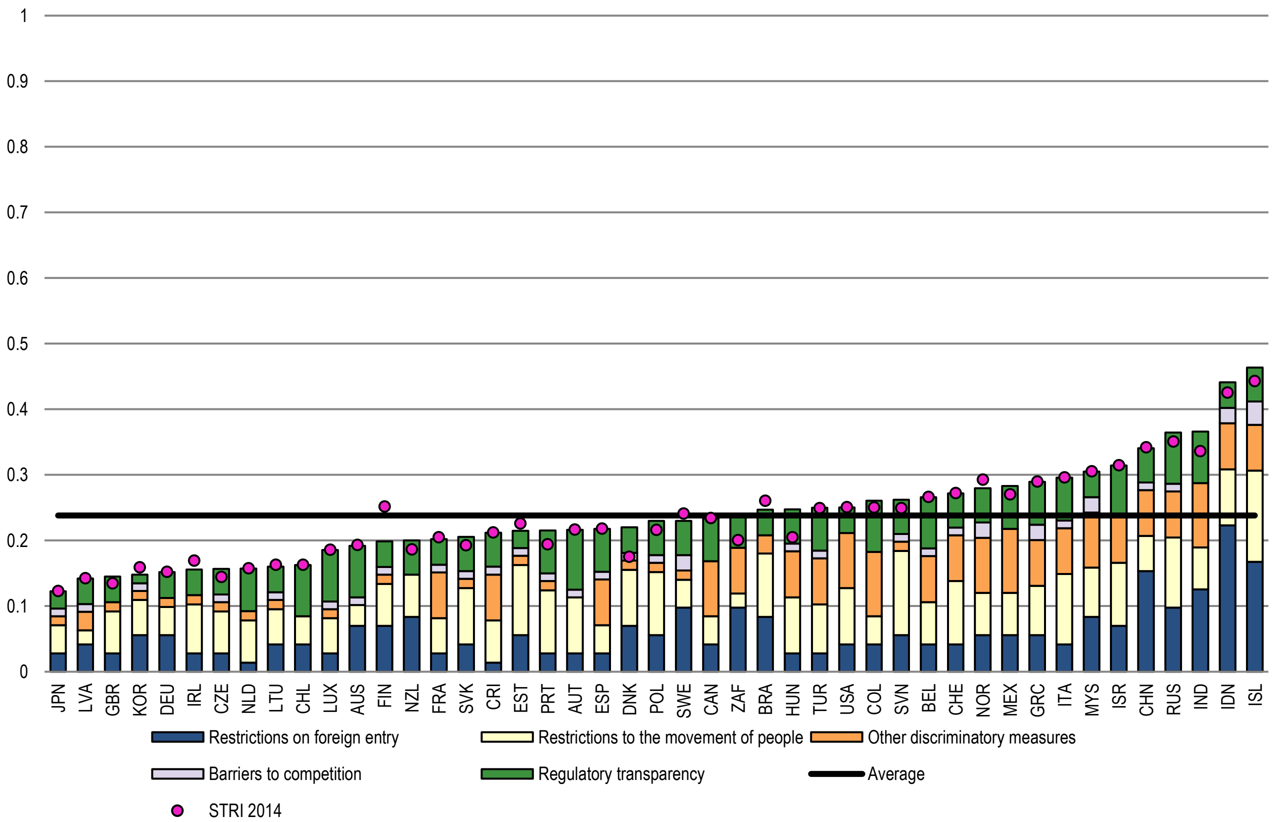
# STRI Sector Brief: Construction services

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 36 OECD countries and Brazil, the People's Republic of China, Colombia, Costa Rica, India, Indonesia, Malaysia, the Russian Federation and South Africa for construction services in 2018.

The STRI covers construction of buildings (residential and non-residential) as well as construction work for civil engineering (ISIC Rev 4 codes 41 and 42). Construction services have historically played an important role in the functioning of economies, providing the infrastructure for other industries. These services account for a significant share of gross domestic product (GDP) and employment in most countries. Public works, such as roads and public buildings, account for about half of the market for construction services. Therefore, the STRI for construction services covers detailed information on public procurement procedures.

**STRI by policy area: Construction services (2018)**




*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 2018 STRI scores for construction services range between 0.12 and 0.46, with an average of 0.24. There are 25 countries below and 20 countries above the average.

The measures in the STRI database are organised under five policy areas as indicated in the chart. The more elevated levels of restrictiveness can in part be attributed to general measures affecting all sectors of the economy. Only one of the 45 countries has foreign equity restrictions in the sector, six countries have limitations on foreign branches, and four require that at least half the board of directors must be nationals or residents. Four countries have limitations on cross-border mergers and acquisitions and three others have controls on foreign capital flows in place. Notably, 28 countries have impediments on acquiring land and real estate, which typically have a direct bearing on the provision of construction services. For example, property developers may not be able to own real estate under construction until completion of the project.

Construction services are a relatively labour-intensive sector (both skilled and un-skilled), which is typically reflected in a higher share in employment than in GDP for most countries. In light of the nature of construction activities, the potential for mechanisation and automation, and therefore capital-intensive production, remains limited. *Restrictions on the movement of people* thus have a significant impact on the indices for the sector. 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. Nine countries impose quotas on one or more of these three categories, 35 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 37 countries.

*Other discriminatory measures* have a significant impact on the scores for construction services in most countries. Three countries report areas where national treatment is not fully granted regarding taxes or subsidies. In light of the importance of government demand for these services, restrictions in public procurement have a particular bearing on the construction sector. In 23 countries, the regime limits non-discriminatory access to public procurement to free trade agreements or to WTO government procurement agreement (GPA) partners.

In terms of sector-specific measures, seven countries have local content or performance requirements and five countries maintain domestic standards which differ from international ones. The latter includes both building codes and standards on goods used as inputs into the construction product. Eight countries maintain government ownership in major construction firms, which are among the few *Barriers to competition* for construction services, at times coupled with limitations on foreign ownership of such firms. The score in the *Regulatory transparency* area is largely attributed to the time and cost for obtaining a construction permit from the World Bank Doing Business Survey.

Finally, apart from labour market tests and other restrictions noted above, the movement of qualified construction personnel may be affected by licensing and related issues. These include nationality and residency requirements to practice for construction engineers, as well as lack of recognition of foreign qualifications. Notably, in 24 countries, at least one engineer must be licensed for the issuance of construction permits.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 17 countries, 11 have a lower (less restrictive) score, and 17 record a higher value of the STRI index (more restrictive) in 2018. 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. Several countries have also implemented regulatory reforms affecting construction services. Norway has removed restrictions on foreign equity participation in certain companies in which the state has significant interest; Finland has privatised its stated-owned enterprise in this 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 for temporary services suppliers.

**More information**

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Read more about services trade policies and their impacts in this publication: Services Trade Policies and the Global Economy
» 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.*