Chapter 2

The regulatory environment for services

Chapter 2 provides a discussion of services policies, drawing on the STRI indices and database. It starts with a short introduction of the STRI and a brief methodological overview of the project. It then sets out the key STRI findings by country and sector and identifies interlinkages among services along the digital network, the transport and distribution supply chain, market bridging and supporting services and physical infrastructure services. The chapter also presents the reforms to services policies that have been undertaken over the period covered so far by the STRI (2014-16). The analysis is supplemented by short case studies describing concretely how services barriers affect firms' ability to establish and conduct business in foreign countries.

The services sector consists of a broad range of economic activities such as telecommunications, financial services, transport and professional services. These fall under the responsibility of different government entities as well as professional bodies with delegated regulatory authority to control access to, and conduct of, the profession. The diversity and complexity of the services sector is a challenge for trade policy makers and negotiators who need to bring on board the regulatory bodies at home and be responsive to the interests of both the business community and consumers. Domestic regulations in the services sector typically predate the first international trade agreements covering services, and therefore differ considerably across countries, even when pursuing the same objectives. Both the level and the differences in regulation may impose significant costs on foreign services suppliers and protect local incumbents from competition from foreign suppliers and sometimes also from local entrepreneurs.

The Services Trade Restrictiveness (STRI) database and indices bring together comparable information on trade-relevant regulation across sectors and countries, providing a tool for policy makers and others to gain oversight over this complex field. For example, it allows policy makers to design reform options, compare them with global best practice, and assess their likely effects; it helps trade negotiators to identify measures that impede trade; and it provides businesses with information on the requirements that traders must comply with when entering foreign markets. Furthermore, since the STRI is updated annually, it allows the evolution of the services policies over time to be monitored.

Introducing the STRI

The STRI is an evidence-based diagnostic tool that provides an up-to-date snapshot of regulations affecting services trade in 44 countries and 22 sectors, representing over 80% of global services trade (Box 2.1). The STRI suite of tools includes i) a regulatory database compiled by the OECD and based on laws and regulations in force; ii) composite indices, taking values between zero (complete openness to trade and investment) and one (total market closure to foreign services providers), that quantify the measures identified; and iii) an online, interactive policy simulator that allows the user to compare selected countries with one another and to simulate potential policy reforms.

The STRI was launched in 2014, and currently captures information for three consecutive years (2014-16). The policy measures that relate to market access and national treatment refer to what applies on a most favoured nation basis and do not take into account preferential treatment through free trade agreements (FTA). However, existing FTAs, with the exception of the European Single Market, usually do not make commitments that go significantly beyond binding existing practices (Miroudot and Pertel, 2015).

The presentation of the STRI starts with general observations on differences across sectors and countries as far as the level and profile of trade restricting regulations are concerned. The subsequent discussion organises selected services sectors around four clusters of related services: the digital network services (telecommunications, broadcasting

Box 2.1. **The OECD Services Trade Restrictiveness Index**

The STRI regulatory database brings together information from more than 16 000 laws and regulations for 22 sectors in 44 countries. These are the 35 OECD countries and Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, the Russian Federation and South Africa. The information has been compiled by the OECD on the basis of a common methodology agreed by OECD countries. It has been verified and peer reviewed by the OECD countries and shared with the emerging economies. The policy measures in the STRI regulatory database are organised under five policy areas:

- *Restrictions on foreign entry* include information on foreign equity limitations, requirements that management or board of directors must be nationals or residents, foreign investment screening, restrictions on cross-border mergers and acquisitions, capital controls, regulations on cross-border data flows and a number of sector-specific measures.
- *Restrictions on movement of people* include information on entry visa quotas, economic needs tests and duration of stay for foreign natural persons providing services as intra-corporate transferees, contractual services suppliers or independent service providers. These categories are covered by the GATS and have in common that the natural persons are not supposed to seek employment in the host country. This policy area also contains information on recognition of foreign qualifications and licensing in regulated professions.
- *Other discriminatory* measures include discrimination of foreign services suppliers as far as taxes, subsidies and public procurement are concerned, and instances where national standards differ from international standards where relevant.
- *Barriers to competition* include information on anti-trust policy, government ownership of major firms and the extent to which government-owned enterprises enjoy privileges and are exempt from competition laws and regulations. Sector-specific pro-competitive regulation in network industries also falls in this category.
- *Regulatory transparency* includes information on consultations and dissemination prior to laws and regulations entering into force. It also records information on administrative procedures related to establishing a company, obtaining a license or a visa.

