those that protect investors.
- Work towards a global agreement to curb corporate tax competition, and consider a shift to unitary taxation to ensure that tax is paid where companies have their operations.
- Work in the longer term towards changing global rules that limit policy space for industrialisation and that reinforce the power of global oligopolies.

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    In March 2015, ActionAid Vietnam and the Vietnam Chamber of Commerce and Industry (VCCI) co-hosted a workshop on industrial policy with business, civil society and research institutes. ActionAid and VCCI also co-hosted two public dialogues in May, generating strong media coverage and each attracting audiences of more than 250 business leaders, officials and journalists. ActionAid worked with the National Journalists Association of Vietnam to train journalists on these issues in May 2015. We carried out research on industrial policy in Vietnam in collaboration with the Central Institute for Economic Management (CIEM).

    In April 2015, ActionAid Uganda and the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI) co-hosted a high-level workshop on industrial policy with business, civil society, government and the media, including representatives from the Uganda Chamber of Commerce and Industry (UCCI) and the Uganda Manufacturer's Association (UMA). We are currently working with Makerere University to carry out research into industrial policy in Uganda.
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