Industrial Policy for the Green Transition

6. Industrial Legacies and the Diversity of Green Growth Models

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Outline

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- Path-Dependent Dynamics in Green Industrial Policy

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- Green Industrial Policy in Export-Led and Consumption-Led Growth Regimes

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- Firms' Responses to Green Industrial Policy: effect of legacy institutions and private networks

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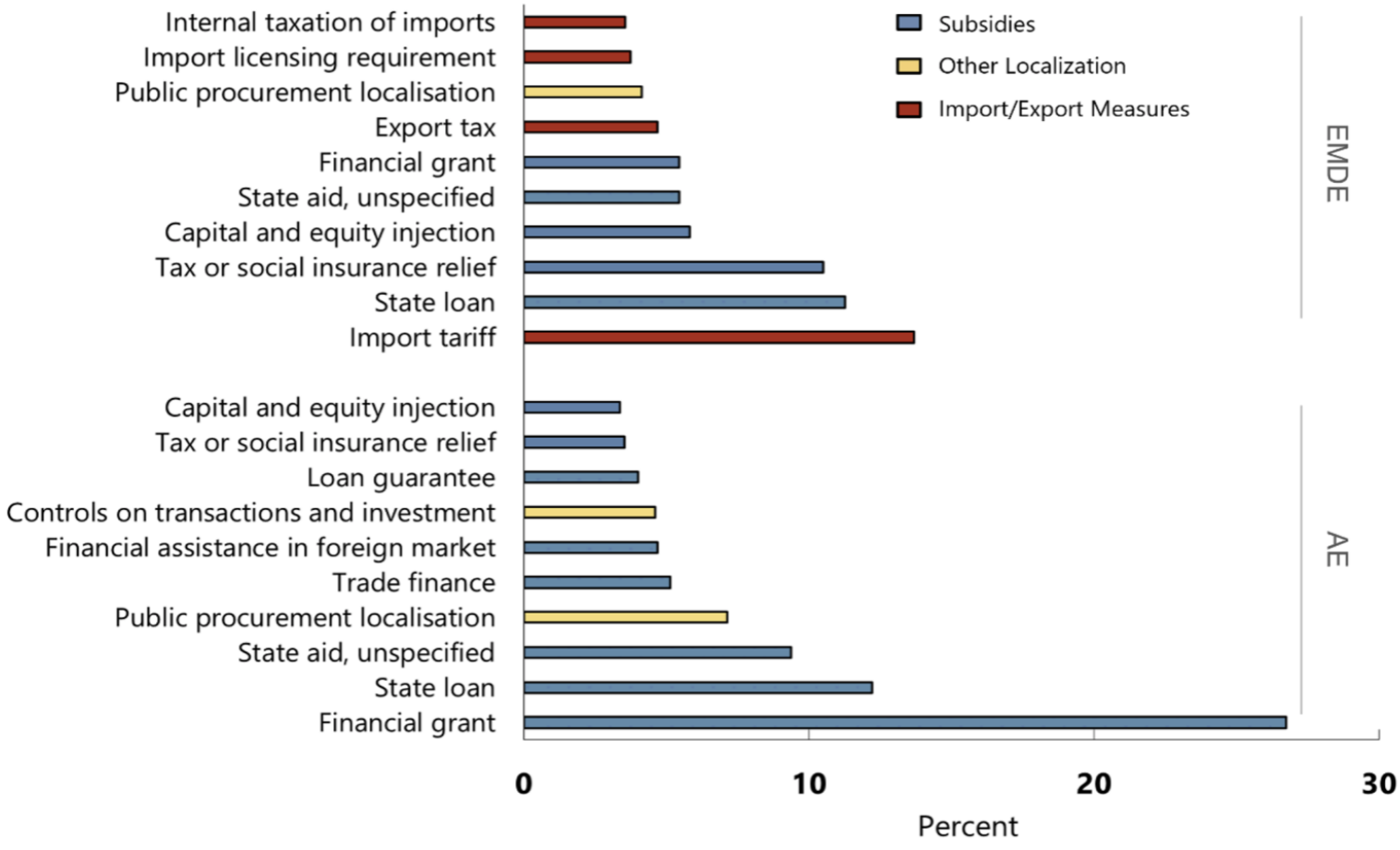
- This is because historical legacies – existing institutions, past sector and technological specializations – shape green industrial policy choices
- It does so by influencing the *politics* of industrial policymaking and coalition formation across sectors and venues ...
- ... and by shaping firms' responses to these decisions – thereby influencing support for future policy choices



Trade distortive industrial policy tools in 2023 by income group (reprinted from Evenett et al. 2024)
Note: AEs = Advanced economies; EMDEs = Emerging markets and developing economies

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Debt-financed consumption	Accumulation of household debt	United States, UK
Export-led	Foreign demand, competitiveness of the export sector	Germany
Balanced	Combination of household debt/export	Sweden
Compradors, courtesans, and parts suppliers	Various strategies to attract foreign capital	CEE countries, Tawain

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- Consequently, we can anticipate varying green industrial policy strategies emerging from these different models

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- In both countries, ambitious climate agendas were subsequently backed by politically powerful clean energy industries that relied on exports for a sizable share of their revenue

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- This highlights a major trend in green industrial policy, which is increasingly defined by conflicts between economic sectors based on the opportunities and risks posed by the shift toward a clean energy transition

