

“Local for local” is not a solution, but a symptom

For strategic economic policy to work, it must be economically rewarding for businesses

Jan Cernicky

This week, for the first time, EU adopted so-called extraterritorial sanctions to prevent the resale of sanctioned goods to Russia by companies in third countries. In October this year, the Carbon Boundary Adjustment Mechanism (CBAM) will gradually enter into force with the aim of ensuring that sustainably produced goods from the EU are not displaced by dirtily produced goods from abroad.

These and other individual measures pursue important and sensible goals. However, they also contribute to making foreign trade more expensive and unpredictable for European companies. This is particularly problematic for German companies that have set themselves up to carry out research and development as well as sophisticated production in Germany, but then sell a large part of these high-quality inputs abroad or process them there in subsidiaries.

Globally active corporations are reacting to this with a “local for local” strategy. They are increasingly trying to relocate not only final production, but also administration, research and development and high-value production steps to the regions where their final products are sold. That is, mainly China and, to a lesser extent, the USA. This, by the way, is the main reason for the record high investments of German companies in China: they are not doing this because the investment climate there has improved. On the contrary, they are doing it because the investment climate in China and Europe is getting harsher. Corporations are preparing for a situation in which trade between Europe and China no longer works.

Surprisingly, many politicians also praise this approach as clever risk minimisation. From the point of view of a global corporation that is

formally obliged to its shareholders, this is true. However, it is fatal for Germany as a business location, because the relocation of sophisticated activities shifts the core of our economic prosperity model away from Germany. It is also hardly to be expected that at least the global group's profits will continue to be taxed at the group's headquarters in Germany and thus compensate for the losses at least financially. As a result of the German government and the EU further destabilising the already ailing global economic order, we will become significantly poorer.

Therefore, the following should be done:

1. “Local for local” should not be welcomed as a positive strategy. It should be understood and problematised as a reaction to a problem of the business environment and the multilateral economic order.
2. To mitigate weaknesses of the business location, conditions for German companies from Europe to serve the world market should at least be maintained. This is also important for smaller companies, which form the backbone of the German economy. They cannot simply set up parallel corporate headquarters in other regions of the world. Therefore, when introducing new instruments, one should carefully

consider whether the benefits that strategic trade policy brings actually exceed the costs, including the associated bureaucracy. Especially CBAM should be evaluated from this point of view.

3. If a political decision is made that economic policy should address additional goals after all in important cases, for example in response to a war of aggression or to climate change, then this must be seen as a task for society as a whole. This means that the affected companies are not left alone with the consequences and, above all, the costs. For it is absurd, on the one hand, to drive up the costs for companies in global competition and, on the other hand, to pay many billions of euros in subsidies to companies so that they invest in Germany.

Konrad-Adenauer-Stiftung e. V.

Dr. Jan Cernicky

Head of Department Economy and Innovation
Analysis and Consulting

jan.cernicky@kas.de



The text of this publication is published under a Creative Commons license: "Creative Commons Attribution-Share Alike 4.0 international" (CC BY-SA 4.0), <https://creativecommons.org/licenses/by-sa/4.0/legalcode>.

This publication of the Konrad-Adenauer-Stiftung e. V. is solely intended for information purposes. It may not be used by political parties or by election campaigners or supporters for the purpose of election advertising.