TRADE POLICY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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OECD Services Trade Restrictiveness Index

Overview

The OECD Services Trade Restrictiveness Index (STRI) catalogues barriers to services trade and identifies potential scope to unlock growth through regulatory reform.

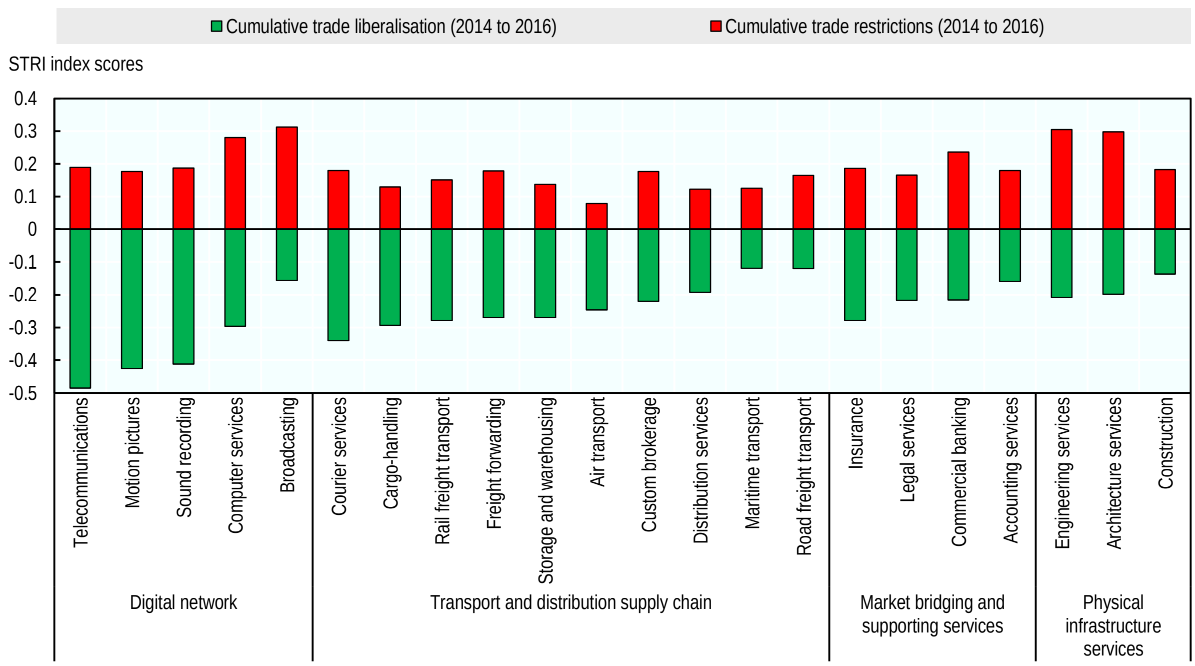
Services generate more than two-thirds of global GDP, employ the most workers in major economies and create more new jobs than any other sector. The OECD-WTO Trade in Value Added (TiVA) database reveals that services represent more than 50% of the value added in gross exports, and over 30% of the value added in exports of manufacturing goods. Efficient services sectors are therefore important in their own right, and essential for manufacturing competitiveness.

The OECD STRI

Launched in 2014, the OECD STRI presents an up-to-date snapshot of services regulatory regimes in 22 sectors across 44 countries, accounting for over 80% of global services trade. This evidence-based tool allows policymakers to assess reform options, benchmark them relative to global best practice, and assess their likely impact; helps trade negotiators identify restrictions that most impede trade; and is a source of regulatory transparency for businesses seeking to enter foreign markets. The OECD STRI project provides:

- An easily accessible **STRI database** of laws and regulations in force, updated annually (currently covering 2014-2016) and verified and peer-reviewed by regulators and trade officials.
- **Composite STRI indices** quantifying restrictions on foreign entry and the movement of people, barriers to competition, regulatory transparency and other discriminatory measures that impact the ease of doing business.
- **Empirical analysis** assessing the impact of services trade policies on economic performance and trade costs.
- **STRI online tools** allowing users to compare regulatory regimes across countries and to simulate the impact of policy reforms.

Figure 1. Services policy changes (2014-2016)



STRI regulatory database

The STRI database monitors changes in services trade policies on an annual basis (Figure 1). Trade liberalising reforms between 2014 and 2016 have been most prominent in telecommunications and logistics services. In telecommunications services, the main drivers behind the change were the easing of barriers to foreign investment and the introduction of pro-competitive *ex ante* regulation for dominant suppliers. In logistics services, lifting foreign equity limitations contributed to lowering the indices in cargo-handling, storage and warehousing and freight forwarding services.

