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Note

Making the most of FDI for industrial upgrading and development: Harnessing IIA policy-space through evidence based lessons for 'new' industrial policy

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Background and Relevance

Policymakers in developing countries face the challenge of promoting economic growth and sustainable development through the enhancement of productivity levels, increases in exports, the creation of new jobs, and the expansion in skilled employment, by means of the promotion of higher value-added activities (HVA). Inward foreign direct investment (FDI) and the activities of foreign owned firms in their host locations play an important role in this process. In low income countries in particular, FDI and participation of their companies in global value chains have the potential to contribute to productive capacity building, sustainable economic development, poverty reduction, industrial upgrading, structural transformation and international competitiveness (in the longer term). If FDI are to play a role in such 'transnational corporations (TNCs) assisted development strategy', the attraction of FDI *per se* is a necessary but not sufficient condition. It requires the "right" type of FDI in terms of attraction of HVA inward investment, and importantly the development and upgrading of existing FDI towards more HVA operations. Although such FDI can contribute to local capacity building required for such HVA operations, investors also require a certain level of local capabilities, productive capacity and absorptive capacity in the host country in the first place.

This will require on the part of the host country a pro-active policy approach that not only builds and reinforces productive capacity, but also channels FDI into key areas of productive capacity building and promotes the development of HVA from existing FDI. This calls for a greater role for and hands-on approach by governments at national and sub-national levels and the abandonment of policy neutrality with regard to FDI. *Inter alia,* this requires a new generation of investment policies and industrial policies within a coherent, co-ordinated, consistent and cohesive set of policies geared towards achieving overall development objectives, that are part of a broader sustainable development strategy within a framework of a generally favourable investment climate (UNCTAD, 2012a). Such a 'high road' approach to FDI will have important ramifications for low and lower-middle income countries' international investment agreements (IIAs) (UNCTAD, 2015).

Approaches aimed at developing FDI towards more HVA operations are resource intensive, and for low income countries (with large funding gaps to build and sustain requisite productive capacity bases) to embark on TNC assisted industrial upgrading strategies, policy makers require evidence-based policies based on an understanding of the complexities in FDI upgrading derived from the experiences in developed country contexts.

FDI upgrading is connected to an increasing emphasis on developing unique locational asset bases, efficient local network infrastructures (consisting of suppliers, customers, competitors, clusters of domestic firms, research institutes/universities, supportive government agencies/local authorities) and effective institutional frameworks that are attractive and desirable to TNCs to upgrade their activities and enable their subsidiaries to perform more HVA. Many of these assets are spatially bound. Therefore, the development of more HVA by foreign firms in their host locations is associated with them being deeply embedded in the host region and within efficient local networks and linkages to effectively access and leverage the tangible and intangible locational assets, which underlie the development of high productivity/high skills/high employment HVA.

At the same time, the increasing emphasis of policymakers on the 'new' location factors for upgrading and deepening FDI is connected with TNCs increasingly developing global value chains (GVCs) and seeking to develop their subsidiaries into a differentiated network, where some subsidiaries are more central to core aspects of overall TNC performance than others (which embodies a more footloose type of FDI). In this way, TNCs increase specialisation within the TNC network and establish a differentiated network of subsidiaries in order to maximise competitive advantage through the development of their unique contributions, in order to fulfil the strategic objectives of the parent company. This suggests that subsidiaries which are more central to overall TNC performance and that can build up valuable assets which are not accessed by other parts of the TNC (or do so at higher costs), should be given mandates and strategic autonomy to deeply embed themselves in the host economy; to develop main business lines for international markets; or to perform specialist functions for all or part of the TNC.

As such, policies aimed at upgrading FDI in order to capture related productivity, trade, employment and skills effects, have to be informed not only by the host country locational asset bases and local networks, but also by the need for subsidiaries to deliver outcomes that boost the competitive advantage of the TNC as a whole. In addition, they need to be informed by the associated requirements for subsidiaries to deliver good performance. In turn, this requires policy makers to have a good knowledge of the internationalisation processes within TNCs and overall TNC objectives.

The experience of developed host countries with the deepening and upgrading of existing in FDI and the nexus to exports, jobs, productivity and up-skilling holds important lessons for policy makers in developing countries for developing appropriate policies, such as 'new' industrial policies, and their implications for IIAs. These insights are also useful for international organisations such as UNCTAD in their work to promote frameworks for FDI to contribute to sustainable development, inclusive growth and economic upgrading, and related approaches to IIA regimes.

