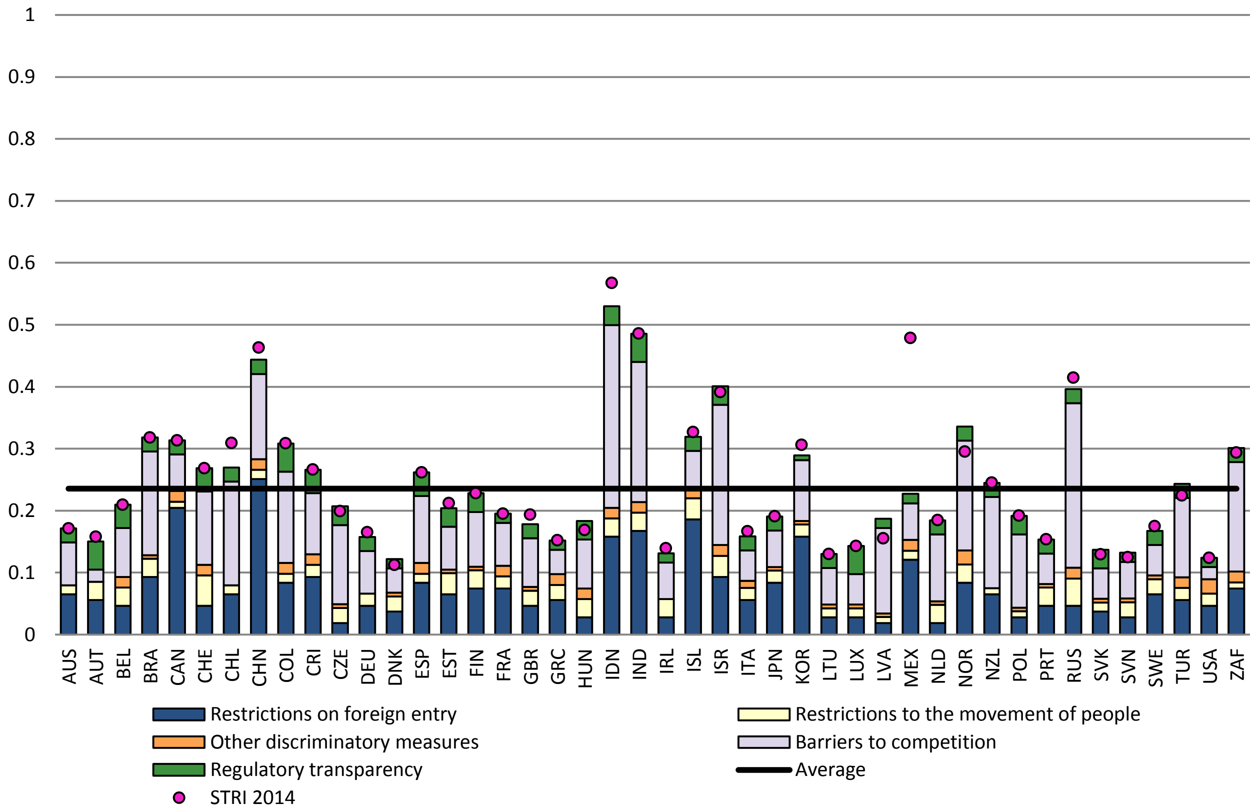
STRI Sector Brief: Telecommunications

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 telecommunication services in 2016.

Telecommunication services comprise fixed line, mobile and Internet services (ISIC 61). These services are at the core of the information society and provide the network over which other services including computer services, audio-visual services, professional services and many more are traded. Furthermore, without a modern telecommunication network, global value chains would not be possible.

STRI by policy area: Telecommunications (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 overall index for each country by policy area. The level of restrictions is moderate to high ranging from 0.12 to 0.53. The sample average is 0.24 with a distribution somewhat skewed towards the low end with 26 countries below and 18 countries above the sample average.

The measures in the STRI database are organised under five policy areas as indicated in the chart. In the telecommunication sector, the results are driven by two policy areas: *Restrictions on foreign entry* and *Barriers to competition.* This reflects the special characteristics of the sector as well as the policy environment in which it operates. It is a capital-intensive network industry and its strategic importance has prompted many countries to restrict foreigners from investing and operating in the sector. Five of the countries included in the STRI have foreign equity limits in force and joint ventures are required in one country. Six countries have limitations on foreign branches. Five countries require that at least half of the board members in telecommunications companies must be nationals, while another four countries have a general obligation that the majority of board members must be residents in all companies.

Five countries require that foreign investors bring net economic benefits to the host country as a condition for investing. Five countries have general 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.

In a network industry access to essential facilities and switching costs may favour incumbent firms. These market imperfections may constitute a substantial entry barrier, even in the absence of explicit foreign entry restrictions. Therefore pro-competitive regulation is considered a trade policy issue, which is addressed in the WTO Telecommunications Services Reference Paper as well as in a number of regional trade agreements. Lack of pro-competitive regulation is scored as a trade restricting barrier to competition in cases where an incumbent operator has significant market power. Government ownership is also widely observed in the sector contributing to barriers to competition in 18 of the countries depicted in the chart. *Barriers to competition* account for 43% of the total STRI scores in telecommunications.

There is no country in the STRI database without *Restrictions on the movement of people* providing services on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. Since telecommunications lend themselves easily to cross-border trade from a technical point of view, the contribution to the score of restrictions on movement of people is quite modest. *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.

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 19 countries, 15 have a lower (less restrictive) score, and 10 record a higher value of the STRI index (more restrictive) in 2016. Mexico stands out as the most ardent reformer, halving its STRI score. The country has eliminated foreign equity restrictions and introduced pro-competitive ex ante regulation on suppliers with significant market power. Other countries that have introduced significant reforms are the People's Republic of China, Indonesia and the Russian Federation. China has introduced number portability, regulation of interconnection in fixed line services and competitive bidding for universal services. Indonesia has raised the foreign equity limit to 67%; and Russia has introduced number portability. Conversely, a few countries in the European Economic Area (EEA) have introduced discriminatory regulations where price caps on termination rates or rates on interconnection no longer apply to calls from non-EEA countries. This contributes to a higher score.

Open and competitive telecommunications markets are strongly associated with higher broadband penetration rates and lower prices of telecommunications services. Access to competitively prices telecommunications services in turn help firms in all sectors integrate into value chains 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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