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POLICY BRIEF
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Time to move from global to responsible value chains

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Time to move from global to responsible value chains

The world is changing at a fast pace, and recurring crises require regions and nations to become more resilient and transform towards a sustainable future. Regional development holds the potential to address several societal challenges at the same time by moving towards responsible and shorter value chains.

In these challenging times development needs to be looked at differently. Regenerative regional development in responsible value chains holds potential to address several societal challenges at the same time: greenhouse gas emissions, exploitation of cheap-labour regimes, and long-term local and regional development. It builds on advanced manufacturing capabilities, automation, and precision technologies which promise local economic regeneration while reducing the reliance on low-cost labour. It also substantially cuts emissions through reduced long-haul transport, use of green energy and more energy-efficient production processes.

To succeed, however, it calls for policies that promote the building of local capabilities and penalize practices causing environmental and social harm in global value chains, making it possible to move towards responsible and shorter value chains.

THE ROAD FORWARD FOR POLICY

It is important to keep in mind that a progressive development perspective is not advocating for protectionism in new clothes but calls for institutions that steer economic activities away from practices that are harmful for society and the planet. This includes the following:

- **A change in the trade regime** away from a mere cost-perspective and ignorance of environmental and social harm. The guiding star should be the establishment of rules that increasingly shift the opportunity space in favour of socially desirable practices which lead to a transition towards zero greenhouse gas emissions and allow societies and the planet to regenerate. This may include conditionalities on supra-national (EU) level, where tariffs are introduced if standards concerning climate and environment, human rights, and labour conditions are not met. As well as the development and use of methods that consider the whole value chain when deciding on the location of production in

relation to final markets (transport, type of energy for raw material exploitation and production).

- Provide for the necessary **capabilities and resources for the industry** to introduce and make use of industry 4.0 production technology such as automation, robotization and precision technologies by mobilising new industrial policies. One example is national cluster programmes that promote the implementation of industry 4.0 by enhancing capabilities, strengthening collaboration between relevant stakeholders, and thereby contribute to building an innovative and advanced production sector. Furthermore, it requires for the manufacturing industry that enough 'patient and risk willing' capital is secured for necessary investment in modern production technology.
- Interventions aimed at **demand articulation** appears necessary. This could entail the engagement of the public sector in co-creating and shaping markets for new and sustainable products from the manufacturing industry. This can be done by (functional) procurement for innovation and acting as initial customers (public agencies at different geographical levels) where for instance emissions in the whole value chain become an important award criterion. It could also include a careful consideration of procurement processes so that local, specialized suppliers have a chance to participate in tenders, for instance by splitting large integrated calls into several smaller and more specialized calls.

A STUDY OF WAYS TO RESPOND TO CRISIS

The recent research study looked at how actors in the maritime industry in Sunnmøre in the western parts of Norway have responded to the many crises they have been facing since the beginning of the century. This provides valuable insights on how actors engage in shaping resilience and processes of transformation, complete with the intended and unintended outcomes such engagement

may have. It also provides insights on the necessary policy interventions at the national and European level to promote resilience and transformation.

The study found two starkly contrasting development perspectives in the response of local actors:

1. The traditional, neoliberal economic rationale of globalization.
2. The progressive rationale of regenerative regional development in responsible value chains.

The traditional perspective is clearly characterized by a short-term, backward-looking perspective. Actions are undertaken by firms and support structures to maintain the existing industry, largely as it was before the crisis hoping for a resurgence of demand from the oil and gas industry.

The progressive rationale is an alternative to the current organization of the economy in global value chains embedded in a neoliberal ideology, with costs as main driver and little concern neither for local economic development nor for global environmental and social impacts.

The progressive perspective is underpinned by a long-term orientation, looking into the future beyond the current organization of the economy. Investments in automation and precision technologies shift focus on capability building in advanced production and manufacturing, and combined with regained possibilities of learning through doing, using, and interacting enhance innovation. Hence, it promotes regenerative development whereas the imperative of outsourcing to the cheapest locations (the traditional perspective) led to a loss of capabilities.

The investments in local automated manufacturing capabilities reduce the reliance on exploiting low-cost advantages arising from cheap labour, and weak environmental, labour, and human rights standards. Shorter supply chains, fossil free energy resources, and higher efficiency in the use of raw materials contribute further to sharp cuts in greenhouse gas emissions. The progressive perspective thus calls for responsible value chains where greenhouse gas emissions and low environmental, labour, and human rights standards are penalized.

KEY POINTS FOR POLICY

- Rethink the development perspective – towards a regenerative rationale within responsible value chains and away from a neoliberal, cost-focussed rationale of globalisation.
- Firms' approaches to crises differ, there are some that already work with the alternative regenerative and responsible rationale. However, for them to grow, we need interventions at the national and European level, including:
 - A change in the trade regime away from a mere cost-perspective and ignorance of environmental and social harm.
 - Mobilising new industrial policies to provide the necessary capabilities and resources for companies to introduce and make use of industry 4.0 production technology, such as automation, robotization and precision technologies.
 - Interventions in co-creating and shaping markets for new and sustainable products from the manufacturing industry, for instance by functional procurement and design of procurement processes.

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