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Estimating the Economic Impact of Local Content Requirements: A Case Study of Heavy Vehicles

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Structure

1. Outline of the research process.
2. Presentation of the research methodology.
3. Overview of the results of the analysis.
4. Outlook

1. Outline of the research process

Definition of LCRs:

“policies imposed by governments that require firms to use domestically manufactured goods or domestically supplied services in order to operate in an economy” (OECD).

LCRs can have negative impacts:

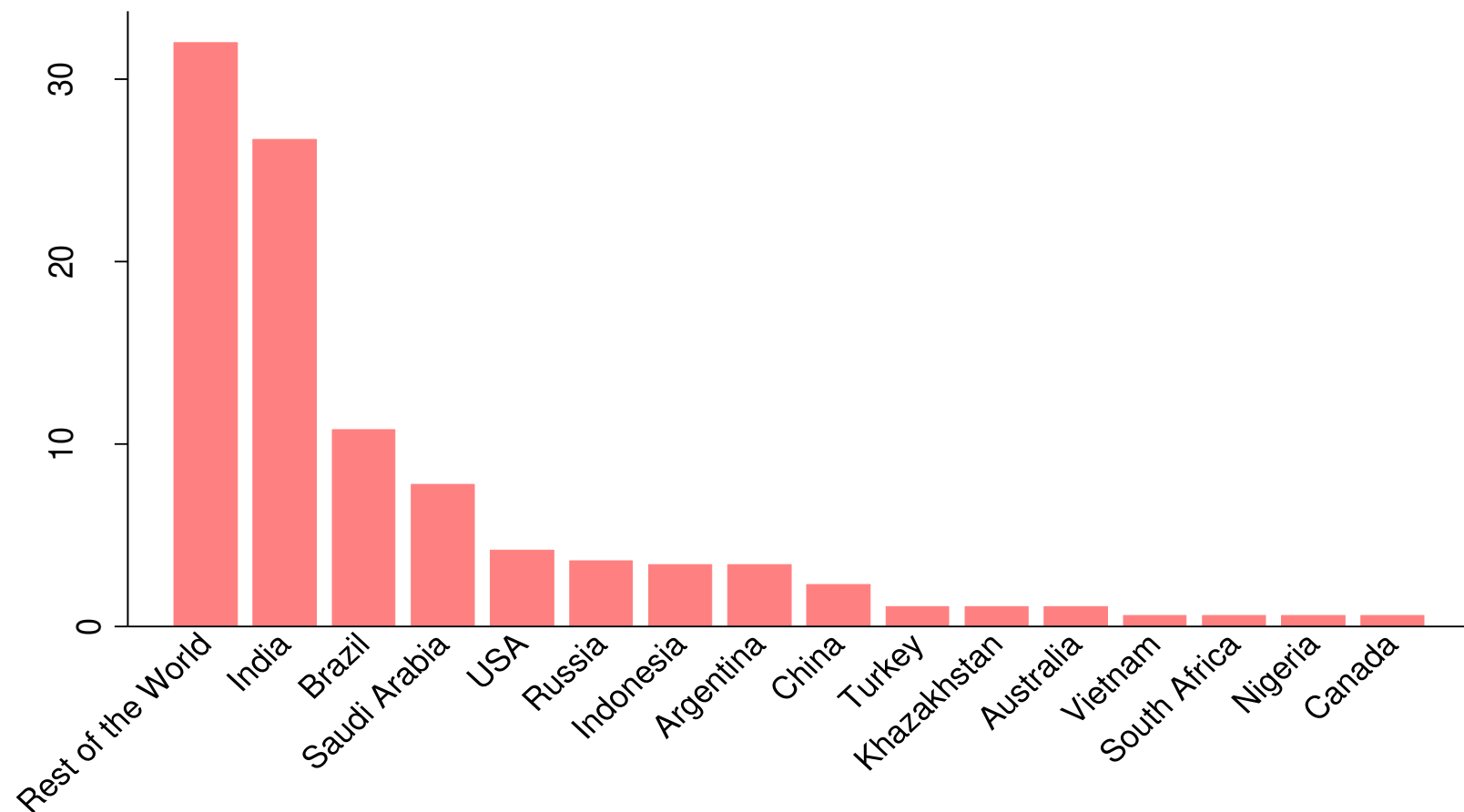
- for the economy,
- for downstream firms,
- for internationally operating firms,
- and for consumers.

