Discussion on
HOW LOCAL DISCRIMINATION CAN PROMOTE   GLOBAL PUBLIC GOODS

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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 ?

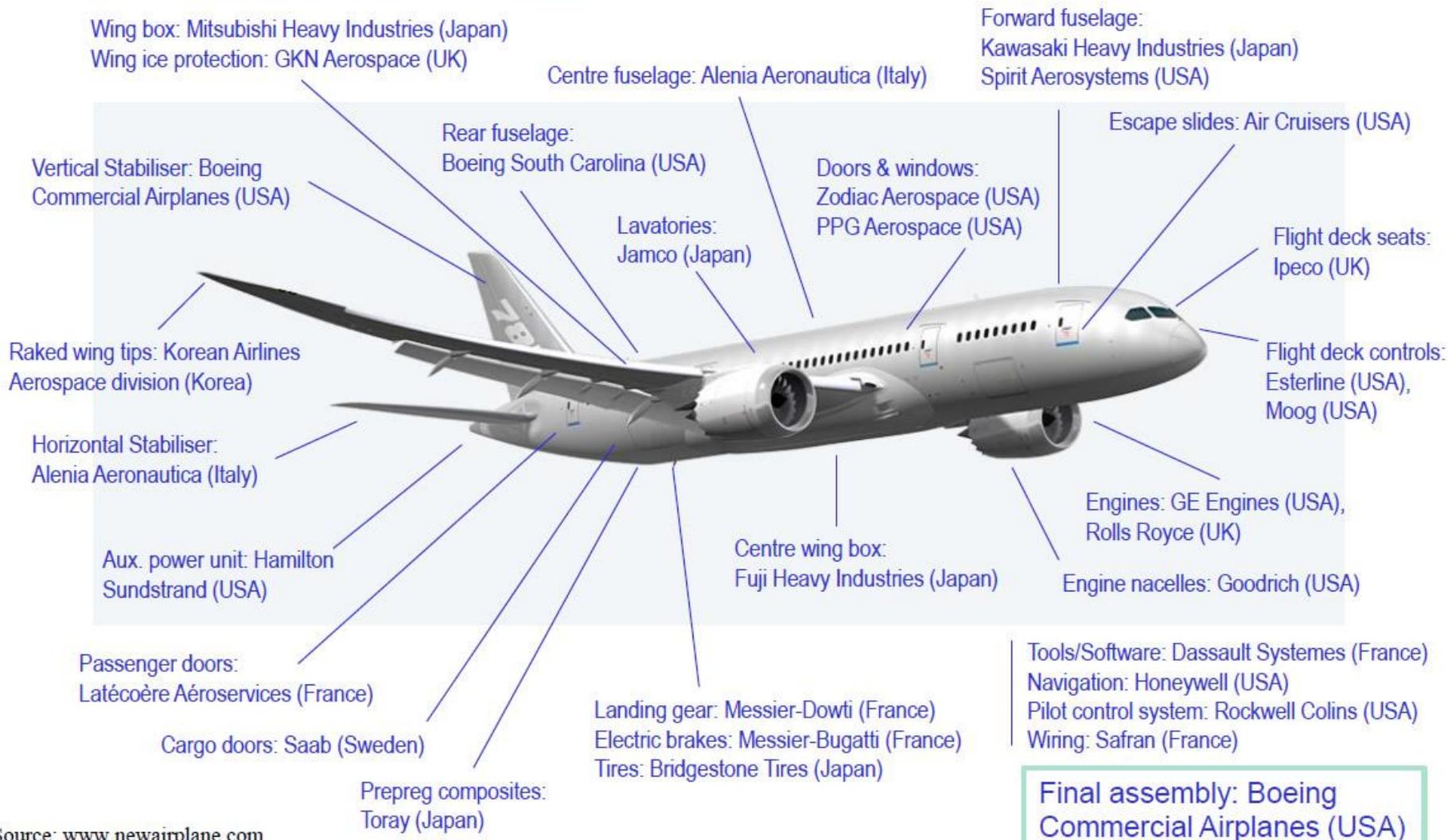- Alternative measures which may yield same benefit but at lower costs

