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The Economic Impact of Local Content Requirements A Case Study of Heavy Vehicles

by Hanna Deringer, Fredrik Erixon, Philipp Lamprecht, Erik van der Marel

Brussels, Belgium, 25th January 2018 - This paper aims to provide a general overview analysis of the use of LCRs in the world economy, with a particular focus on large emerging economies.

As an effect of increased liberalization and global trade integration, especially after the Uruguay Round, governments cannot use tariffs as much as before for protectionist purposes. However, governments have increasingly turned to non-tariff barriers (NTBs) and are using them with greater ease and flexibility. Local content requirements (LCRs) is a case in point. Such measures are often obscure and, in the first place, difficult to observe. Unlike tariffs, they are neither numerical nor upfront. Some countries have given LCRs a central role in their recent trade policy and consequently introduced more discrimination and restriction in how exporters can access markets.

Their growth and consequences have now become a major concern for global trade policy and should warrant far more attention, both in economic analysis of trade and in the articulation of trade policy. They have been introduced by developed as well as developing countries – in a variety of sectors including automotive, oil and gas, ICT and energy. Especially after the 2008 financial crisis the world has experienced a rapid increase in the use of LCRs. Many countries have introduced discriminatory trade measures with the purpose of benefiting domestic firms at the expense of foreign competitors. Such measures have been a common feature of public procurement policies.

This paper estimates the economic impact of LCRs in a sub-sector of the motor vehicles sector, where they are frequently used, i.e. heavy vehicles. The study also includes a more specific analysis of the heavy duty vehicles subsector. It also outlines ideas for how policymakers can address the growth of LCRs and their significance in modern protectionism.

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Media Contact: info@ecipe.org at +32 2 289 13 50