1. Outline of the research process

- Mapping the growing use of LCRs in the world economy → increase in particular since the Financial Crisis.
- Mapping the current use of LCRs in the world economy.

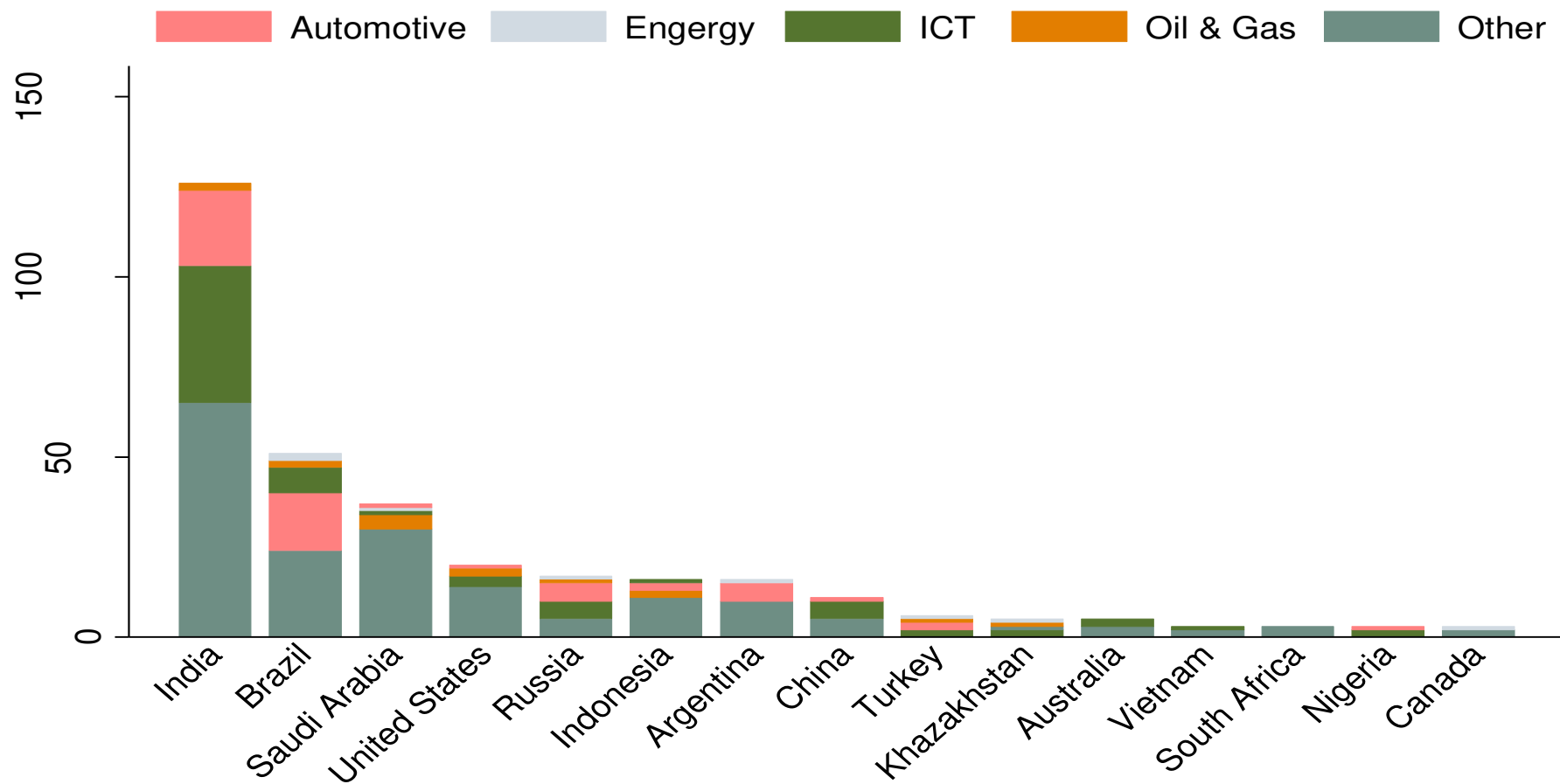
1. Outline of the research process

Fig. 1: Share of globally implemented LCRs by country (%)