Increases in the indices were mainly driven by economy-wide changes that tighten the conditions for foreign firms' operation in the host economy and increase the hurdles on the temporary movement of natural persons supplying services.

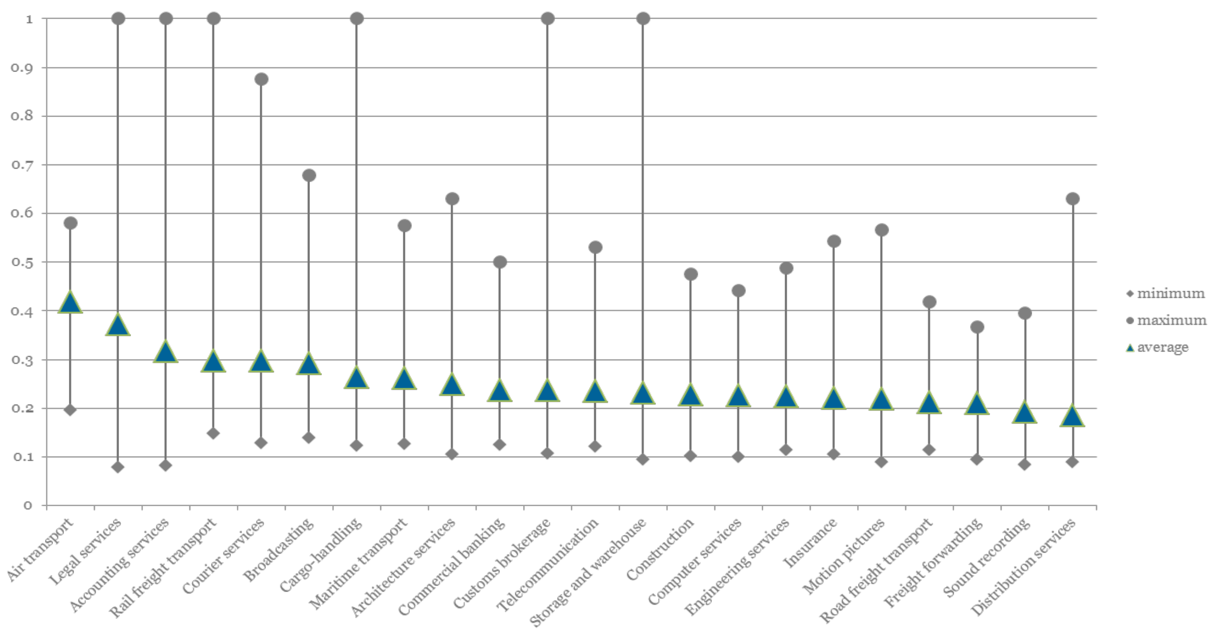
STRI composite indices

The STRI composite indices are derived by quantifying the qualitative information in the regulatory database as binary scores. The resulting sectoral indices take values between zero (complete openness to trade and investment) and one (total market closure to foreign services providers).

The average levels of restrictiveness in each of the services sectors in the STRI (shown in Figure 2) reveal a large dispersion across countries, some of which are completely closed to trade and investment in certain sectors. Air transport, legal services and accounting and auditing services tend to be more restrictive on average than other sectors. Notably, these sectors provide important inputs to, and facilitate trade in other sectors. Reforms in these sectors would bring significant benefits not only to exporters, but also to firms serving the local market.

Foreign equity limitations are most common in backbone infrastructure sectors, and behind-the-border regulations related to licensing constitute considerable barriers to trade in professional services. Access to the public procurement market is particularly important for construction firms. National treatment in relation to taxes and subsidies is important in all sectors, especially transport and audio-visual services sectors. Restrictions on the movement of natural persons significantly hinder trade, particularly in skilled labour-intensive sectors such as computer services and professional services.

Figure 2. Average, minimum and maximum STRI scores by sector (2016)



Note: Air transport and road freight currently cover only commercial establishment (with accompanying movement of people).

STRI analytical findings

The STRI project is the basis of a wide range of empirical work on the impact of services trade restrictions. Main findings include:

- ***Services trade barriers impede services exports***. OECD estimates reveal that the trade cost equivalent of services trade barriers largely exceeds the average tariff on traded goods. Services trade barriers have a strong anti-export bias impeding services exports just as much as services imports. Trade costs arise both from policies that explicitly target foreign suppliers, and from domestic regulation falling short of best practice in the area of competition policy and rule-making.