The first three cover measures generally related to market access and national treatment, the fourth entails information on pro-competitive regulation (or lack thereof), while the fifth category provides objective information on transparency and administrative procedures. A core set of measures is reported for all sectors, but their specification may differ across sectors. For instance, information on foreign equity limits is included for all sectors, but their settings (including "no limit") may be sector-specific. In addition, certain measures capture the nature and market structure of each sector. For instance, there are a number of measures related to pro-competitive regulation in network industries, matters related to the conditions for obtaining a license for regulated professions, and impediments concerning discrimination of foreign financial services suppliers.

The information in the STRI is standardised so that users can easily find and compare specific policy measures across countries. The STRI database records regulations actually in force. For federal states, where the sector may also be regulated at the sub-federal level, a representative state or province is chosen based on output, population and the location of the largest city.

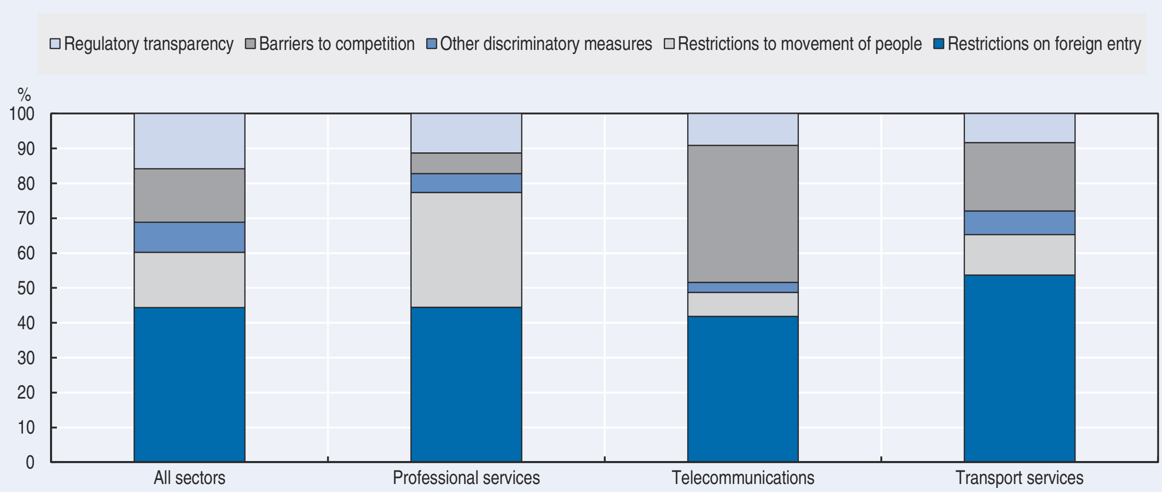
The STRI indices are derived by aggregating regulations that are potentially trade restricting into a composite measure of restrictiveness. The approach taken to scoring in the STRI is to transform qualitative information on regulation into binary scores. To reconcile the complexity of services trade restrictions with binary scoring, non-binary measures are broken down to multiple thresholds; complementary measures are grouped and scored as zero only if no measures in the bundle are restrictive. Finally, in cases where one restriction renders others irrelevant, those measures that are rendered irrelevant are automatically scored one.

Box 2.1. **The OECD Services Trade Restrictiveness Index** *(cont.)*

The weighting scheme used for the calculation of the STRI relies on expert judgment. A large number of experts were asked to allocate 100 points among the five policy areas presented above. These are translated into weights by assigning the weight experts allocated to the policy area to each measure that falls under it and correct for differences in the number of measures under the policy areas. The sensitivity of the indices to the weighting scheme has been tested by experimenting with alternatives methodologies. Geloso Grosso et al. (2015) explain the methodology in detail.

Figure 2.1 illustrates the contribution of each policy category to the STRI indices in a hypothetical case where the scores are one on all regulatory measures included in the index, thus indicating the most restrictive regime possible. The Restrictions on foreign entry headings account for the largest share of the indices in all sectors and countries, amounting to about 44% of the overall score. The contributions of Restrictions to movement of people, Barriers to competition and Regulatory transparency are about the same at 15% each. However, there are significant differences between sectors. For instance, in the skilled labour-intensive Professional services sector, the Restrictions to the movement of people category accounts for a significantly larger percentage of the indices (33%). In telecommunications services, a sector subject to network effects and significant economies of scale, barriers to competition amount to 39% of the overall score. In transport services, restrictions on foreign entry contribute more than half of the scores (54%), indicating the importance of market entry barriers particularly for services supplied through commercial establishment in the host country.

