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 state-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.