LOCAL CONTENT POLICIES IN RESOURCE-RICH COUNTRIES

Yelena Kalyuzhnova – *Professor, Founder and Director of the Centre for Euro-Asian Studies; Vice Dean, Henley Business School, University of Reading, UK. E-mail: y.kalyuzhnova@henley.ac.uk*

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Many resource-rich countries are pursuing policies to maximise the impact of natural resources. This paper is analysing local content policies as part of sectoral (oil and gas) or wider economic and institutional catching up, and aims to situate these policies within a wider framework of sustainability in the form of industrial diversification and innovation-led growth.

There are different definitions of local content which vary from country to country and even between periods of policy implementation. Therefore it is complicated to unite different elements of policy-making in resource-rich countries into a single definition of LC. We define LC is an industrial tool that can enable domestic producers to expand their activities, at least partially with domestic inputs, and gain access to international technological and managerial expertise. Jointly these factors can improve economies of scale and have positive domestic external effects that enhance producers' competitiveness on the international market [6].

Local content policy includes mandatory requirements for the local procurement and employment of labour, but also technology transfers and attempts to develop knowledge-intensive industries that form part of a strategy to reduce the reliance on natural resources and facilitate innovation-driven growth. The experiences of a range of resource-rich countries are drawn upon with a particular focus on two developed countries and three emerging markets. Contingent on country-specific institutional matrices, macro-economic drivers and social-development objectives the role of host governments and the articulation of LC policies differ. These factors mitigate the effectiveness of LC policies in facilitating economic and institutional catching up.

We argue that LC policies are often key, but not sufficient, for the complete implementation of the LC strategy within resource-rich countries. The experiences of individual countries provide us with different outcomes and economic consequences. The experiences of LC policy within five oil-producing countries, namely Brazil, Kazakhstan, Norway, Russia and the UK are presented.

Resource-rich economies are likely to have a mixture of the three types of local content [6] at any given time. However, it is important to emphasise that market-creating and efficiency local content policies bring sustainability of economic growth and therefore create prosperity: creating new value networks, building new capabilities and generating economic diversification.

The Norwegian economy was already quite well developed when oil and gas were discovered, so its challenge in many ways was less to develop things from scratch, but rather to find the instruments and ways of creating new comparative advantage based on the new discoveries [4]. The Norwegian success in that effort could be attributed to national pride and a strong policy-making decision ethic, to the vision of government agencies, such as what was then the Ministry of Oil and Gas, or to excellence in science and engineering education [7].

The same pattern was seen within the UK, although without the specific formalisation. Both governments followed a strategy of promoting domestic companies and developing local skills and expertise in the O&G sector [5].

In Kazakhstan too the government has attempted to build domestic niches into the regional and global O&G markets, in industries ranging from services to construction equipment.

The same pattern appears in other countries as well. In Brazil, the government paid particular attention to reform in the areas of R&D in the booming O&G sector, and market-creating local content policies have been a significant engine of growth [3].

Such examples suggest a wide range of opportunities available to grow by targeting domestic industries, supporting them with LC policies and creating robust domestic competitors that can then achieve regional or international competitiveness. These experiences shine a light on the role that natural resources and investments actually play in development; however, the experience of resource-rich countries demonstrates that often investments do not bring the desired benefits. Here we see, also, that investments in the hydrocarbon sector in some countries (such as Iran, Iraq, Mexico, Nigeria and Venezuela) generate significant revenues and profits, but still do not manage to create jobs and increase national economic growth.

Russia, initially, developed local content policy as a vehicle for specific and selective technological and sectoral catching up before external constraints resulted in a more systematic and economy-wide policy of self-sufficiency [2], [6].

Another important external factor is the relation between local content development and World Trade Organization (WTO) membership. Under WTO rules most forms of local content are prohibited – they are perceived as protectionist and trade-distorting measures. Nevertheless, there are multiple examples of violation of WTO rules in the form of WTO members pursuing LC policy. At the same time no country-to-country level case has been pursued under WTO regulations in the O&G sector [1]. There is a clear weakness in the WTO's dispute-settlement system but, more importantly, interpretations of local content requirements vary making it costly to pursue disputes and damaging for the relations between countries.

The knowledge-creation and diffusion capacity of innovation systems reflect the interaction and learning of firms with other firms and the knowledge infrastructures. While several of the economies examined in this book have substantial absorptive capacity a challenge remains to overcome economic, political and social barriers and state autonomy to incentivise economic actors to invest in value-added production or generate higher labour productivity. Educational policies and knowledge institutions (schools, technical colleges, universities, R&D institutes, et cetera) are, in this respect, also part of a system that enables LC policy as a vehicle of sectoral or economy-wide catching up.

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