The Research Program on FDI Upgrading

The issues above were investigated by a research programme that entailed large-scale, cross-sectional, micro-level representative surveys of foreign-owned subsidiaries in the UK, Germany and Scandinavia (with the UK as the 3rd largest and Germany as the 5th largest host countries, in terms of stock of inward investment, in the world) which included subsidiaries from the top 10 FDI source countries from the developed world (accounting for around 80% of worldwide outward investment stock), as well as a supplementary census of German parent companies. In short, the results of the subsidiary surveys account globally for a substantial part of the extent, drivers and outcomes of FDI upgrading and subsidiary development towards more HVA operations. They may thus serve as important pointers for evidence-based policies in relation to FDI upgrading in low and lower-middle income countries, including related 'new' industrial policies and a 'new' generation of IIAs attuned to harness FDI for productive capacity building, industrial upgrading, sustainable development and structural transformation. However, because of the cross-sectional nature of the studies, the findings relate to the direct effects of subsidiary development and upgrading and do not include potential wider indirect and spill-over effects.

Insights of FDI Upgrading in Developed Countries

- The strategic development of TNC subsidiaries is less pronounced than generally assumed.
- Only a significant minority of TNCs are strategically developing their subsidiaries by granting them higher level mandates and strategic decision-making autonomy; perform some form of HVA and are deeply embedded into local networks in their host locations. The majority of subsidiaries are only lightly embedded in their host locations.
- The majority of subsidiaries across all nationality groups are geared to supply and develop the domestic market, underscoring the continuing importance of the export enhancing nature of FDI among developed countries.
- Furthermore, only a minority of subsidiaries operate in the fast-growing high tech manufacturing and knowledge intensive service industries.
- Embeddedness into local, regional or national supply chains was found to be particularly low. In light of the increasing importance attached to by TNCs to develop global or EU-wide supply chains, this may indicate that many domestic suppliers are not internationally competitive.
- Moreover, there is little evidence that a large number of subsidiaries have increased HVA, deepened local linkages and embeddedness, or experienced an upgrade in their strategic decision making autonomy over recent years. This is despite the case that the majority of foreign-owned subsidiaries are relatively mature, having been in foreign ownership many years and have had a long period in which to develop host-location linkages.
- In short, a large number of subsidiaries are lightly embedded and few have mandates associated with high level decision making autonomy that foster subsidiary development and specialisation.
- This may indicate that a number of host locations, even in highly developed EU countries currently lack desirable asset bases and capabilities that are attractive for a large number of TNCs to develop and upgrade their subsidiaries towards more HVA operations by firstly, developing their subsidiaries toward strategic independents with the associated granting of higher level mandates and secondly, deeply embedding them into local networks to access and leverage locational assets.
- The findings of the study also indicate that the majority of TNCs are not looking for the 'new location' factors for their investments. Indeed, the German parent company survey highlighted that they attached far less importance to embeddedness factors compared to subsidiary managers.