Figure 2.1. **Contribution to the STRI indices by policy area**



STRI online tools

Several channels disseminate the Services Trade Restriction Index (STRI). The two main data access channels are the STRI internet page and the OECD.Stat repository. The former contains a comprehensive package that includes access to the regulatory database, interactive tools such as Compare Your Country and the policy simulator, a description of the methodology used, and a link to the OECD Trade Policy Papers that deal specifically with STRI.

- **Compare your country** (*www2.compareyourcountry.org/service-trade-restrictions*)

This interactive website can be used to compare services trade restrictiveness across 22 sectors in 44 OECD countries and partner economies. Key economic indicators are projected onto a world map to give a comparative view of the importance of services in the countries covered by the STRI.

Box 2.1. **The OECD Services Trade Restrictiveness Index** *(cont.)*

- **Policy simulator** (*http://sim.oecd.org/*)

The policy simulator provides all STRI information by country and by sector. It can be used to understand how the STRI indices are calculated, to analyse the contribution of each policy measure to the index, to compare countries in detail, and to simulate the impact of a policy change on the index value. The focus view option provides links to legal sources. Finally, simulations can be saved and shared with other users, and the relevant data can be downloaded.

- **Online regulatory database** (*http://qdd.oecd.org/subject.aspx?Subject=STRI*)

The online STRI regulatory database displays complete and up-to-date regulatory information collected for the sector composite indices. This qualitative database contains information on trade restrictions and behind-the-border regulations in the 22 STRI services sectors. Policy measures are categorised under the five policy areas defined above.

The database entries are documented with reference to the sources (title and articles of the relevant law), with an internet link to each legal source. Explanations are provided where answers are ambiguous or to provide greater precision on the context of a specific regulation.

- **Indices can be downloaded from OECD.Stat** (*http://stats.oecd.org/Index.aspx?DataSetCode=STRI*)

The STRI indices are easily accessed and extracted from OECD.Stat (under the heading: Industry and Services, sub heading: Services Trade Restrictions). In addition to the five policy areas, the indices are presented by four additional classifications:

- GATS market access/national treatment and domestic regulation/other
- GATS modes of supply
- Discriminatory versus non-discriminatory measures
- Firm's establishment versus on-going operations

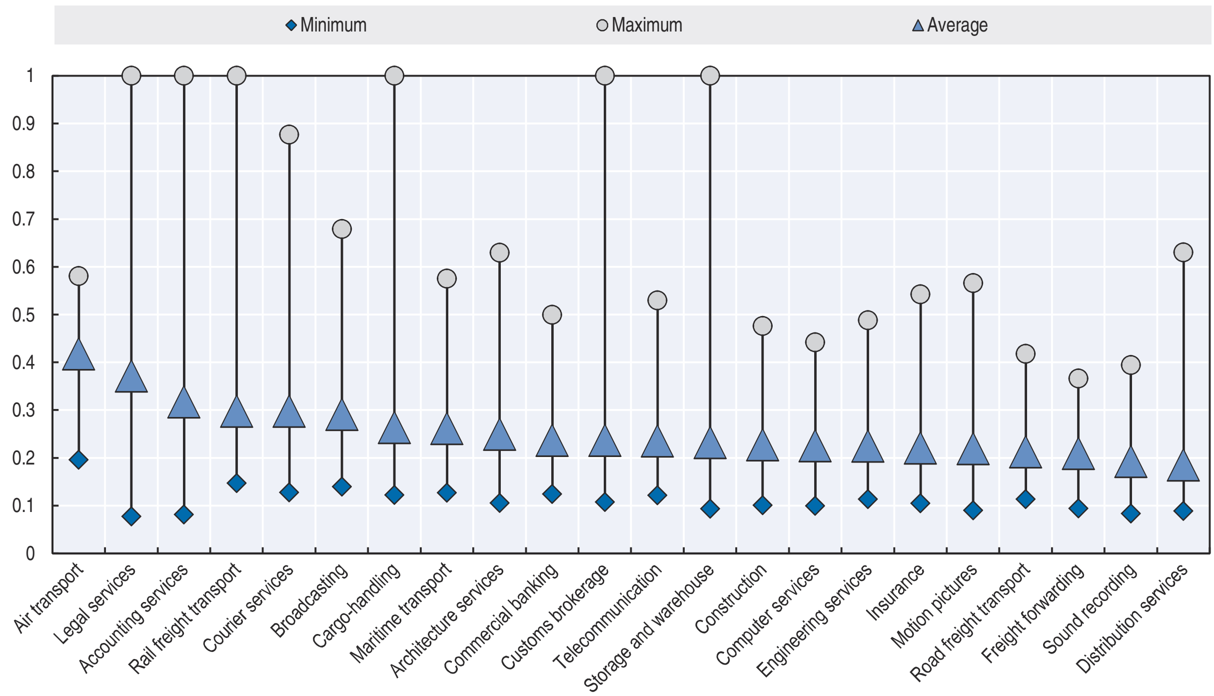
The indices of regulatory heterogeneity based on the same information included in the STRI regulatory database are also displayed under this section.