1. Outline of the research process

Fig 2: Overview of currently implemented LCRs

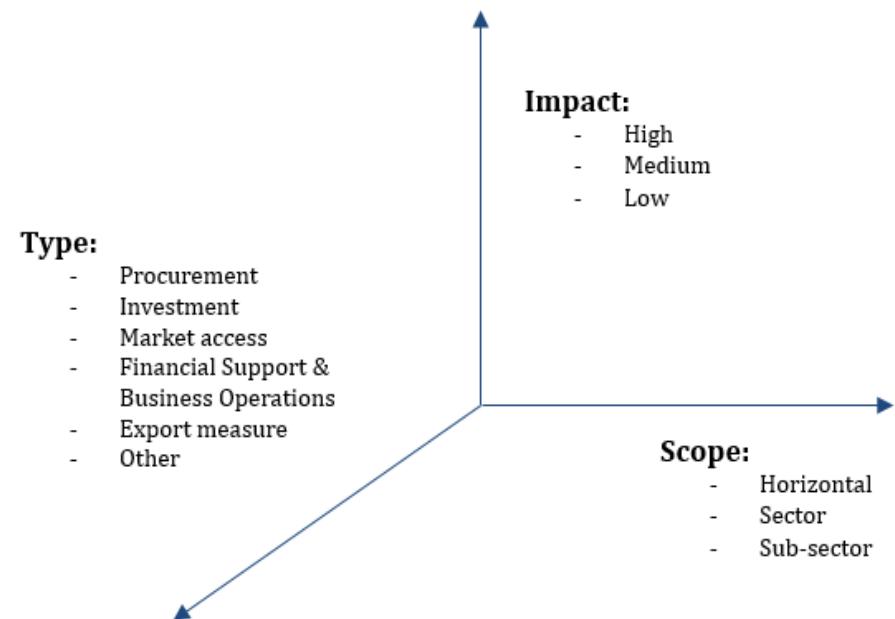


1. Outline of the research process

ECIPE LCR database:

- LCRs which affect the heavy vehicles sector in BRICS
- 72 different LCRs have been identified: Brazil and Russia each 20 measures; India 15; China 13 and South Africa 4.
- Most LCRs are related to government procurement, financial support and business operations, as well as to export measures.
- LCRs that are related to financial support and business operations have generally a high impact.

Figure 3: Cost-dimensions of LCRs



2. Presentation of the research methodology

Econometric model:

- The cost of the collected LCRs has been estimated by translating their negative effects into ad valorem equivalents (AVEs).

