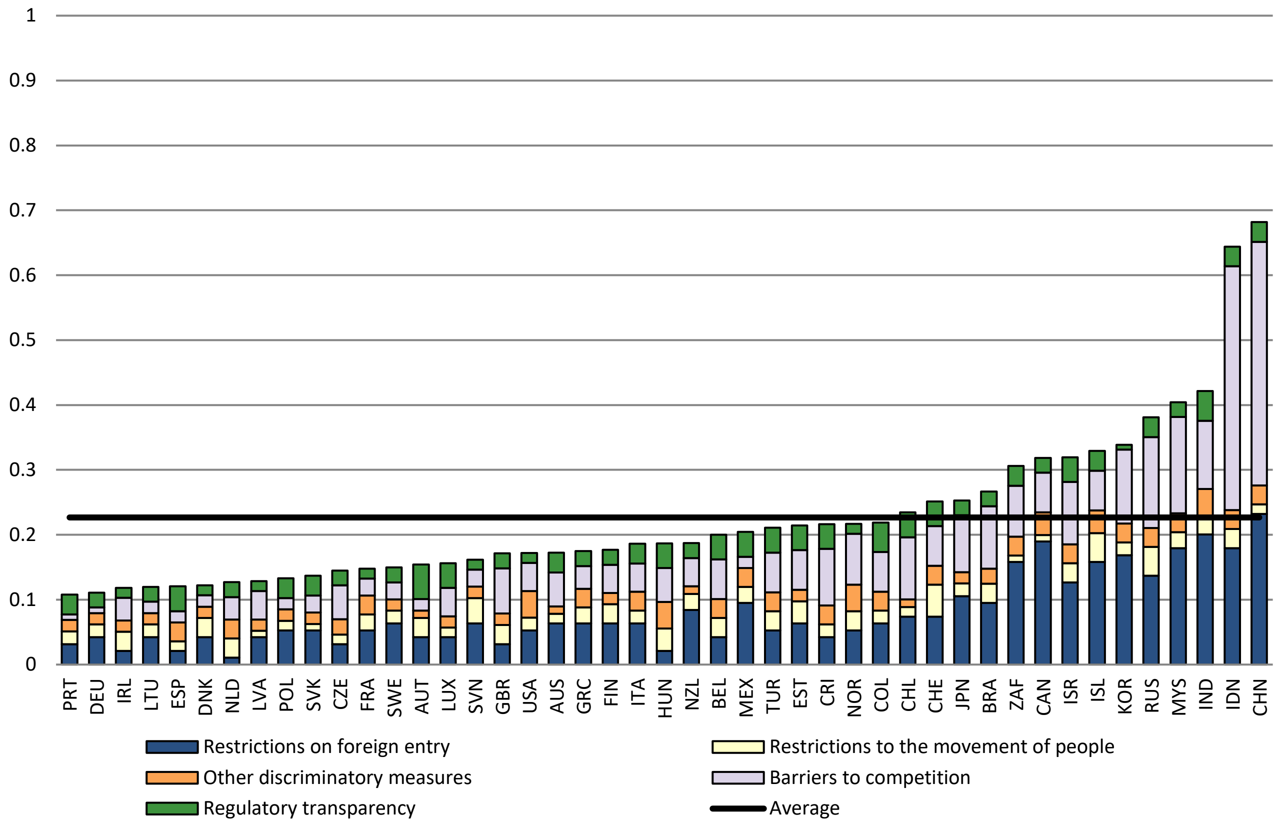
STRI Sector Brief: Telecommunications

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 telecommunication services in 2018.

The telecommunication sector comprises wired and wireless telecommunications activities (ISIC rev 4 611 and 612). These services are at the core of the information society and provide the network of networks 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 (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 scores in telecommunications services are moderate to high, ranging from 0.11 to 0.68. The sample average is 0.23. There are 31 countries below and 14 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. Six of the countries included in the STRI have foreign equity limits in force and joint ventures are required in one country. Eight countries have limitations on foreign branches. Four countries require that at least half of the board members in telecommunications companies must be nationals, while six countries have an obligation that the majority of board members must be residents.

Twelve countries require that foreign investors bring net economic benefits to the host country as a condition for investing. Six countries have limitations on cross-border mergers and acquisitions. Finally, 37 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. In order to ensure fair competition in the telecommunications market, it is important to have an independent regulator that is separate from interested parties. In 15 countries included in the STRI the national regulatory authority is not independent from the government. Government ownership is also widely observed in the sector, contributing to barriers to competition in 19 of the countries depicted in the chart. In addition, only 31 countries currently apply a "use it or lose it" policy to spectrum bands – an important measure that prevents incumbents from hoarding valuable spectrum licences. Overall, *barriers to competition* account for 31% 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. 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. Since telecommunications lend themselves easily to cross-border trade from a technical point of view, restrictions on the movement of people account for a modest share of the total STRI score in this sector. *Other discriminatory measures* contain measures related to national treatment related to taxes, subsides, pro-competitive regulation and public procurement. In five countries that regulate termination rates for fixed line services, foreign suppliers do not benefit from the regulated rates. For mobile services, nine countries do not ensure that foreign suppliers benefit from regulated termination rates. Three countries report areas where national treatment is not fully granted regarding taxes or subsidies, while 23 countries have preferential measures for local suppliers or 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 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 21 countries 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 28 countries.

Compared to 2014, the first year of the STRI database, Mexico stands out as the most ardent reformer. The country has eliminated foreign equity restrictions and introduced pro-competitive ex ante regulation on suppliers with significant market power. Israel is another example of significant reforms in this sector; the country has introduced pro-competitive regulation. Ten countries in the European Economic Area deregulated one or more market segments after a market analysis found that effective competition had been established in the market. Some countries record more restrictive measures in 2018 compared to 2014. This change is largely driven by new horizontal regulations that affect multiple sectors. For example, Hungary reduced the duration of stay for intra-corporate transferees from 36 to 12 months. South Africa introduced a screening of foreign investment projects that explicitly considers economic interests.

Open and competitive telecommunications markets are strongly associated with higher broadband penetration rates and lower prices of telecommunications services. Access to competitively priced 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
» 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.](mailto:stri.contact@oecd.org)

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