and computer services), the transport and distribution supply chain services (transport, courier, logistics and distribution services), a market bridging and support services cluster (commercial banking, accounting and legal services) and a physical infrastructure services cluster (construction, architecture and engineering). Together these clusters give an idea of the breadth and variety of sector-specific trade policy measures, and also demonstrate that trade restrictive policy measures in one sector may have an impact on other sectors along services value chains, which in turn may be part of global value chains designing, fabricating and marketing goods.[1]

No sector is fully open – some sectors are completely closed in some countries

The restrictiveness of services trade policies varies substantially across countries within sectors and between sectors as illustrated by Figure 2.2 which shows the average, minimum and maximum index values for each of the 22 sectors included in the STRI database. Bearing in mind that caution is needed when comparing sectors, it is fair to say that air transport, legal services and accounting and auditing services tend to be more restrictive on average than other sectors. Air transport is the only substantial services sector that remains outside the scope of the General Agreement of Trade in Services (GATS) and it is not surprising that it is less open to trade than other services sectors. Note, however, that so far the STRI only covers trade through commercial presence in this sector.[2]

Figure 2.2. **STRI average, minimum and maximum scores by sector, 2016**



Legal services, auditing and to a lesser extent accounting are regulated professions for which licensed professionals have exclusive rights to provide services. Traditionally, the criteria for obtaining a license have been a degree from a local higher education institution, local practice and in many cases also nationality or citizenship. Although many countries have lifted some of these requirements, elements of such regulatory regimes remain in place, explaining the high average score. Furthermore, a few countries still reserve professional services for local citizens. As noted in the previous chapter, knowledge-intensive business services (KIBS) have embarked on a digital transformation path which makes them tradable, accessible and affordable for consumers as well as SMEs, given that regulation is brought in line with modern technology.

At the other end of the scale, distribution and sound recording (music) services are on average much more open to trade. Yet, in all sectors, there is a large gap between the highest and the lowest score. As documented in Chapter 3, this variation matters not only for the trade performance of the sectors in question, but also for the efficiency of local service provision and the performance in downstream sectors.

On average, developing countries tend to have more restrictive services trade policies than OECD countries. Indeed, a statistically significant negative correlation between the STRI score and GDP per capita is found in all sectors and the relationship is strongest in commercial banking, insurance and telecommunications.[3] Interestingly, these sectors are subject to prudential (i.e. risk-reducing) or pro-competitive regulations in all countries. The level of GDP per capita is closely related to regulatory capacity. Thus, it is conceivable that poorer countries are more cautious in opening their markets due to concerns that foreign entry may overwhelm their regulatory capacity.

While countries at different stages of economic development may have different policy priorities, it is important to note that few, if any, restrictions are unique to emerging economies; most of them are found in some shape or form in OECD countries as well. Indeed, none of the 44 countries so far included in the STRI database is amongst the top three or bottom three in terms of trade restrictiveness in all 22 sectors. All countries in the sample have sectors and policy areas where there is scope for reform, whereas at the same time all countries have areas of good performance that could be a model for others. The STRI indices for all sectors and countries are presented in the annex to this book.

The digital network

The digital supply chain consists of i) content such as audio-visual services, design and other knowledge-capturing products, ii) the capture, compression and ingestion of content into transmission networks, iii) digital rights management and iv) content delivery. Telecommunications and broadcasting provide the networks over which content is delivered, and computer and information services offer a host of services including information storage and processing, network management systems and over-the-top (OTT) services complementing and sometimes competing with telecommunications and broadcasting services.

Recent years have seen convergence of telecommunications, information services and broadcasting where content can be delivered over different networks. Telecommunications operators often offer Internet Protocol Television (IPTV) as part of so-called triple play or quadruple play packages (broadband, television and telephone for triple play, adding mobile for quadruple play), and in some cases broadcasters have become telecommunications operators. In addition to linear broadcasting, video-on-demand has become increasingly important for distribution of audio-visual content. Furthermore, many suppliers are offering streaming or downloads on the Internet. Both IPTV and video-on-demand require access to high-speed broadband and the supply of these services depends on the performance and regulation in the telecommunications sector. By the same token, a vibrant IPTV and video-on-demand market creates demand for broadband internet services. Reflecting this reality, the same regulatory body oversees telecommunications and broadcasting in a number of countries.