- This highlights that even if subsidiaries embed deeply in their host locations, not all of these are candidates for subsidiary upgrading, which may point to an over-investment of a section of subsidiaries into these factors without them increasing HVA and moving into a more central position within the TNC network.
- Although FDI upgrading, deep integration into host locations and subsidiary development seem not a common feature amongst developed countries, the results of the studies show that this is associated with direct economic benefits for both the host countries and TNCs in terms of increased export intensity, productivity level and growth, skilled employment and subsidiary performance (with the latter perhaps an important contributor to overall TNC competitiveness and performance and thus an important pre-cursor for subsidiary upgrading).
- In short, the deepening of FDI and subsidiary development towards more HVA has the potential to create win-win situations for both host countries and investors.
- Regarding the direct employment effects of FDI upgrading, the main effects are not strongly related to employment growth but instead related with a shift in the skills composition in these subsidiaries towards an increase in skilled jobs and a decrease in unskilled jobs, with associated labour market effects.
- Subsidiaries in the high tech and knowledge industries that pursue high value added activities, that are deeply embedded in the host locations and received subsidiary upgrading, are the main engines in creation of skilled jobs. Yet, given the relatively low presence of foreign owned firms in these industries, the magnitude of the direct effect across the whole population of subsidiaries may be relative modest.
- The studies also revealed the complex processes involved between subsidiary upgrading and positive subsidiary outcomes, whereby direct and indirect routes exist between increased autonomy, embeddedness in host locations and embeddedness within the MNC network on the one hand and subsidiary outcomes and performance on the other. The deepening of embeddedness in host locations in terms of network relationships was found to be at the core of positive subsidiary outcomes and good performance, with granting strategic decision-making autonomy and strong intra-MNC relationships being primarily facilitators in the development of networks in the host location.
- Put differently, the cultivation of embeddedness in host locations, which is the prime driver of positive subsidiary outcomes and good performance, requires the establishment of internal embeddedness and relationships within the MNC to bring the subsidiary into a more central position within the MNC network. In turn, this may facilitate the granting of mandates and strategic decision-making authority to tap into and effectively utilize local networks and local asset bases.
- Furthermore, as highlighted by the parent company survey, the results underscore that deepening local embeddedness by subsidiaries *per se* is a necessary but not sufficient requirement for beneficial economic outcomes if not underpinned by the facilitating role of intra-MNC embeddedness and granting of strategic autonomy that enable the subsidiary to contribute to the overall competitiveness and strategic objectives of the TNC.

General Policy Implications and Lessons for Developing Countries

Although the research program above centred on developed countries, the findings and their implications may hold lessons and useful pointers for developing countries in making FDI work better for economic development and industrial upgrading.

- The studies in the research programme provided sound evidence that good subsidiary performance and significant direct contributions to economic development objectives resides with TNCs that engage in upgrading and strategic development of their subsidiaries, by granting the high level mandates and the strategic decision-making autonomy which allows these subsidiaries to build up the kind of locational asset bases that are conducive for HVA. It also resides with TNCs whose subsidiaries develop extensive local networks to access and leverage effectively the kind of tangible and intangible locational asset pools to develop HVA.

- Indeed, the results of our studies show that upgrading FDI and deep embeddedness in host locations can provide economic benefits for both, TNCs (in terms of contribution to overall TNC performance and competitiveness) and host countries, i.e. creating potential win-win situations.
- Given the importance of subsidiary embeddedness, granting of high-level mandates and associated strategic autonomy for the growth of skilled jobs, exports and productivity, it would seem prudent to gear policies towards these factors.
- However, only a minority of foreign investors are currently strategically developing their subsidiaries in that way, even in developed countries. This highlights the enormous challenges faced by policy-makers in developing countries in relation to deepening and upgrading FDI. Indeed, evidence from the Southern African Development Community (SADC) region, have shown that most of investment in the region constitute 'shallow' forms of FDI (Robbins et al. 2011). The evidence highlights a lack of linkages and networks between local firms (and especially domestic SMEs) and foreign subsidiaries, and a heavy reliance on sourcing via existing supply chain networks.
- Our findings suggest that a significant number of regions and localities even in the developed country context lack desirable asset bases and institutional frameworks to enable subsidiaries to engage in significant strategic development and upgrading.
- This would call for policies to be tailored to develop and sustain unique locational asset bases, good local networks structures, efficient institutional frameworks, clusters of innovative domestic firms and supporting governmental and non-governmental organisations that are attractive and desired by TNCs to upgrade their FDI and enabling their subsidiaries to perform HVA.
- However, there is a danger to pursue naïve policies which assume that encouraging deep and extensive local linkages and networks, and upgrading of the locational asset base, will automatically trigger strategic development of foreign owned subsidiaries towards HVA, with associated contributions to economic development objectives.
- Such policies only work if foreign investors are actually looking for these factors in their host locations. In addition, such policies also require a realistic appraisal of the potential to cultivate, develop and sustain such asset bases.
- Importantly, such policies need to be informed by an understanding of the need for subsidiaries to deliver outcomes that boost the overall competitiveness of the TNC, as well as an understanding of the overall strategic objectives of TNCs.
- In turn, attraction of HVA FDI and upgrading of existing FDI requires on the part of host country policy makers a good understanding of the complexities of internationalisation processes in TNCs, the role and position of subsidiaries within the TNC network, the strategic objectives of the investing TNC; the kind of embeddedness factors and unique locational assets and institutional bases that may be attractive and sought after by the TNC parent company for strategic development of their subsidiaries.
- Our evidence from the parent company survey highlights further complexities for policy makers in that they need to develop policies that are attuned to the emerging needs of TNCs. A deep embeddedness of subsidiaries in their host locations does not necessarily imply that these subsidiaries are candidates for subsidiary upgrading and that associated benefits will accrue for host economies, which is the result of a mismatch to parent company importance attached to local networks and other 'new' location factors.
- On the other hand, our findings that embeddedness in host regions is the prime driver for good subsidiary performance and can make a valuable contribution to TNC overall competitiveness and objectives, equips subsidiary managers, host country policy makers