	Large costs and risks	**Small costs and risks**
Many opportunities	Decarbonizable sector (e.g., car companies)	Green sector (e.g., renewable electricity producers)
Few opportunities	Fossil fuel sector (e.g., oil and gas companies) (e.g., oil and gas companies)	Bystander sector (e.g., healthcare providers)

Analytical Types Differ Based on Industries' Relative Risks and Opportunities in Making Clean Energy Transition, reprinted from Kupzok & Nahm 2024

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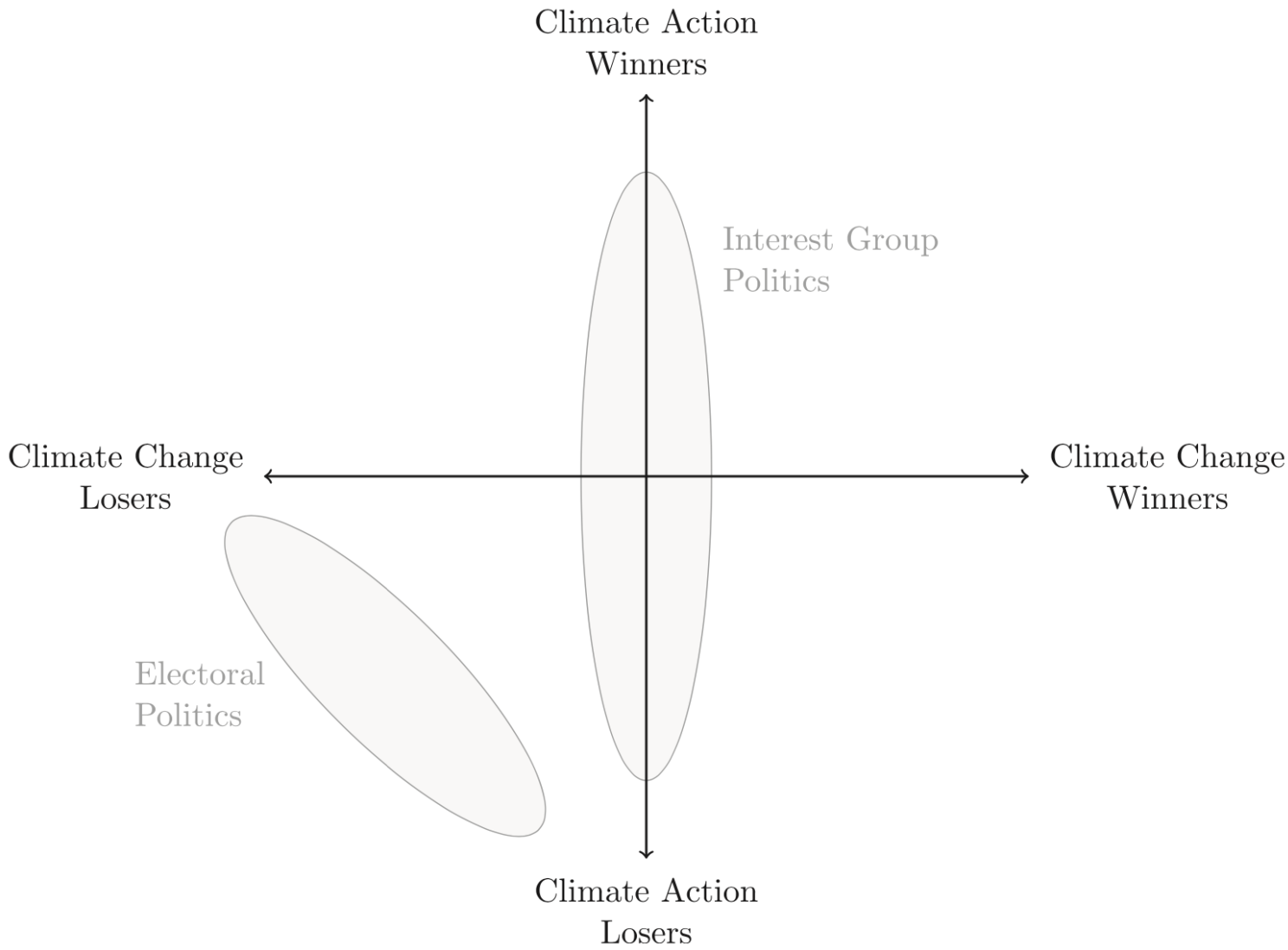

The two-dimensional climate politics conflict space (reprinted from Schwander & Fischer 2024)
Note: The grey areas indicate the main focus of the political science literature.

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- Research indicates a twofold pattern of incremental improvement of existing strengths through legacy institutions and specialization through global networks
- This reinforces national specialization (as in a game of strategic complementarities)

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United States	**Germany**	**China**
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Main outcomes

United States	**Germany**	**China**
Rise of start-ups seeking to lower of the cost renewable energy through technological breakthroughs	Small and medium-sized suppliers from legacy industries diversified into renewables energy sectors	Producers spun-off from state-owned manufacturing firms. Focus on commercialization and scale-up

Wind and solar sectors in China, Germany, and the United States, adapted from Nahm 2017

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- This is a major difference with the purpose (and consequences) of old industrial policy

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- Meckling and Goedeking (2023) call this a 'coalition cascade' in their study of California's renewable energy policy that influenced grid policy, leading to energy storage and electric vehicle charging policies

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- The politics of green industrial policy follows policy and industrial legacies
- Global networks reinforce, rather than hinder, country specialization

Main references

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