OPINION PIECE

Re-globalizing subsidies for a sooner, fairer green future

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The world's major economies have been giving manufacturing subsidies more often than not for decades. What makes today's versions worse is the betrayal this represents for addressing climate change.

The most important policy goal is to get the best green technologies into production and as widely adopted as possible. This subsidies race combined with trade barriers and domestic investment incentives means that we are likely to repeat what happened with vaccines during the COVID-19 pandemic: the largest economies producing locally and hoarding them, and low- and middle-income economies having to pledge loyalty to one bloc's champion tech versus the others, potentially for reasons unrelated to their own economies' green transitions. As a result, we will get far too little, far too slow availability of the best green tech; we will also see a lot of uncertainty and resentment in the rest of the world, slowing take-up of it.

This is short-sighted at home as well as globally. What matters to sustainable growth is how well an economy adopts and encourages change as the result of innovation, not the production of any given innovative product itself. This is what we saw with the last round of large-scale subsidies for semiconductors in the 80s and 90s. What had a lasting impact on employment and productivity was adoption and adaptation when the internet, fibre-optic cable and highly effective dispersed computing came along, enabled by semiconductors. Whereas, as the majority of semiconductor production moved from economy to economy over the last 35 years, little lasting loss or gain was seen among those locations.

When the focus instead was mistakenly on national vaccine production in 2020-21, what happened was that most of the world's people did not get the most effective vaccines in a rapid manner – including some producing countries preventing their own populations and aligned lower-income economies from getting the right shots.

The European Union has been leading the world in utilizing green tech to respond to climate change. This is because it has prioritized its carbon pricing scheme rather than local green production, up until now. The resultant cost-based shift of production of solar panels and some wind turbine components from the European Union to China enabled the rapid growth in EU renewables.

This demonstrates that for green technology going forward, it should not matter where the innovation originates that leads to the most energy-efficient housing or the best retention of charge in an electric battery or the cleanest way to create hydrogen for fuel. What matters is that as many people in as many places as possible get access to and change their behaviours to adopt that technology.

Given the rise of green manufacturing subsidies favouring local production, however, net progress on decarbonization is at risk, even if their underlying intentions may be laudable. As unfortunately seen during the COVID-19 pandemic, once governments support selected domestic producers, official priorities become claiming credit for jobs in specific districts, and visibly denouncing foreign competitors. In fact, having competing blocs subsidize and protect their champions will likely drive up the prices of green tech.

This is why we have multilateral trade rules and the WTO, to prevent these kinds of harmful spirals. We need some global limits to subsidies races, not least in the interest of lower-income economies that depend on large producer ones. There was an effort to create a multilateral subsidies code at and following the 11th WTO Ministerial Conference in 2017. A resumption of that effort should include:

- Making a transparent legal distinction between investment in productive factors (like human capital, R&D, supportive general regulation and infrastructure) and direct production subsidies, with the latter discouraged.
- Getting coordination on subsidizing the consumers, which means both household and other businesses, instead of export subsidies to the green tech producers, domestic and foreign. The less carbon they use, the more money they get back.
- Binding commitment to an international common fund that requires governments to invest a few cents for every dollar, euro or yuan which they spend in subsidies for domestic production, towards funding the spread of green technology and needed adaptation to the developing world.

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