and inward investment agencies (vis-à-vis TNC parents that are currently not seeking an upgrading and deepening of their investment), with the requisite evidence to promote subsidiary upgrading with decision-makers in the TNC.

- This reiterates the importance for policy-makers to have a good understanding of the overall objectives of TNCs. Our results suggest that policy makers need to develop a targeted and co-ordinated policy approach that addresses all three levels simultaneously:
    - Cultivation, development and sustaining unique, not easily replicable locational asset bases and absorptive capacity.
    - Policies and programmes that help subsidiaries to weave these into overall operations and central aspects of the TNC;
    - Supporting and assisting subsidiaries at corporate TNC level move into a more central position within the TNC that is conducive for the granting of high-level mandates and strategic decision-making autonomy.
- There have been a number of successful cases in developing countries that resemble such approach. Success in capturing the gains of FDI in the cases of South Africa, Mozambique and Lesotho, within the SADC, in recent years has been the result of targeted interventions through a mix of government policy and learning between investors and local suppliers (Robbins 2011).
- The cases of successful linkages programs in these countries suggest that it is imperative that initiatives undertaken to support linkages are generated through some form of compact involving the specific TNCs, local firms and host country governments or their specific agencies. The involvement of all parties in the conceptualisation, design and implementation ensures that activities respond to the varied needs of the stakeholders and has the added potential of unlocking resource commitments from TNCs and other entities. The introduction of discussions of linkage processes at the outset of TNC investment decision making processes is important to secure early commitment and offers the potential to mobilise linkages in the establishment phases of major investments which can be reworked to meet future operating requirements once a plant is up and running (Robbins et al. 2011).
- On the other hand, policy makers have to be cautious not to be drawn into a murky firm – state nexus that leads them to become entangled in intra TNC and inter TNC manoeuvres to gain competitive advantages.
- All the above highlights the considerable challenges faced by policy makers in designing and successfully implemented policies and programmes that foster deepening and upgrading of investment. This requires, especially in developing country contexts, significant capacity building.
- Yet, our studies highlight that a differential sector specific approach is also warranted. The relatively small presence of investors in the high-tech manufacturing and knowledge intensive service industries even in the developed host countries in this studies, despite these being main engine for skilled job creation, export enhancement and productivity growth, may highlight the need for a pro-active but subtle industrial policy approach.
- Thus, it would seem sensible to gear policies towards cultivation, development and sustainment of productive capacity, absorptive capacity, locational asset bases, institutional frameworks and networks to attract and develop FDI in these industries. However, it is unlikely that all regions even in developed countries area are able to develop and sustain such unique asset bases.
- However, in order not be drawn into 'the race to the bottom' based on low cost, low tax, high labour flexibility, etc. and associated footloose FDI, a viable route for developing countries may be to cultivate, develop and sustain productive capacity, absorptive capacity, locational asset and network bases in those sectors and activities in which they are competitive and/or have such potential, but tailor these to capture the higher value added and more skills intensive segments, which are less footloose compared to the low value added segments, as these require embeddedness.

