Global green deal

Why green industrial policy should be a priority area of development cooperation

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The European Union has put down a marker with its Green Deal, recognising in the need to ecologically restructure the world's economies an opportunity to modernise the European economy and make it more competitive. This represents a break with the still widespread view that economies can only flourish if environmental requirements are kept to a minimum and that environmental protection should be remedial in nature, retrospectively offsetting environmental damage to a certain extent.

Smart industrial policy anticipates future market conditions, guiding and supporting the domestic economy in gearing itself to these conditions, ideally before competitors do the same. Alongside digitalisation, environmental protection is currently the main driver of change in economic structures. Take China, for instance, which recognised 15 years ago that electrifying its bus fleets would not only be a cost-effective means of reducing particulate pollution, but also a growth market, as all of the world's major cities would one day follow suit. Electric buses have been readied for series production using a combination of regulation, research funding and purchase subsidies. China currently has a 96% share of the global market for electric buses, with transport operators from around the world buying the vehicles in the country. Major automotive nations such as Germany have woken up late to this trend.

How can international development cooperation promote green industrial policy? Poor countries and population groups in particular will only accept and implement sustainable business practices if they can identify a forward-looking economic programme behind them. Such a programme would advocate the systematic integration of the traditional action areas of "economic development" and "environmental protection", as in the case of China's electric buses. This would enable German development cooperation to establish a unique profile. Below are some examples:

A dozen or so African countries with good solar, wind or geothermal energy resources could use these resources to establish energy-intensive industry clusters locally, especially if they link electricity generation with electrolysis for storage purposes (green hydrogen). In this way, they could attract industries that need to reduce their carbon footprint, such as the automotive industry, or drive forward production of green steel and cement. Countries with rapidly growing urban infrastructure could specialise in climate-friendly construction with wood, clay and other renewable resources, thereby initiating local economic cycles rather than using capital- and energy-intensive cement, steel and aluminium. India could be assisted with further developing its domestic capabilities in building metro carriages and infrastructure, as the megacities of the global South are the growth markets for underground rail networks. Existing environmental programmes for waste reduction could be transformed into programmes that turn the circular economy into an employment-intensive economic advantage. Bioeconomic innovation, from bioplastics made from agricultural waste to innovative meat-substitute products, could be promoted in order to initiate industrial value creation locally and tap new markets for rural agriculture.

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Foundational to all of the above are green fiscal reforms. It will only be possible to incentivise the aforementioned innovations if pollution and the waste of resources become more expensive. There is currently a major opportunity here for development cooperation. Additional expenditure and lost revenues resulting from the coronavirus pandemic are leading to a growing international need to raise taxes and rethink subsidies. Rather than taxing work or capital more heavily, this is the moment to also introduce green steering taxes in partner countries and abolish subsidies for fossil fuels. One of the priority areas of the next legislative period should be in supporting green fiscal reforms in partner countries in a socially responsible manner.

Incidentally, the German economy would also stand to benefit if development cooperation is geared to green industrial policy, as the policy would promote markets for innovative environmental goods and services within which German companies are well positioned. Drawing on the expertise of these firms would benefit all stakeholders. Past experience has shown just how little scope there is for using loan and export subsidies and Hermes cover to entice German companies to invest in the global South. A far more promising approach is to align development cooperation with the European Green Deal.

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