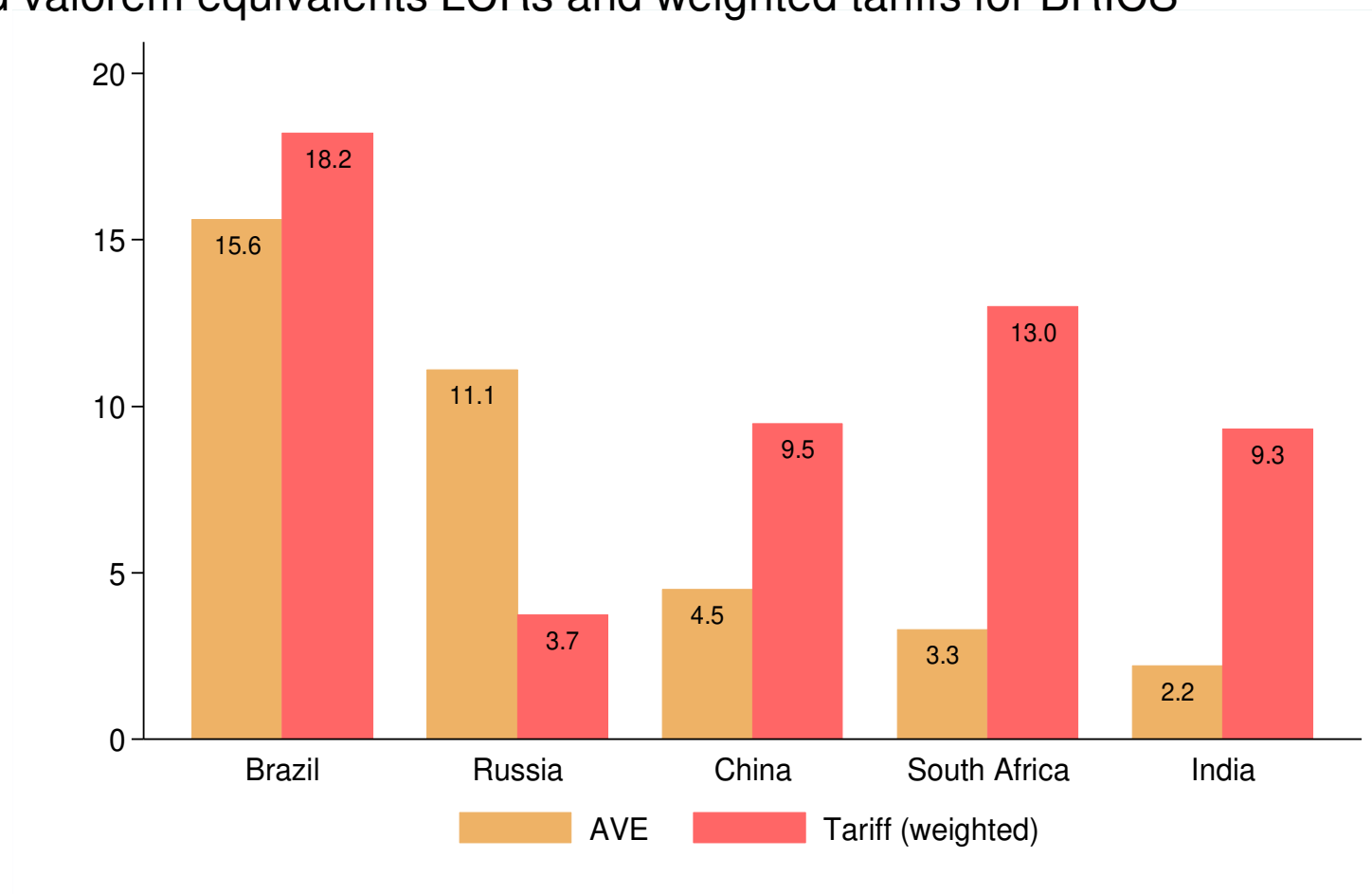
General equilibrium model:

- The general equilibrium model simulation is conducted with the standard model by the Global Trade Analysis Project (GTAP) at the University of Purdue.

→ Significant results in the form of high tariff equivalents.

