Purpose of the Report

1. **Measure** the impact of localisation policies on global markets.
   - Industry measures focus on quantitatively restricting imported inputs or provide price preferences for using domestic inputs.
   - Government procurement uses a variety of methods, both at the national and sub-national level, to support the use domestic inputs.
   - Data restrictions are usually via some kind of commercial presence requirements (e.g. processing using domestic servers).

2. **Impact** Analysis focuses on Industry input measures. Identify those measures which are:
   - Currently in-force
   - Binding
   - Trade-focused (i.e. no investment or labour measures)
### OVERALL LCR EFFECTS

#### Example – India’s Electricity LCR

<table>
<thead>
<tr>
<th>84% of inputs to electricity sector to be sourced domestically</th>
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<tbody>
<tr>
<td>Imported inputs to Electricity go down 48%</td>
<td>Coal, Oil and Gas Output goes up 3.4%</td>
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</tbody>
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#### Domestic Market Adjusts

| Output of electricity falls 0.26% | Domestic production costs go up 0.04% | Domestic sales of Coal, Oil and Gas to households decline 2.7% |

#### International Markets Adjust

| India’s exchange rate appreciates 0.3% | Coal, Oil and Gas sector increases imports by 5% | Exports of Coal, Oil and Gas Increase 0.05% |

#### Net Outcomes

| India’s Trade declines | Exports of Electricity decrease 0.35% | India’s PPI increases 0.07% |
Domestic Economic Adjustments

Example: Brazil Communications

Reallocation leads to suboptimal outcomes

- Manufacturing equipment
  - As domestic use of manufacturing equipment increases in communications, it decreases in other sectors
  - Imports of manufacturing equipment increase
  - Price of manufacturing equipment rise (intermediate prices increase 0.04%)
  - Labour demand in sectors using manufacturing equipment fall.
- Electronic equipment
  - Same trends
Change in Imports of non-Communications Sectors

- Manufacturing equipment
- Electronic equipment
- Total of All Other

Percent

- Agriculture
- Coal, oil, gas
- Other minerals
- Food products
- Textiles, etc.
- Transport products
- Manufacturing equipment
- Motor Vehicles
- Electronic equipment
- Other manufacturing
- Electricity
- Construction
- Transport
- Insurance
- Trade
- Business services
- Recreation
- Other services

International Markets Adjustments
Exports of other Russian Sectors from MVH LCR

Insights from the Model

**Ability to:**

- **Focus on Intermediates:**
  - For example, the restrictions on motor vehicles were applied to the import of intermediate goods only thus allowing the final demand market to operate with no such restrictions.

- **Track the different response for Households**
  - For example, Argentina’s LCR on insurance caused imported intermediates to drop 3.13% but household purchases of imported insurance products increased 0.035%.

- **Capture price discrimination of different markets and subsequent affect on trade partners**
  - For example, Indonesia increases its exports of water transport services with the largest declines coming in exports of the EU and the rest of the OECD.
Insights from the Analysis

- Reallocation effects
  - can concentrate production
  - can undermine value chain objectives
- Difference in outcomes between intermediates and final demand
- LCRs can serve as a platform to increase exports.
- Influence of exchange rates
  - can undermine competitiveness of other export sectors

Thank you for your attention

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