Discussion on HOW LOCAL DISCRIMINATION CAN PROMOTE GLOBAL PUBLIC GOODS

C. Veeramani
IGIDR, Mumbai
Main Arguments

• Local programs, not withstanding their discriminatory nature, (such as subsidies to renewable energy companies can promote global welfare by providing global public goods (such as clean air)
• Programs contain local content requirements (LCRs) and thus discriminate against foreign producers
• Violation of WTO’s non-discrimination rules
• LCRs ensure that there is political support at the local level for these programs that might not pass otherwise.
• International rules have to evolved to take into account the increased role of local governments in providing global public goods
Main Arguments

• A measure without a trade-distorting discriminatory provision is always preferable to the same measure with the discriminatory provision.
  – Difficult to achieve

• Local discrimination may, in some cases, be a second-best alternative to an undersupply of the public good.
Some Observations

• Is this really the second best?

• Are there no better alternatives to address the issue, which are less distortionary?

• LCRs create major economic inefficiency: do the benefits outweigh the costs?

• Alternative measures which may yield same benefit but at lower costs
Some observations

• Economic inefficiency of LCR:
• Large number of inefficient producers operating at sub-optimal scale versus few number of large and efficient producers
• General equilibrium impact for the local economy: allocative efficiency loss: resources are reallocated from efficient to inefficient producers
• Implications for government revenue: possibility of diverting government revenue from more important other welfare programs
• A legislation perceived as welfare improving could be welfare reducing in practice
Some observations

- LCR and Global Production networks
- LCR and low utilization of tariff concessions offered by FTA/PTA
- LCR are more costly when it is done at the local level as compared to national level
Fragmentation of production: the example of the Boeing 787 Dreamliner

- Wing box: Mitsubishi Heavy Industries (Japan)
- Wing ice protection: GKN Aerospace (UK)
- Vertical Stabiliser: Boeing Commercial Airplanes (USA)
- Raked wing tips: Korean Airlines Aerospace division (Korea)
- Horizontal Stabiliser: Alenia Aeronautica (Italy)
- Auxiliary power unit: Hamilton Sundstrand (USA)
- Passenger doors: Latécoère Aéroservices (France)
- Cargo doors: Saab (Sweden)
- Prepreg composites: Toray (Japan)
- Landing gear: Messier-Dowty (France)
- Electric brakes: Messier-Bugatti (France)
- Tires: Bridgestone Tires (Japan)
- Doors & windows: Zodiac Aerospace (USA)
- Lavatories: Jamco (Japan)
- PPG Aerospace (USA)
- Centre fuselage: Alenia Aeronautica (Italy)
- Rear fuselage: Boeing South Carolina (USA)
- Forward fuselage: Kawasaki Heavy Industries (Japan)
- Spirit Aerosystems (USA)
- Escape slides: Air Cruisers (USA)
- Flight deck seats: Ipeco (UK)
- Flight deck controls: Esterline (USA), Moog (USA)
- Engines: GE Engines (USA), Rolls Royce (UK)
- Engine nacelles: Goodnch (USA)
- Tools/Software: Dassault Systemes (France)
- Navigation: Honeywell (USA)
- Pilot control system: Rockwell Collins (USA)
- Wiring: Safran (France)
- Final assembly: Boeing Commercial Airplanes (USA)

Source: www.newairplane.com
Example 2: Apple iPad: Distribution of Value Added

- United States: 60%
- China: 3%
- "Unidentified": 19.3%
- EU: 0.3%
- Taiwan: 3%
- South Korea: 12.6%
- Japan: 2.6%
Some observations

• Measures that are politically feasible may not be economically efficient

• Non discrimination rules narrows the space for law making and restrict the ability of smaller jurisdictions to enact laws

• Is restricting the space for law making necessarily bad ?

• Discriminatory protectionist measures, such as LCRs, are ideal instruments for cheap coalition building
  
  – politically feasible to enact a large number of economically inefficient legislations

• Narrowing the space may force politicians to prioritize and enact only the most efficient legislations
Some observations

• Distinguishing welfare increasing LCRs from welfare decreasing LCRs

• Extremely difficult to evaluate in practice