3. Overview of the results of the analysis

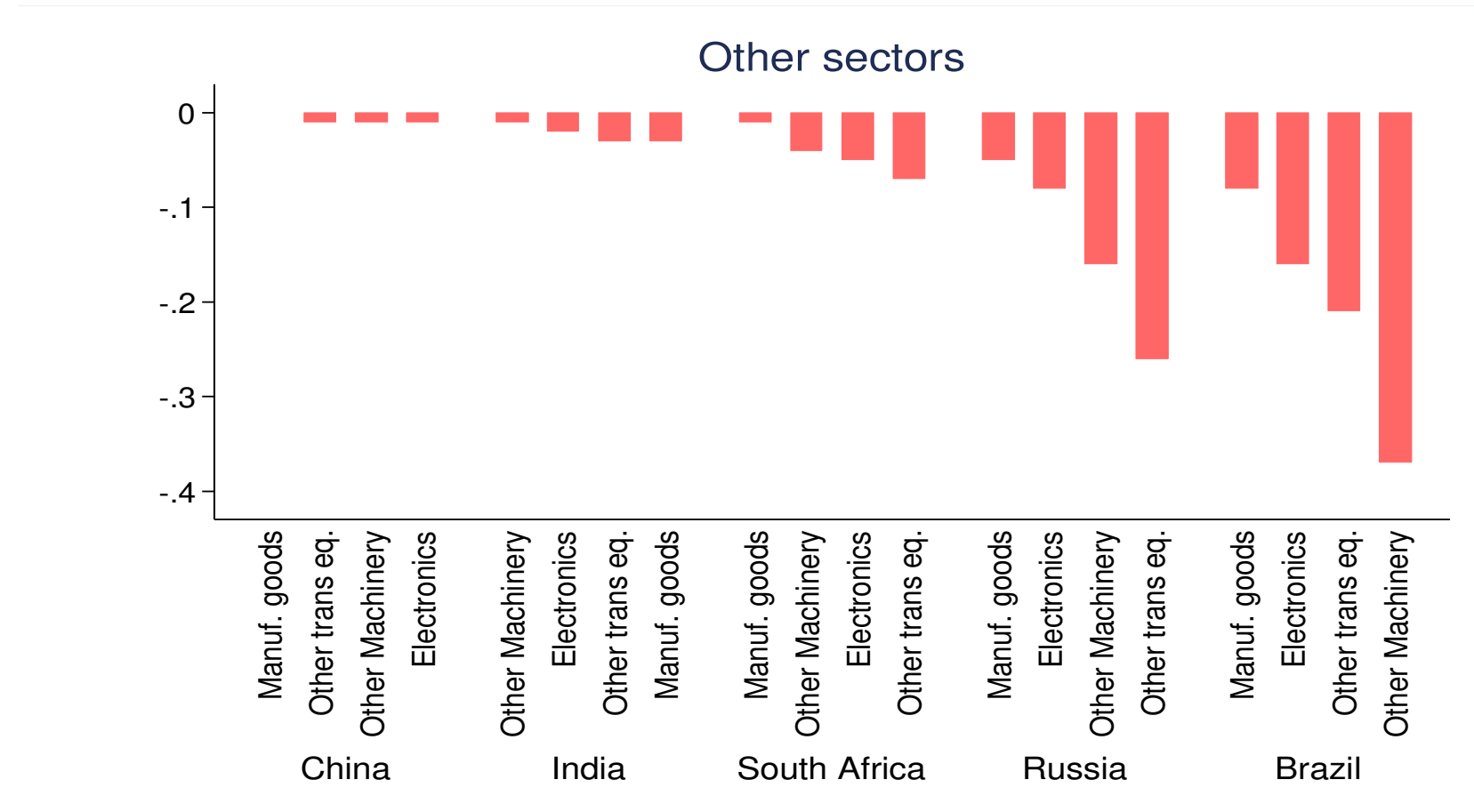
Figure 4: Ad valorem equivalents LCRs and weighted tariffs for BRICS



Source: ECIPE calculations, based on ECIPE LCR BRICS database; WITS/UNCTAD TRAINS