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
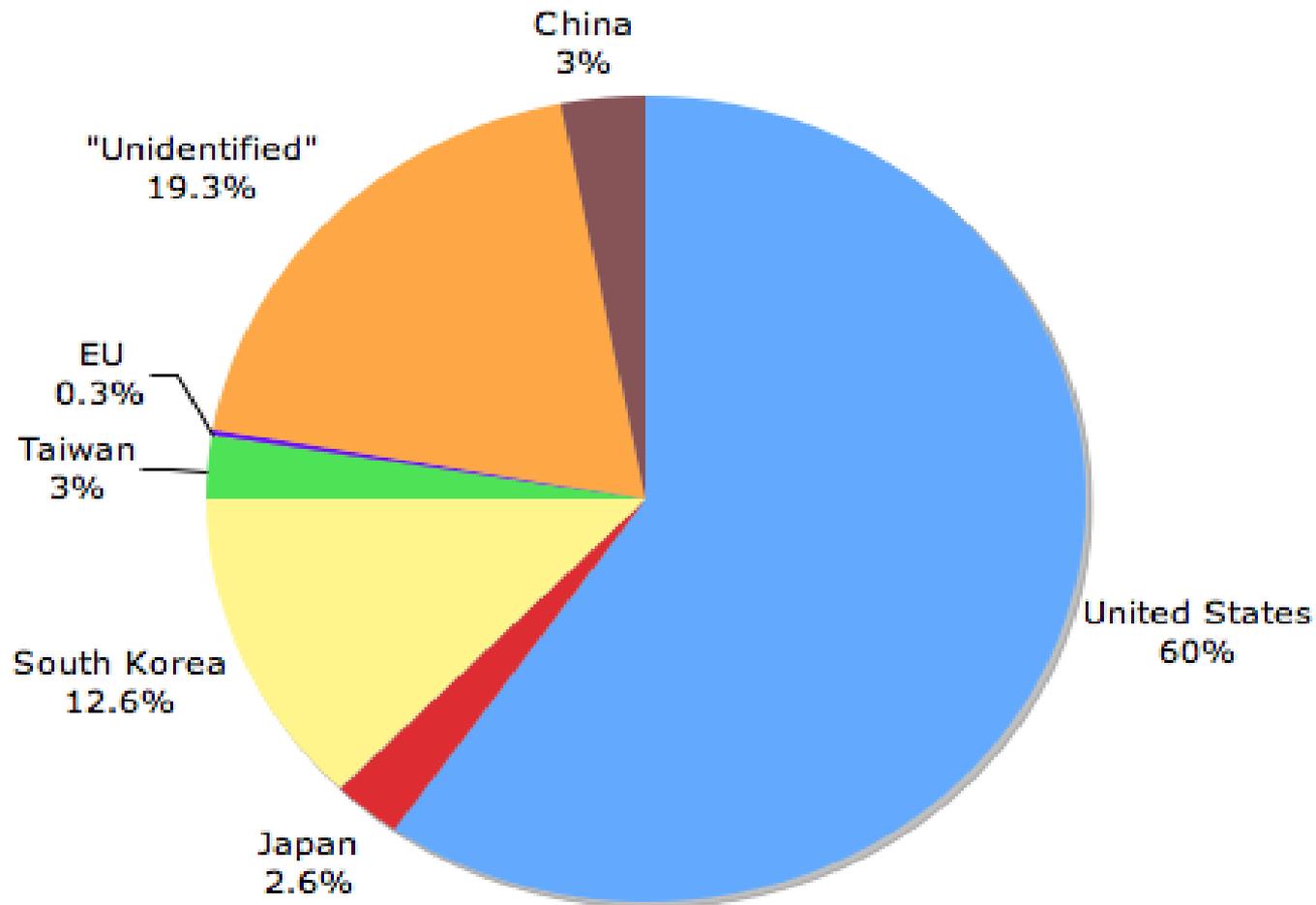
Some observations

- 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)

Centre fuselage: Alenia Aeronautica (Italy)

Forward fuselage:
Kawasaki Heavy Industries (Japan)
Spirit Aerosystems (USA)

Rear fuselage:
Boeing South Carolina (USA)

Escape slides: Air Cruisers (USA)

Vertical Stabiliser: Boeing
Commercial Airplanes (USA)

Doors & windows:
Zodiac Aerospace (USA)
PPG Aerospace (USA)

Lavatories:
Jamco (Japan)

Flight deck seats:
Ipeco (UK)

Raked wing tips: Korean Airlines
Aerospace division (Korea)

Flight deck controls:
Esterline (USA),
Moog (USA)

Horizontal Stabiliser:
Alenia Aeronautica (Italy)

Engines: GE Engines (USA),
Rolls Royce (UK)

Aux. power unit: Hamilton
Sundstrand (USA)

Centre wing box:
Fuji Heavy Industries (Japan)

Engine nacelles: Goodrich (USA)

Passenger doors:
Latécoère Aéroservices (France)

Tools/Software: Dassault Systemes (France)
Navigation: Honeywell (USA)
Pilot control system: Rockwell Colins (USA)
Wiring: Safran (France)

Cargo doors: Saab (Sweden)

Landing gear: Messier-Dowti (France)
Electric brakes: Messier-Bugatti (France)
Tires: Bridgestone Tires (Japan)

Prepreg composites:
Toray (Japan)

Final assembly: Boeing
Commercial Airplanes (USA)

Source: www.newairplane.com

Example 2: Apple iPad: Distribution of Value Added

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