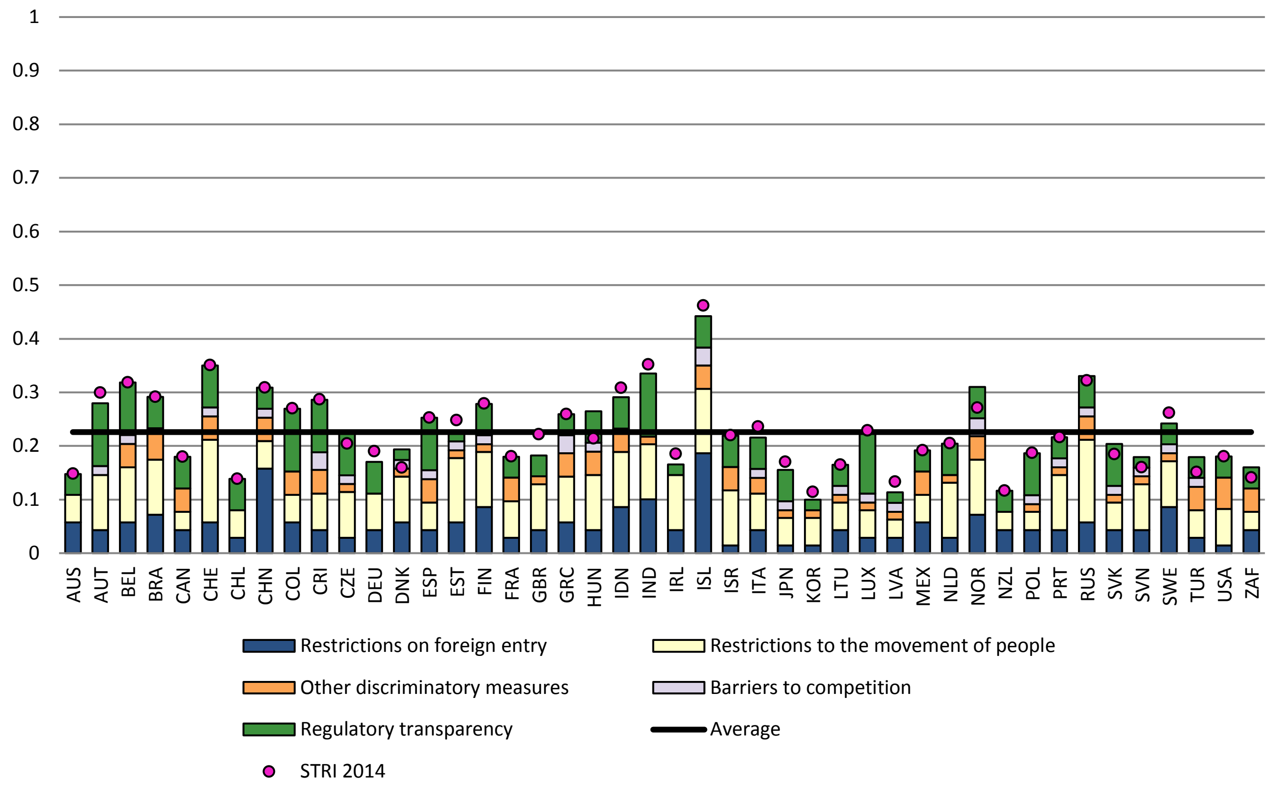
STRI Sector Brief: Computer services

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 35 OECD countries and Brazil, the People's Republic of China, Colombia, Costa Rica, India, Indonesia, Lithuania, the Russian Federation and South Africa for computer services in 2016.

Computer services are defined as computer programming, consultancy and related activities and information service activities (ISIC 62 and 63). Major exporters are the European Union, India, and the United States. Computer services are mainly traded business to business.

STRI by policy area: computer services (2016)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account.

The 2016 scores in the computer services sector range between 0.10 and 0.44 with an average of 0.23. The distribution according to restrictiveness is slightly skewed towards the low end, as there are 25 countries below and 19 countries above the average.

The measures in the STRI database are organised under five policy areas as indicated in the chart. The regulatory profile differs considerably across countries. Only one of the 44 countries have foreign equity restrictions in this sector, covering parts of the activities classified under computer services, but six countries have limitations on foreign branches, four countries require that at least half the board of directors must be residents and four countries require that foreign investors bring net economic benefits to the host country as a condition for investing. Three countries have limitations on cross-border mergers and acquisitions, while five countries control foreign capital flows in some shape or form. Finally, 33 countries have stricter conditions on the transfer of personal data than recommended in the OECD Guidelines for Protection of Privacy and Transborder Flow of Personal Data. These measures are all recorded under the *restrictions on foreign entry* policy area. Computer services can easily be traded across borders through electronic networks. However, cross-border trade needs to be supported by visits to the premises of the customer, both through business travel for technical support and for longer visits to work with clients, for instance on organisational reforms to maximise the benefit of new software. The skilled labour intensity of the sector together with the complementarity between cross-border trade and movement of natural persons explains why restrictions on movement of people feature prominently in the STRI for computer services.

Restrictions on the movement of people account for almost 35% of the total scores in computer services. In fact, there is no country in the database that does not limit market access for natural persons providing services on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. Eight countries impose quotas on one or more of these three categories, 37 countries apply economic needs tests to stays that last longer than 3-6 months and the duration of stay is limited to less than three years in 34 countries.

Other discriminatory measures contain regulation related to taxes, subsides and public procurement. Two countries report areas where national treatment is not fully granted regarding taxes or subsidies, while 20 countries limit non-discriminatory access to public procurement to free trade agreement or WTO government procurement agreement (GPA) partners. Barriers to competition do not appear wide-spread or particularly pernicious in computer services. Four countries record state owned enterprises among the major services suppliers in the sector, and the most common measure under this policy area is minimum capital requirements found in 23 of the 44 countries.

The *regulatory transparency* policy area builds on information from administrative laws and regulations, information from the migration authorities on requirements for obtaining a business visa and the World Bank Doing Business Survey. The latter records time, cost and number of procedures required for establishing a company. These measures are benchmarked against a global threshold set at the 40 best performing countries. There are 29 countries included in the STRI database that are not among the 40 best performing countries on one or more of these measures. The score in the regulatory transparency area is largely attributed to this. In addition lengthy, costly and complex regulatory procedures related to obtaining a business visa contribute to the index for 34 countries.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 24 countries, 13 have a lower (less restrictive) score, and 9 record a higher value of the STRI index (more restrictive) in 2016. The country that reduced the STRI index the most was the United Kingdom where the index went down by about four basis points, while Hungary was the country that raised the index the most, adding five basis points.

Improvements in administrative procedures under the regulatory transparency area explain most of the improvement in the STRI index for the other eight countries with a lower index. Three of them have also implemented regulatory reforms affecting computer services. India and Indonesia have eliminated minimum capital requirements; Japan has lifted the requirement that at least one board member in a corporation must be resident; and Greece has removed restrictions on foreign equity participation in certain companies in which the state has significant interest. Most of the increase in the index stems from the introduction of quotas (Hungary) and labour market tests and shortening the duration of stay for temporary services suppliers.

Computer services are key inputs into any modern economic activity and access to competitive computer services can help companies, particularly SMEs, integrate into value chains, focus on core competencies and improve productivity.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri.
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org.

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