3. Overview of the results of the analysis

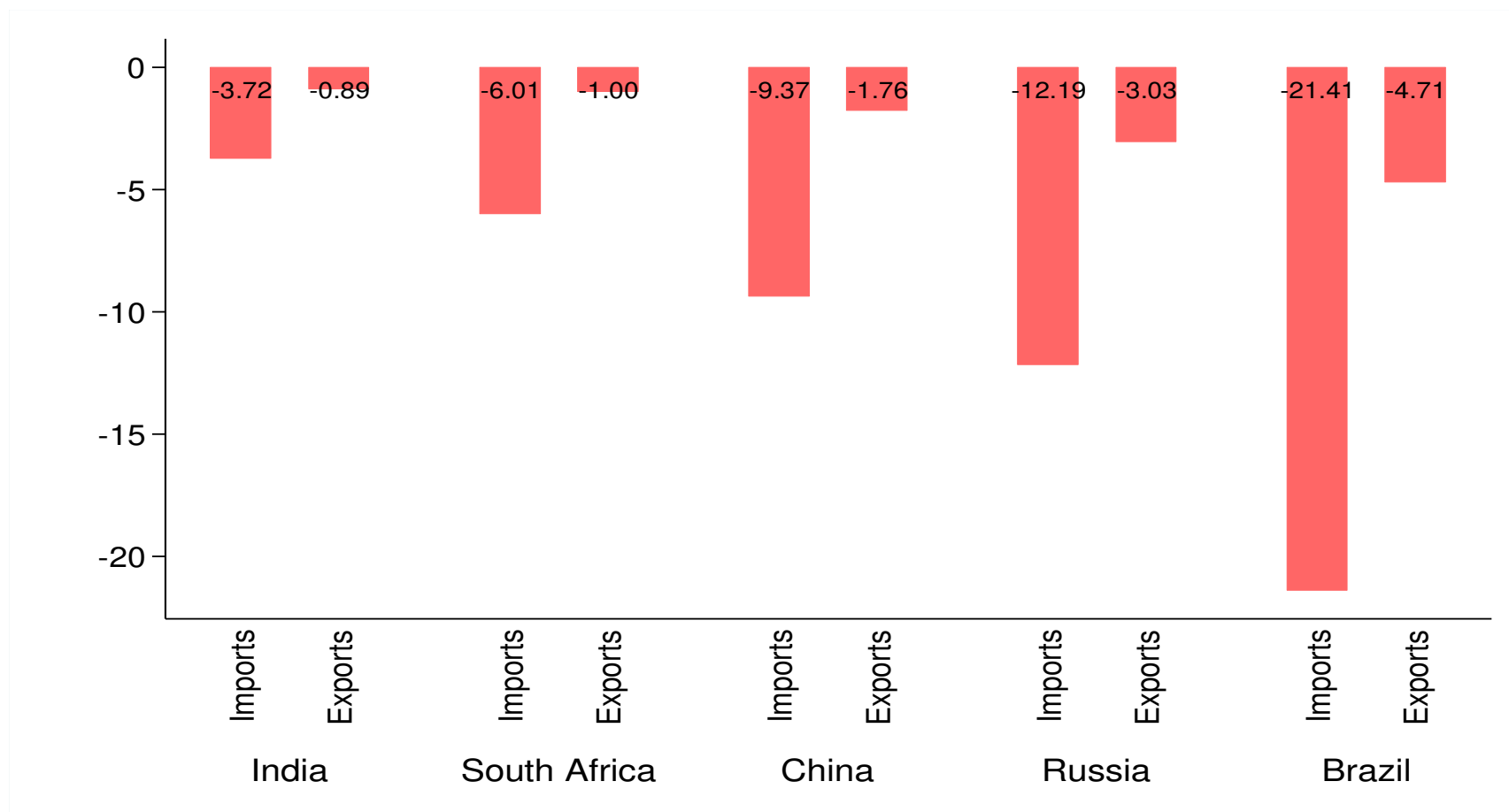
Figure 5: Industry output in selected other sectors