- As upskilling associated with subsidiary development and deepening embeddedness in host locations may also be connected to shedding of unskilled jobs, this will require on part of host country policy makers to have adequate labour market policies in place.
- If the upgrading of FDI is part of the wider development and industrial upgrading strategy, it has to be borne in mind that any direct and/or spill-over benefits are neither automatic nor cost- or risk-free. Crucially, these require a level of host country productive capacity in terms of local capabilities and absorptive capacity, and related investments to foster these, as well as international connectivity (UNCTAD, 2012). Low-income countries have generally weak absorptive capacity and local capabilities compared to high and middle high-income countries, as well as limited resources to invest in these (UNCTAD 2014a). For example, sub-Saharan African countries have generally placed greater emphasis on solely attracting FDI, as they have generally lacked the requisite infrastructure, skills and capabilities of domestic firms to capture the development potential of the employment, technology and productivity spill-overs associated with deeper embeddedness of MNC subsidiaries and related higher value added activities (Chen *et al*. 2015: 35-36).
- Besides the "fundamentals" (conducive institutional and regulatory frameworks, a generally favourable investment climate, good governance structures, political and economic stability, etc.), the twin challenge is to *(i)* build and reinforce certain levels of local capabilities and absorptive capacity in key areas and (*ii)* to harness FDI for productive capacity, with the former being a necessary condition for the contributory role of potentially productive capacity enhancing role of FDI to materialise. Moreover, such policies need to be informed by an understanding of the complex interactions involved in MNC subsidiary upgrading and the internationalisation processes within TNCs.
- In sum, our results provide an evidence base for a pro-active and targeted policy approach on part of the host country, that not only builds and reinforces productive capacity, but also policies to channel FDI into key areas of productive capacity building and promote the development of HVA of existing FDI in order for FDI to contribute to sustainable economic development and industrial upgrading.

'New' Industrial Policy and Investment Agreements

As argued above, the economic transformation necessary to attract inward HVA investment and upgrade existing investment towards HVA operations – particularly with regard to improving the competitiveness of domestic suppliers in order to integrate into higher levels of the global value chain – requires a proactive approach on the part of low and lower-middle income host governments. Specifically, we refer to this approach as 'new' industrial policy.

- Industrial policy has recently re-emerged as a key strategy for sustainable development. This renewed interest comes as a result of the growing recognition that the liberalisation of trade and investment, which so-called 'developing' countries have pursued since the 1980s, have alone been insufficient in promoting sustainable economic growth. Yet, previous forms of industrial policy, such as those promoting import substituting development, specific industries and national champions for the production of finished goods, has become less relevant for developing countries strategy in the contemporary period. This is because the structure of international production – in conjunction with patterns of trade and investment – has fundamentally changed since the 1960s and 1970s. The current international economy is characterised by unprecedented levels of fragmentation in the production of goods and services across national boundaries between firms within a value chain.
- Indeed, 'new' industrial policy is oriented toward promoting production upgrading and diversification in the economy in order to capture the gains associated with HVAs, through 'softer' forms of interventions by governments, thereby responding to this shift in the

structure of global production. A so-called ‘market-friendly’ approach advocated by the World Bank calls for governments to intervene at arms-length, in order to facilitate the emergence of private sector firms engaging in activities related to the country’s comparative advantage by removing barriers to entry and assisting them in overcoming externalities. This may not be sufficient for productive capacity and absorptive capacity building for industrial upgrading in developing countries and for harnessing the capacity building potential of FDI and FDI upgrading. Given the inability of the private sector (or the lack of it) to respond to incentives promoted by governments a more pro-active ‘promotional’ approach has been advocated: “….In the real world, firms with uncertain prospects need to be created, protected, subsidised, and nurtured, possibly for decades, if industrial upgrading is to be achieved” (Lin and Chang, 2009:501).

