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*Localization Barriers to Trade: Threat to
the Global Innovation Economy*

Stephen J. Ezell, Senior Analyst

Information Technology and Innovation Foundation

■ Countries' Use of Trade Barriers Increasing

- WTO-reported TBTs reached all-time high in 2012.
- More damaging than tariff barriers.

■ Today's Presentation

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Contextualizing Economic Development Strategies

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Countries' Use of LBTs

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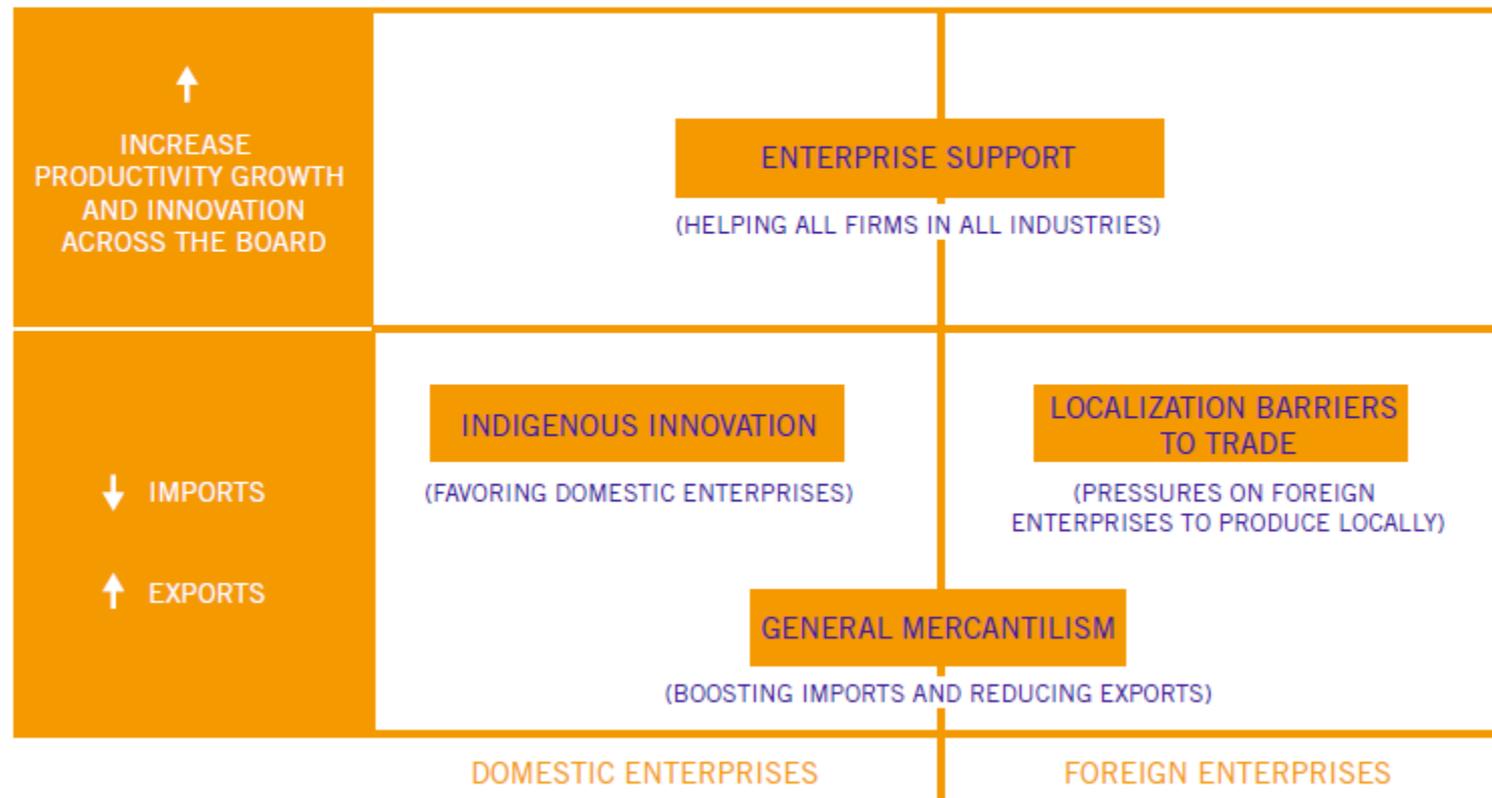
The Impact of LBTs

4

Policies to Combat LBTs

■ Contextualizing Countries' Economic Development Strategies

A MATRIX FOR UNDERSTANDING GLOBAL ECONOMIC DEVELOPMENT POLICIES



■ Localization Barriers to Trade (LBTs)

- Pressure foreign enterprises to localize economic activity in order to compete in a country's marketplace.
- Force foreign enterprises to produce locally what they would otherwise produce elsewhere and export. Include:
 - Local content requirements;
 - Forced local production (e.g. data center requirements);
 - Forced intellectual property or technology transfer as a condition of market access;
 - Forced offsets.