Source: ECIPE estimations

3. Overview of the results of the analysis

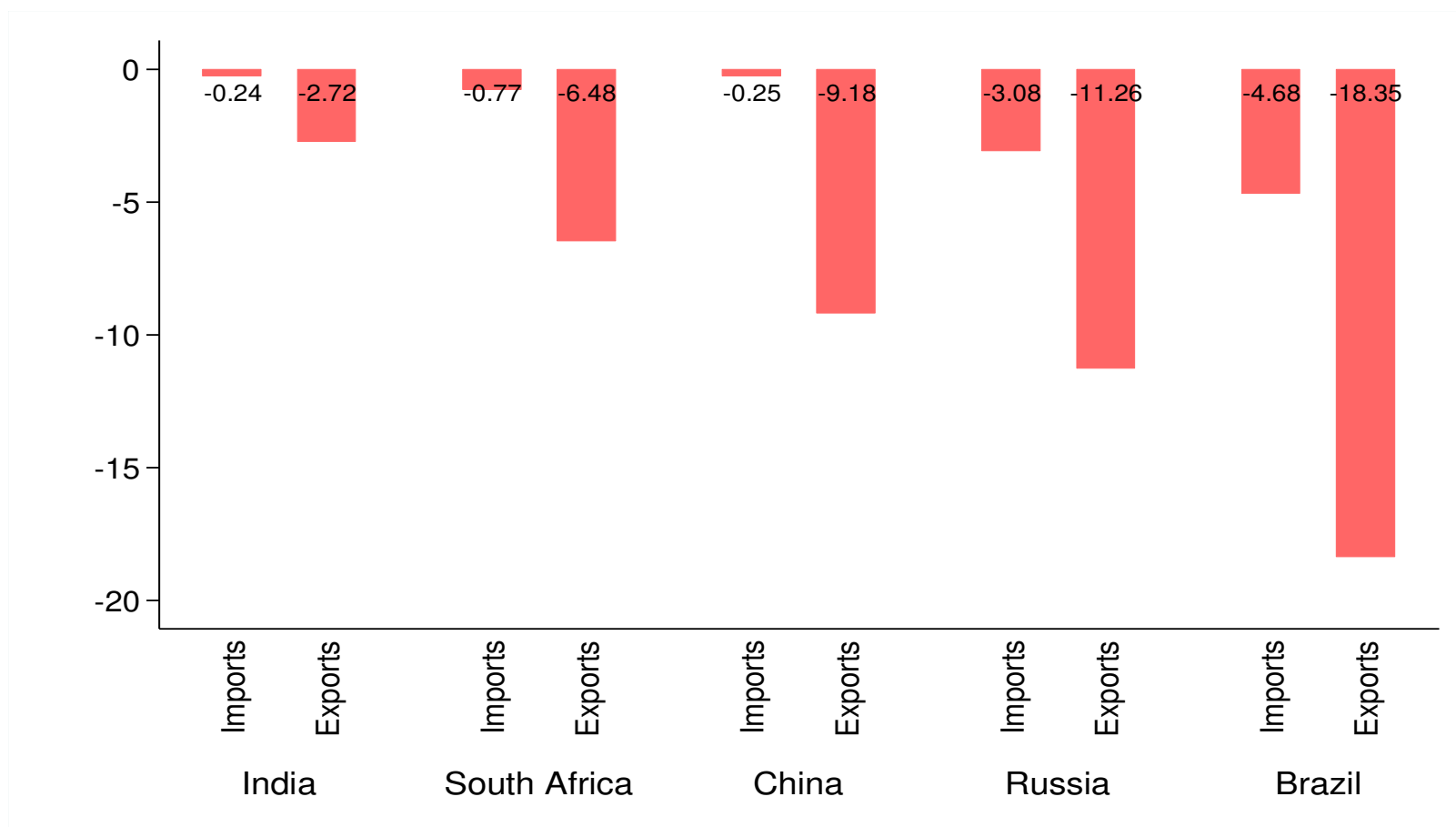
Figure 6: Impacts on heavy vehicles trade in BRICS



Source: ECIPE estimations

3. Overview of the results of the analysis

Figure 7: Impacts on EU trade with BRICS in heavy vehicles



Source: ECIPE estimations

3. Overview of the results of the analysis

Priorities for policymakers:

- Increased use of complaints through the WTOs Dispute Settlement Body.
- Start of negotiations in the WTO by entire membership supported by larger economic analysis.
- Negotiations by a “coalition of the willing” supported by larger economic analysis.
- Negotiations on bilateral free trade agreements, including EU FTAs.

4. Outlook

Limitations but also opportunities of LCRs:

- LCRs can have different types and different coverage

Types of LCRs

Local content incentive
Local content requirement
Local value added incentive
Local operations requirement
Localisation, nes
Local operations incentive
Local labour requirement
Local labour incentive
Local value added requirement

Coverage of LCRs

firm-specific
all
sector-specific
state-controlled
SMEs
location-specific

Source: Global Trade Alert

4. Outlook

Limitations but also opportunities of LCRs:

- The tradecraft of designing LCRs requires careful decision-making based on analysis and research for tailored and targeted implementation.
- Needs to take into account idiosyncratic characteristics of sectors as well as the way in which specific firms operate.
- Negative examples of use of LCRs exist.
- Coherence, effectiveness, and impact of these interventions depends on design and choices.