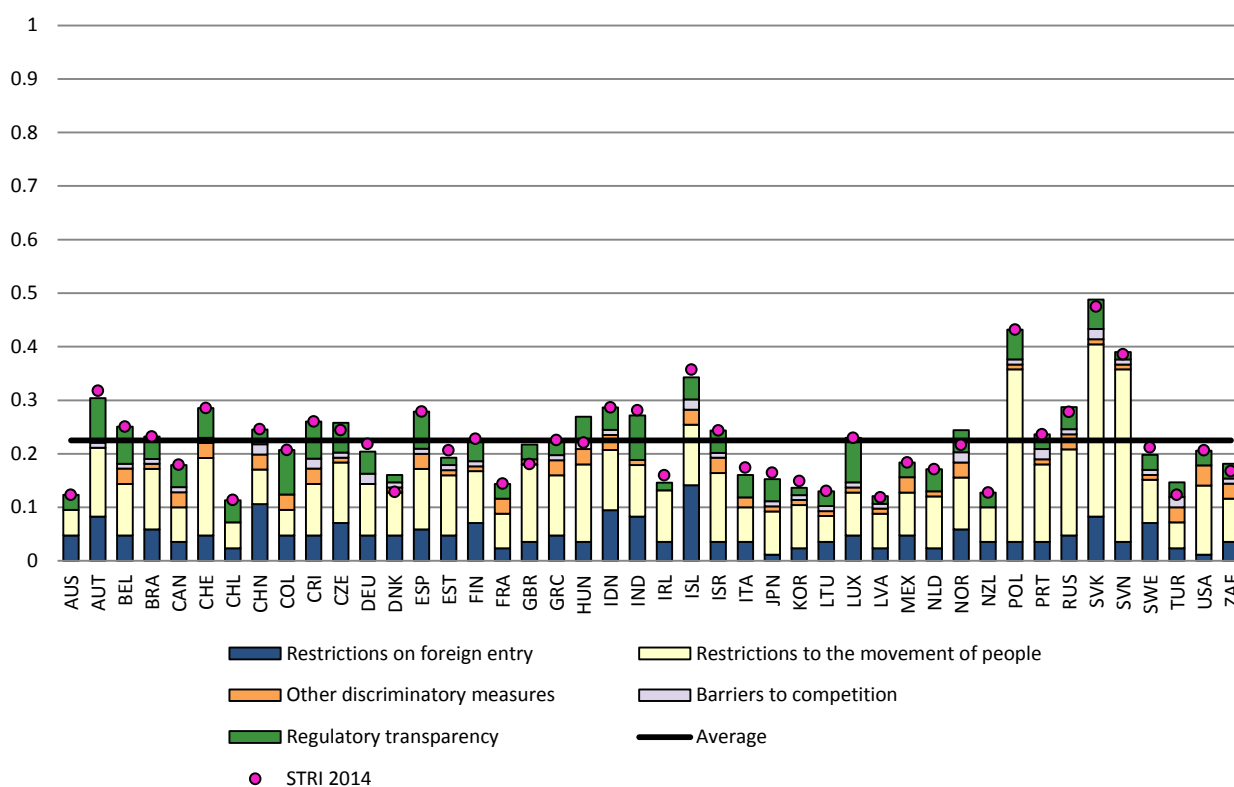


STRI Sector Brief: Engineering services

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 engineering services in 2016.

The definition of engineering services covers several related activities, such as engineering and integrated engineering services, and engineering related scientific and technical consulting services. Engineering services constitute the backbone of construction and provide essential inputs for the economy. Engineers participate in the construction of key infrastructure, such as buildings and roads. They also play a significant role in the development of production processes and the adoption of new technologies. An important feature is the regulatory complementarity between engineering, architecture and construction services. Often, engineering and architectural activities are combined into projects offered by one company, and are sometimes subsumed in the building and construction sector.

STRI by policy area: engineering 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 chart depicts the index for each country. The 2016 STRI scores for engineering services range between 0.11 and 0.49, with an average of 0.23. The distribution according to restrictiveness is slightly skewed towards the low end, as there are 22 countries below and 22 countries above the average. These services are less restrictively regulated on average than other accredited professional services, notably legal and accounting services.

The measures in the STRI database are organised under five policy areas as indicated in the chart. In engineering services, the results are driven primarily by *Restrictions on the movement of people*. This reflects the characteristics of these services, particularly the fact that they are skilled labour intensive. The other two policy

areas that significantly influence the degree of restrictiveness in engineering services are *Restrictions on foreign entry and Regulatory transparency*. The impact of the other categories of measures is more limited.

Engineers are affected by economy-wide limitations on natural persons wishing to provide services on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. Eight countries have 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. In addition, engineers are subject to issues related to licensing. These include nationality and residency requirements to practice, as well as lack of recognition of foreign qualifications. A license to practice engineering services is not required in 17 countries. This does not necessarily mean that there is less government control during the process of designing and constructing a building, a road or other infrastructure projects. Regulation may in some countries be entailed in building codes, technical standards and the enforcement of these.

As regards *Restrictions on foreign entry*, several countries limit the ownership of engineering firms to locally-qualified engineers. Ownership restrictions are often coupled with requirements that the majority of the board (or equity partners in the case of partnerships) and the manager of engineering firms must be locally qualified. Another impediment relates to restrictions on acquiring land and real estate. These may be particularly pernicious for engineering services in light of the complementarities with the building industry.

Traditional sector-specific restrictions under *Barriers to competition* remain in place in several countries, particularly on fee-setting and advertising. Impediments to public procurement can play a significant role for engineering services, in light of the link with construction, and make up most of the contribution of *Other discriminatory measures*. Finally, the score for *Regulatory transparency* is largely attributed to the time, cost and procedures required for establishing a company from the World Bank Doing Business Survey.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 23 countries, 10 have a lower (less restrictive) score, and 11 record a higher value of the STRI index (more restrictive) in 2016. Improvements in administrative procedures under the regulatory transparency area explain most of the changes in the STRI index for the countries with a lower index. Some countries have also implemented regulatory reforms affecting engineering services. Indonesia has eased foreign equity limits and currently allows majority foreign equity in the sector; and Japan has lifted the requirement that at least one board member in a corporation must be resident; Most of the increase in the index stems from the introduction of quotas and labour market tests and shortening the duration of stay for temporary services suppliers.

Engineering is a knowledge intensive business service and many activities in the sector have been digitised in recent years. To realise the new opportunities for trade and exchange of ideas and knowledge that technology has opened, countries could consider modernising regulations and ease the entry barriers to the profession.

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

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.