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■ Local Content Requirements (LCRs)

- Mandate that a certain percentage of goods or services sold in a country be produced using local content or IP.
- Affect 5% of global trade; cost global economy \$100B/yr.
- Examples Include:
 - India's Preferential Market Access (PMA) Mandate.
 - Brazil's auto; oil/gas; ICT; and clean energy industries.
 - Argentina's A/V sector.
 - Nigeria's digital services and oil and gas sectors.

■ Local Production Requirements

- Mandated local production as condition of market access.
- Particularly include localization barriers to digital trade.
- E.g. Vietnam's Decree 72 & Indonesia's Data Center Law

Type of ICT LBT	Selected Countries
Local IT infrastructure (such as data center) requirements	Brazil, China, Denmark, Indonesia, Kazakhstan, Nigeria, Norway, Malaysia, Russia, South Korea, Ukraine, Venezuela, and Vietnam
Local data storage requirements	Argentina, Australia, Brazil, Brunei, Canada, China, France, Greece, India, Indonesia, Kazakhstan, Malaysia, New Zealand, South Korea, Taiwan, Turkey, Venezuela, and Vietnam
Local content requirements	Brazil, China, India, Indonesia, Nigeria, Russia

Countries Imposing or Considering Imposing LBT's on the ICT Sector

■ Forced IP/Technology Transfer

- Includes forced JV requirements, mandatory source code disclosure requirements, compulsory licensing.
- Examples Include:
 - China has required tech transfer in its high-speed rail, steel, auto, and wind energy industries, among others.
 - Portugal requires wind turbine manufacturers to conduct R&D at Portuguese universities.
 - India's issuing a compulsory license on Bayer's Nexavar.

■ Forced Offsets

- Industrial compensation arrangements required by foreign governments as a condition of public procurement.
- Historically used in defense/aerospace industries but usage now broadening.
- Examples Include:
 - Turkey/Israel/India offsets in defense and civil aviation.
 - Argentina's Export Equalization Measures.

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■ The Impact of LBTs

While LBTs can deliver some near-term gains for economies, they are not cost free and harm many parties.

1. The foreign enterprises affected by them.
2. The nations on the receiving end of them.
3. The global innovation economy.
4. The countries that require them.

■ The Impact of LBTs

1. The foreign enterprises affected by them.

- Raise enterprises' production costs.
- Lead to reduced ability to invest in R&D/innovation.

■ The Impact of LBTs

2. The nations on the receiving end of them.

- For an **enterprise's home nation**, may lead to facility closures, cutbacks, or diminished expansion, which costs jobs and growth.
- But they also hurt other **third-party nations**, who lose the opportunity to compete.