- Despite the differences in these two approaches, there is a great amount of consensus at the core of these two sides of the debate, which has opened up a ‘middle path’ for ‘new’ industrial policy. Central to this approach is that emphasis on the part of government intervention should be focussed on support for new *activities* in the economy, which offer the opportunity for industrial upgrading within and across sectors. Activities, such as the adoption of new technologies or practices (as in the case of ‘just in time’ inventory management), training and skills development programmes and the production of new types of goods or services, offer the greatest opportunity for learning and for significant spill-over effects (Greenwald and Stiglitz, 2012).
- For example, the application of new industrial policy in El Salvador and Guatemala focussed on the promotion of activities in the industrial, the primary commodity and services sectors that had higher rates of productivity, that were more technology and knowledge intensive and involved the participation of small enterprises, with the intention to build local capacity, promote HVAs and allow local firms to move to higher levels of the global value chain (Pérez, 2014). Such activities included formulating and applying good biosafety practices in order to prevent outbreaks of diseases, in the case of shrimp cultivation in El Salvador; the creation of new national, regional and local institutions by the government to promote innovation in textile manufacturing amongst local firms, as well as partnerships between academia and trade associations to promote ‘know how’ amongst workers, in the case of garment manufacturing in El Salvador; and the promotion of diversification of agricultural production through incentives, in such areas such as the production of organic produce and oriental vegetables, within the non-traditional export vegetable chain in Guatemala (Pérez, 2014).
- These cases highlight that unlike ‘old’ forms of industrial policy, ‘new’ industrial policy need not be oriented towards the industrial sector – they can and should be applied to sectors such as services, agriculture and natural resources. This is particularly important with regard to low-income economies in regions such as sub-Saharan Africa, whereby the agriculture and natural resources sectors are dominant in a majority of the economies and have, therefore, attracted resource seeking inward FDI. In the case of the agriculture and natural resources sectors, industrial policy aimed at activities in these sectors – such as training in resource extraction and training in processing – can promote learning, and therefore contribute to the development of local capabilities, as a prerequisite to the emergence of competitive domestic suppliers and FDI upgrading.
- However, learning can also come from industrial policy focussed on sub-activities linked with resource extraction, such as the construction of buildings, the management of human resources, and the provision of transportation and logistics, which can have spill-over effects towards HVAs across industries and sectors (Greenwald and Stiglitz, 2012). Together, the development of activities associated with human resources and skills, infrastructure and domestic suppliers form a network which have been found, as we have shown above, to be at the core of subsidiary development, and thus HVAs, as they promote embeddedness of existing FDI, whether resource or market seeking.
- The examples of El Salvador and Guatemala also highlight how it is possible to apply a mix of market-friendly and promotional approaches to new industrial policy at various

levels of the economy. At the 'micro' level, for example, governments, can engage in dialogue with industries to determine constraints to industrial upgrading, and seek to alleviate them (such as supporting education, skills formation, enterprise development, linkage programs, improving infrastructure, etc.). At the 'macro' level, governments can promote upgrading through, for instance, making credit available for 'risk taking' ventures as well as choose to focus on a priority sector (not specific industry) of the economy to promote. However, these promotion activities need to be time-limited with clear performance criteria and transparency, to enhance the efficiency of those sectors receiving support.

- Yet, given the potential gains from FDI upgrading, a key issue is: How can the limited national resources, overseas development aid (ODA) and international investment of low and lower middle income countries be prioritised, combined, targeted and tailored for the requisite industrial policy to promote productive capacity building, development of locational assets and local networks that are attractive for TNCs for FDI upgrading?
- As UNCTAD has rightly stated in its recent agenda for the future of investment and development, 'meeting the challenge of investment for development, in particular achieving the [UN Sustainable Development Goals: SDGs], requires among others that investment is reconfigured to better harness the contribution of TNCs for development, especially in light of the contemporary TNC universe and the new balance between the public and private sectors' (UNCTAD, 2014: 1).
- With regard to the compatibility of new industrial policy with international trade and investment regimes (such as IIAs), there is significant policy space to pursue such a strategy based on activities such as not to conflict with multilateral trade and investment rules that restrict the use of tariffs, quotas and local content requirements, for instance. Such policy space can allow for states strategically acting to attract and develop the 'right' type of FDI, in terms of HVA inward investment, to promote industrial upgrading, as we have argued above. Furthermore, countries can seek to 'bargain hard' with TNCs so as to maximize the transfer of skills toward HVAs.
- In this regard, the recently developed SADC model of bilateral investment treaty (BIT) includes a 'performance requirement' that allows the state to require that TNCs institute training programmes for senior management, those employees with special knowledge or skills and the Board of Directors from the host country (SADC 2012). However, more far ranging requirements in connection with productive capacity building and local capability development, such as those relating to *general* workforce up-skilling and enterprise development of local firms are difficult to enshrine in investment agreements and difficult to apply in practice. Here, an activity based 'new' industrial policy has an important part to play to *(i)* promote a certain level of productive and absorptive capacity in the host country on which foreign investors can build to enhance these; and *(ii)* to steer and harness FDI into activities and sectors with the greatest potential for productive capacity building and FDI upgrading.
- For sustainable economic development and industrial upgrading in those low and lower middle income countries in which a 'TNC assisted economic development strategy' plays an important role, 'new' industrial policy in which governments can actively promote HVA through capacity building and policies to promote learning seem crucial for FDI upgrading and movement of domestic firms to higher valued added aspects of GVCs. There is policy space to pursue such 'new' industrial policy approach within IIAs. Indeed, in absence of multilateral governance frameworks for FDI and the limited bargaining power of developing countries to enshrine far ranging requirements for local capacity building and development of local capabilities into BITs (UNCTAD, 2015), as well as the need to comply to WTO rules, a targeted and activity based 'new' industrial policy approach seems vital for FDI assisted economic development and industrial upgrading.
- Yet, as shown above, for such policy to work it has to be informed by the complex internationalisation processes within TNCs, overall TNC strategy and objectives and the emerging needs of TNCs. This underscores the importance of regional trade and

