The STRI a database and indicators of trade restrictiveness in services

Presentation at the Madrid expert meeting on Developing a Framework for Measuring Regulatory Performance in OECD countries 26-27 September 2011
The purpose of the STRI

1. Identify and catalogue barriers to trade in services and domestic regulation
2. Identify the low-hanging fruits of policy reform - sequencing
3. Ex ante analysis of economic and social impact of reform
4. Better policies!
The STRI outputs

A regulatory database

An inventory of trade policy measures and domestic regulation relevant for services trade negotiations and behind the border reforms.

Composite indices

A snapshot of trade restrictiveness
The STRI Regulatory Database: Five policy areas

1. **Restrictions on foreign ownership and other market entry conditions** includes limitations on foreign ownership and screening requirements in the foreign country, nationality and residency requirements for the board of directors, quotas regarding the number of firms permitted to practice and conditions regarding subsequent transfer of capital.

2. **Restrictions on the movement of people** includes measures affecting the movement of, including in the form of quotas, labour market tests and duration of stay for different categories of providers (intra-corporate transferees, contractual and independent services suppliers).

3. **Other discriminatory measures and international standards** includes measures related to national treatment, discrimination in taxes, subsidies and government procurement, and the lack of adoption of international standards in the foreign country are found under this policy area.

4. **Barriers to competition and public ownership** contains first, discriminatory measures where foreign suppliers’ rights under the competition law are inferior to that of local companies, and state-owned enterprise privileges that may put foreign entrants at a competitive disadvantage. The second category of measures relates to regulation of dominant firms with the objective to ensure market access on reasonable terms for new entrants, including foreign firms.

5. **Regulatory transparency and administrative requirements** includes measures relating to regulatory efficiency, such as the timely publication of regulations, the availability of single contact points and of a period for comments on draft regulations, the time necessary to obtain a visa and the costs related to registering a company.
1. The OECD Secretariat fills in the database for each sector and country using *national laws and regulations*, OECD surveys and for a few measures World Bank surveys.

2. The Member country comments and verifies – in many cases a painfully slow process.

3. Peer review: A light version where countries have the opportunity, but not the obligation to review each other.


Documenting the presence of regulation is relatively straightforward. Documenting the absence of regulation less so.
The STRI indices
Make everything as simple as possible, but not simpler.

(Albert Einstein)
Assigning numbers to qualitative information

- Binary scores (0 and 1)

- Refinements:
  
  - Break complex or continuous measures into several thresholds
  
  - Construct nested layers/hierarchies of measures
  
  - Construct regulatory packages when measures are complementary
### Example of thresholds: Foreign equity limits

<table>
<thead>
<tr>
<th>Thresholds</th>
<th>Score if max 49%</th>
<th>Score if max is 65%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No foreign equity</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Less than a third</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Less than half</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Less than two thirds</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Less than 100%</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
Example of hierarchy

Foreign equity

- Not allowed
- Allowed
  - Restr. on board members
  - Quotas
  - Screening
Example of regulatory package

**Telecommunications – regulation of a dominant supplier**

**Complementary measures**
- Unbundling of the local loop is required;
- Local loop unbundling prices are regulated;
- Co-location or site sharing is mandated;
- Vertical separation is required;

All YES 

At least one NO

0 

1
Weights

• **Ideal:** the weight of a measure should capture its marginal contribution to trade cost;
  
  – Requires better coverage and quality of services trade and FDI data than is currently available;

• **Meanwhile:**
  
  – Weights based on expert judgement;
  
  – Robustness checks: calculate the STRIs with equal weights, principal component analysis, Bayesian econometrics and random weights
The indices (preliminary, telecoms)
Concluding remarks

• Services trade negotiations suffer from lack of comparable data on applied trade policy measures – the STRI provides an inventory of comparable information across countries and sectors

• The database and indices are based on regulations ‘on the books’. Objective measures of implementation would be an improvement for measuring openness.

• Better understanding of services trade policy measures, including behind the border, in the information economy needed
  – Technology neutral regulation
  – Regulation and bureaucratization of business