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“Investing in the Future is a Better Bet than Reshoring”

The economic recession induced by Covid-19 is threatening the global supply chains on which low-carbon technologies depend. Prof. Andreas Goldthau talks about the resulting risk to the climate and appropriate policy responses.

IASS: Covid-19 is threatening global supply chains. What wider ramifications is that likely to have?

Prof. Andreas Goldthau: In the discussion about Covid-19 and global trade, we need to distinguish between two things. On the one hand, the pandemic has interrupted the free flow of components and raw materials. This calls for business strategies that ease the pressure on the global supply system. That will probably result in a recalibration of existing supply chains. On the other hand, the supply-chain bottlenecks are prompting governments to call for “reshoring”, i.e. the relocation of production capacities closer to home, preferably back to their own country. But these politically motivated changes to supply chains will only make matters worse, especially in the area of low-carbon technologies, where such changes can potentially do a lot of damage.

In May 2020, the US government floated the idea of using tax incentives and subsidies to lure US industries away from manufacturing in China. Is that a potential solution?

A. G.: Establishing manufacturing capacities takes years, not to mention a lot of process innovation, the right mix of local know-how, and specialised supply firms. So, incentives alone will not result in a seamless relocation. And protectionist policies are rarely crowned with success. Just remember the federal government’s failed attempt to protect the German solar industry from Chinese competitors through import barriers.

But what’s often forgotten is that economic specialisation also creates jobs at home. Solar panels that are manufactured in China have to be installed and repaired in the US and Europe, where new business models evolve around renewable-energy services. Just think of smart home technologies. So instead of creating jobs, it’s very possible that the reshoring agenda will result in job losses. For example, the US solar industry anticipates that the tariffs imposed by the US administration on Chinese PV systems will cost tens of thousands of domestic jobs.

But shouldn’t we give countries like the US some credit for trying to ensure security of supply with such measures?

A. G.: That’s a totally legitimate motive. After all, security of supply is one of the state’s primary responsibilities. That’s why industrial nations typically hold a ninety-day oil supply in reserve that they can tap into if the normal supply is severely curtailed, as it was during the Oil Crisis of the 1970s. But otherwise, countries tend to rely on the oil market.

What does that have to do with the current situation?

A.G.: Certain commodities have become scarce during the pandemic, for example face masks. Shortages in medical equipment like ICU ventilators have also become apparent. Here, it’s important that states build up sufficient reserves of these products and create manufacturing capacities. However, parallels were quickly drawn with other sectors where China has a large market share. The allegation was that China had engaged in unfair practices – state subsidies or poor working standards – to secure competitive advantages for its companies and put them in a dominant position. Chinese firms also control important raw material flows, including the global supply of the rare-earth elements required to manufacture electric vehicles and wind turbines. There have been growing demands to challenge China’s dominance in this area.



What lessons can we learn from this?

A.G.: Nobody would think of setting up a national face-mask industry because of Covid-19. Instead, states hold reserves and benefit from the lower costs that result from the global division of labour, which has also led to steadily falling prices for renewables technologies. It's thanks to this economic specialisation that solar and wind power have become cheap enough to compete with fossil fuels. China has assumed a central role on the manufacturing side of things, while Germany has concentrated on another part of the value chain: the machinery used to manufacture silicon wafers as well as solar cells and modules. Cost reductions are likely to stall if this division of labour is abandoned. As a result, fewer solar panels and wind turbines will be installed.

...to the detriment of the climate. At the same time, there is a need to uphold human rights in the global division of labour. How do you reach a compromise here?

A.G.: Human rights are an issue in global supply chains. However, experience has shown that even major shocks to the economy, like the Financial Crisis or Covid-19, don't result in anything near the amount of emissions reductions we need. So less globalisation cannot be the answer. Instead we need a supply-chain management that rigorously excludes supply firms that don't uphold human rights or environmental standards. A growing number of countries – soon to include Germany – are introducing supply-chain legislation in an attempt to ensure conformity with human rights by third countries.

What's the biggest problem in this context that the coronavirus pandemic has exacerbated?

A. G.: The pandemic is already slowing down the expansion of renewable capacities. Stimulus packages may be able to compensate for this to some extent. But it would be a grave mistake to exclude China from supply chains for low-carbon technologies. As well as incurring unnecessary costs, that would mean losing time that we do not have to fight climate change.

Based on the current state of research, what strategies will allow us to seize this window of opportunity despite the pandemic?

A. G.: Instead of reshoring established industries, we need to invest in the future. That means providing state support for innovation processes and engaging in technological development in order to shape the value chains of the future. Incidentally, this would also be a wise move in terms of climate policy: the greater the competition for technological solutions for a low-carbon global economy, the steeper the learning curve, and the sooner those solutions will come on stream.

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Prof. Andreas Goldthau leads the ISIGET project at the IASS focusing on energy justice and the Global South. He holds the Franz Haniel Chair for Public Policy at the Willy Brandt School of Public Policy, University of Erfurt.

To contact the expert:

Prof. Andreas Goldthau

Telefon: +49 331 28822 443

E-Mail: andreas.goldthau@iass-potsdam.de

E-Mail 2: andreas.goldthau@uni-erfurt.de



For other inquiries, please contact:

Sabine Letz

Press & Communications

Institute for Advanced Sustainability Studies (IASS)

Phone +49 (0)331 288 22-479

Mail: sabine.letz@iass-potsdam.de

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