■ The Impact of LBTs

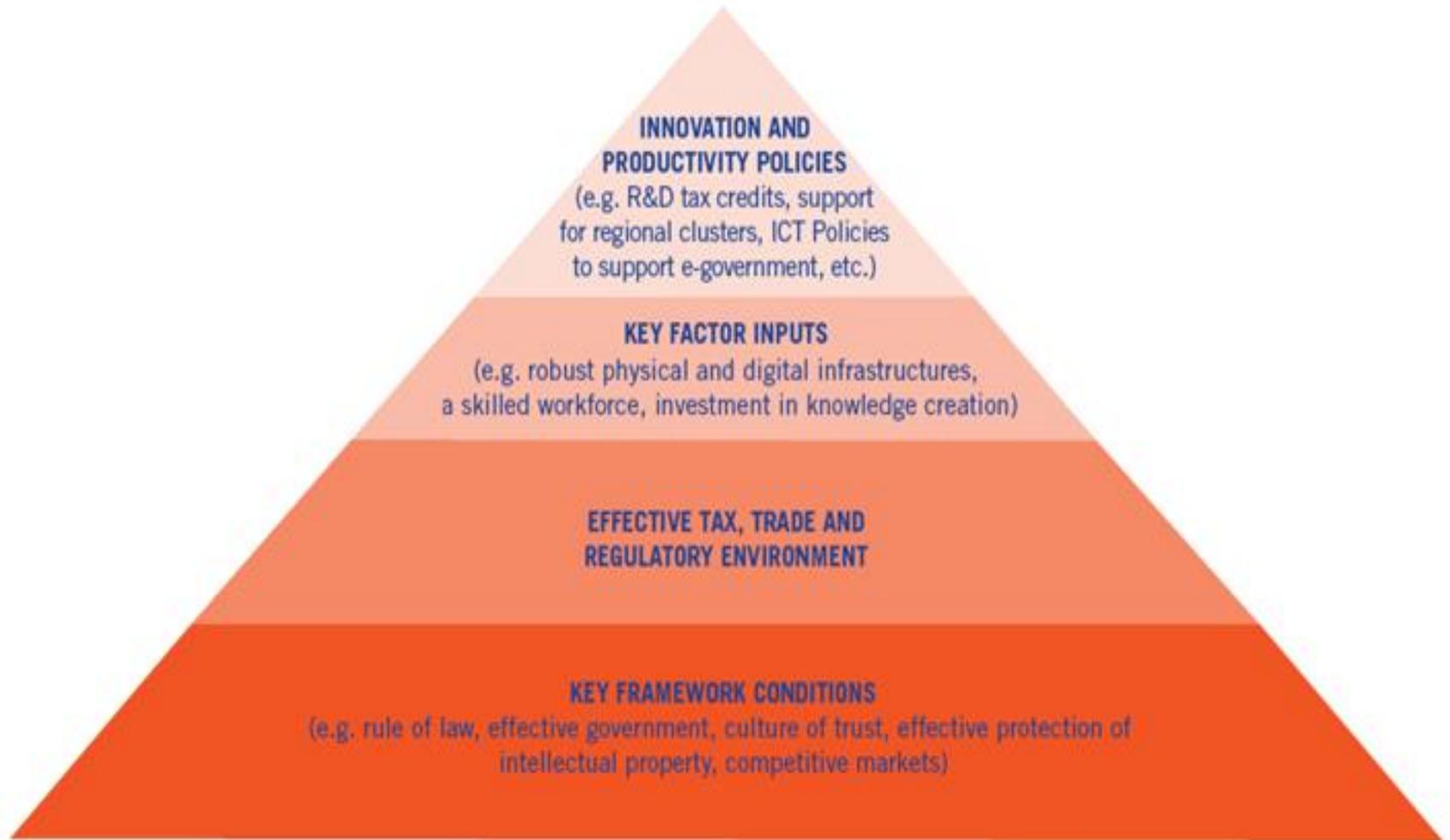
3. The global innovation economy, and innovative industries in particular.
 - Fail to increase the global stock of innovation.
 - Can lead to breakdown in global production system.
 - Disrupt the process of innovation in innovative industries.

■ The Impact of LBTs

4. The countries that implement them.

- Inflict economic inefficiencies.
- Can cause reputational harm.
 - They are a second-best option to winning on merits.
- Engender a slippery slope that hurts themselves.
 - Countries would find similar policies enacted by the U.S. or EU intolerable.
- Distract countries from putting in place the right types of policies to grow their economies.

■ The Economic Growth Pyramid



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Examples of LBTs

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Policies to Combat LBTs

■ How to Address Countries' Continued Use of LBTs

1. Expand the reach and relevance of the WTO.
 - Create new database like I-TIP to track LBTs.
 - Extend reach of WTOs dispute settlement mechanism to application/interpretation of LBTs beyond LCRs.
2. Complete high-standard free trade agreements that prohibit the use of LBTs.
3. Empower enterprises to fight back.
4. Remove GSP preferences for continuing violators.

■ How to Address Countries' Continued Use of LBTs

5. Reform global institutions (e.g., World Bank/IMF).

- Stop promoting export-led growth as dominant key development tool.
- Tie assistance to steps taken by developing nations to move away from mercantilist policies.

6. Make it clear that for countries the central challenge is *to attract*, not *to compel*, FDI to their shores.

Thank You

Stephen Ezell Michelle Wein
sezell@itif.org mwein@itif.org

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