investment agreements in light of the importance of GVCs and international dispersion and integration of TNC value added activity.

- Essentially, a country's design and implementation of 'new' industrial policy requires careful co-ordination with its investment and trade policies, its investment agreements and other policies within a coherent, integrated, consistent and cohesive set of policies geared towards its overall development objectives, that form part of the broader sustainable development strategy within a framework of a generally favourable investment climate.
- In this regard, reforms to existing investment agreements in order better exploit their under-utilized investment promotion and facilitation functions seem important to support the 'new' industrial policy' in promoting FDI upgrading and moving up GVCs; in addition to providing sufficient policy-space for governments in the design and implementation of 'new' industrial policy.
- Regarding regional level IIAs associated with regional integration areas, there is a need for IIAs to better support pan-regional projects and regional policy co-ordination, including 'new' industrial policy spheres, in order to minimize uneven development within the region. For example, in the SADC, foreign investors in Mozambique seem to have taken advantage of regional economic integration to develop linkages with South African firms rather than indigenous SMEs in Mozambique (Robins et al 2011), thus diverting development potential of FDI away from Mozambique and towards more economically developed countries within the regional integration area.
- Initiatives to develop multilateral IIA frameworks need to learn from experiences of previous unsuccessful endeavours, such as the OECD's Multilateral Agreement on Investment (MAI). Failure to conclude MAI was at least in part due to irreconcilable conflicts to provisions in the WTO's GATS agreement that would have affected non-MAI signatories. In turn, this may suggest a more 'global' multilateral IIA framework that has consideration for sustainable development and requisite policies in developing countries, including 'new' industrial policy. However, compared to the unsuccessful OECD MAI endeavour in the 1990s, this involves an even more heterogeneous set of countries, interests and development needs, which will be more difficult to reconcile compared to the OECD multilateral level. Here, UNCTAD's co-ordination and facilitation roles and its expertise in the IIA area, as well as its initiatives in reforming IIAs, have an important role to play.

Research Projects connected with the Research Program

Project: Performance and Direct Employment of Skilled Labour by Foreign Owned Subsidiaries and the Development of Autonomy and Intra and Inter Organisational Relationships, (2006 – 2012).
Funding Bodies: British Academy, Danish Centre of Excellence, Deutsche Bank Foundation
Investigators: Manchester Metropolitan University, Copenhagen Business School, Jönköping University, Sweden, University of Bradford and University of Groningen.

Project: Foreign Owned Companies and Subsidiary Development in Northwest England, (2008).
Funding Body: Northwest Development Agency
Investigator: Manchester Metropolitan University

Project: Labour Relations, Employment and Performance in Multinational Companies' International Subsidiaries (2005 – 2008).
Funding Body: Hans-Böckler-Foundation
Investigators: Manchester Metropolitan University, University of Bradford, Trinity College Dublin, University of Hamburg

Project: EU 5th Framework Project – West East Industrial Districts: Industrial clusters and re-location and the identification of policies within the perspective of EU enlargement (2001-2005).
Funding Body: European Commission
Investigators: Manchester Metropolitan University and 11 European universities

Project: Qualitative and Quantitative Employment Effects of Direct Foreign Investment into the UK for Home and Host Countries. (2001-2003).
Funding Body: Anglo-German Foundation for the Study of Industrial Society
Investigators: Manchester Metropolitan University and the German-British Chamber of Industry and Commerce, London

Selected Academic Journal Publications from the Research Program

Buzdugan, S.R. (2013) 'Regionalism from without: External involvement of the EU in regionalism in southern Africa', Review of International Political Economy, 20(1), DOI:10.1080/09692290.2012.747102

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