- ***Consumers and firms pay the cost of trade restrictions***. Entry barriers allow incumbent firms to gain market power and delay innovation. The costs of a policy environment that reduces competition from new entrants, whether domestic or foreign, is ultimately borne by consumers and downstream business customers, who pay higher prices and enjoy less choice than they would in more competitive markets. The resulting price increases for domestic users of services can be quantified as a sales tax equivalent on their purchases. On average, estimates of the tax equivalent of the restrictions recorded in the STRI in 2014 range from about 3% in road freight transport to almost 40% in broadcasting. In some segments of transport and logistics, as well as in construction, the sales tax equivalent of the STRI scores was estimated at about 20% on average, and in some countries at almost 80%, imposing substantial additional costs on manufacturing enterprises and eventually on final customers.

- ***Regulatory co-operation can reduce trade costs***. Differences among countries in regulating the same service create additional costs for exporters that need to adapt to new sets of rules in each new market. Regulatory differences become more important as trade barriers come down to a level where firms start to consider entering multiple markets. Thus, when markets are relatively open, trade costs imposed by the average degree of regulatory differences is estimated at about 40% in ad valorem terms. While regulatory harmonisation can reduce trade costs, removing the most onerous restrictions first is a prerequisite to maximise the gains from regulatory co-operation.

- ***Trade in services depends on the movement of professionals.*** The cross-border movement of people may not account for a large share of services trade, but it is essential for international business operations. Mobility of natural persons across international borders is crucial, particularly for trade in business services, which in turn is an important channel for knowledge transfer.

- ***Trade in services underpins the digital economy.*** Liberalisation and pro-competitive reforms in the telecommunications sector are associated with a substantial reduction in the trade costs for business services. High capacity networks at competitive prices are a necessary condition for a digital transformation of knowledge-intensive services. Access to the professions and the services they provide is also essential.

- ***Services reforms boost SMEs.*** The costs of dealing with regulatory hurdles and complying with diverging regulations in every new market fall more heavily on small and medium-sized enterprises (SMEs). For micro firms engaging in cross-border exports, an average level of services trade restrictiveness represents an additional 7% in trade costs relative to large firms. Establishing an affiliate abroad involves even higher costs. For instance, for a small firm an average level of services trade restrictiveness is estimated to be equivalent to an additional 12% tariff compared to large firms.

Services trade and policy supports inclusive growth

The STRI analytical findings, presented in the publication *Services Trade Policies and the Global Economy*, demonstrate the potential gains from strategic regulatory reforms such as:

- Scaling back restrictions on foreign entry and barriers to the movement of professionals that discriminate against foreign services providers.

- Adopting strategic reforms across a spectrum of trade, investment and competition policies to facilitate trade in services.

- Targeting bottlenecks in transportation and logistics services to reduce trade costs.

STRI online tools

The STRI internet page is a single window to the STRI regulatory database, interactive tools such as Compare Your Country and the Policy Simulator, methodological notes, and links to analytical OECD Trade Policy Papers on services trade.

- Compare your country (http://oe.cd/stri-cyc)

This interactive website can be used to compare services trade restrictiveness across 22 sectors in 44 OECD countries and partner economies. Key economic indicators are projected onto a world map to give a comparative view of the importance of services in the countries covered by the STRI.

- Policy simulator (http://sim.oecd.org/)

The policy simulator provides all STRI information by country and by sector. It can be used to understand how the STRI indices are calculated, to analyse the contribution of each policy measure to the index, to compare countries in detail, and to simulate the impact of a policy change on the index value. Finally, simulations can be saved and shared with other users, and the relevant data can be downloaded.

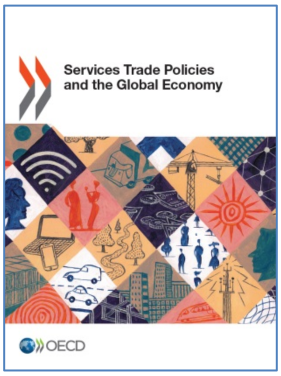
- Online STRI regulatory database (http://oe.cd/stri-db)

The online STRI regulatory database displays complete and up-to-date regulatory information collected for the sector composite indices. This qualitative database contains information on trade restrictions and behind-the-border regulations in the 22 STRI services sectors. The database entries are documented with reference to the sources (title and articles of the relevant law), with an internet link to each legal source.

- STRI Composite Indices at OECD.Stat (http://oe.cd/stri-stat)

The STRI indices are easily accessed and extracted from OECD.Stat (under the heading: Industry and Services, sub heading: Services Trade Restrictions). In addition to the five policy areas, the indices are presented by four additional classifications: GATS market access/national treatment and domestic regulation/other, GATS modes of supply, Discriminatory versus non-discriminatory measures, Firm's establishment versus on-going operations. The indices of regulatory heterogeneity based on the same information included in the STRI regulatory database are also available under this section.

More Information



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