Telecommunications and broadcasting are considered to be of strategic importance, prompting many countries to restrict foreigners from investing and operating in these sectors. National control does not necessarily mean limiting access to foreign services providers, however. Best practice policies involve an independent regulator that sets standards in accordance with international standards, monitors the market and enforces pro-competitive regulation, including specific obligations on suppliers with significant market power, be they locally or foreign owned. Trade-restricting measures to ensure national control take several forms of which the most common are foreign ownership limitations, government ownership of major suppliers, screening of foreign investment and requiring that the directors and management of companies are nationals or residents in the country.

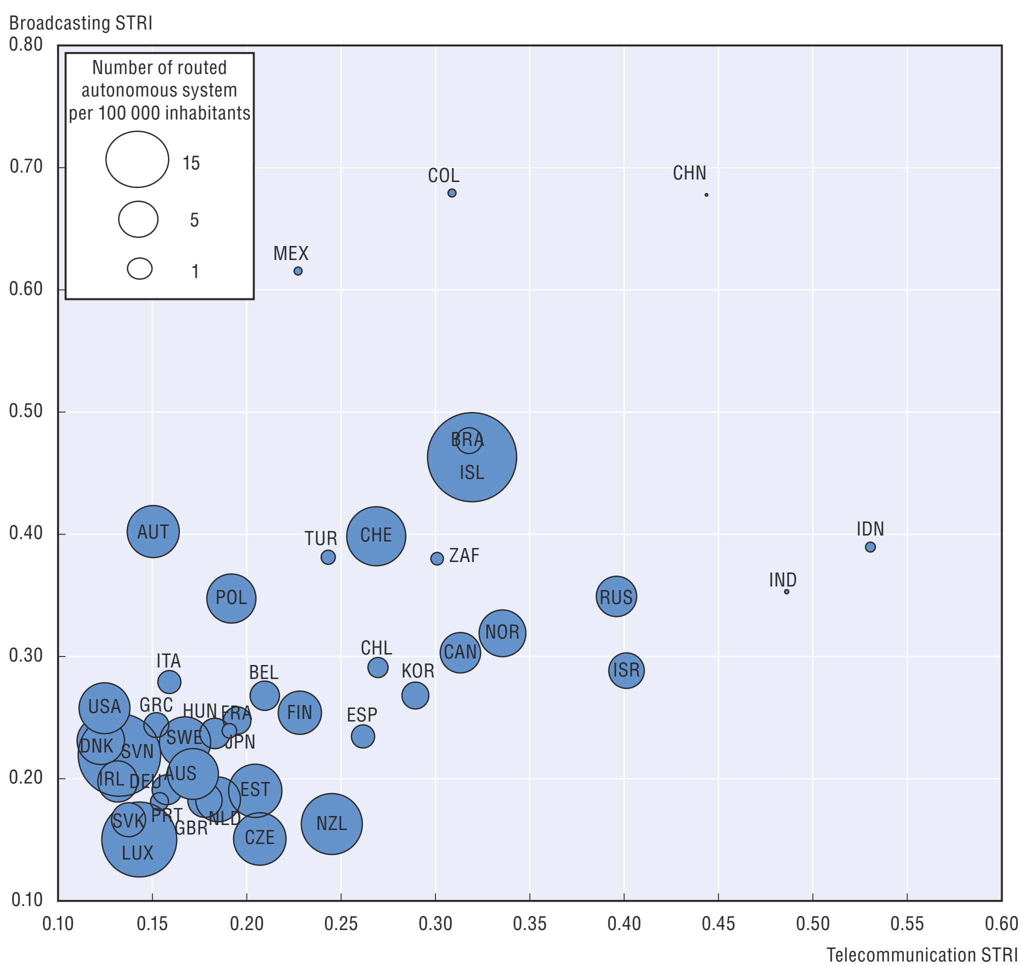
In a capital-intensive network industry, access to essential facilities and switching costs may favour incumbent firms. These market imperfections may constitute a substantial entry barrier, even in the absence of explicit foreign entry restrictions. Therefore, pro-competitive regulation is considered a trade policy issue in telecommunications, 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 the STRI in cases where an incumbent operator has significant market power.

Ex ante pro-competitive regulation is less common for broadcasting, although regulators often take into account convergence between networks and platforms when assessing the market structure and making regulatory decisions in telecommunications markets.

Figure 2.3 plots the STRI score in telecommunications (horizontal axis) and broadcasting (vertical axis) in 2016. Each bubble represents a country and the size of the bubble represents the number of routed autonomous systems (AS) per 100 000 inhabitants. It indicates the ease with which a company may take control over routing its traffic and exchange this traffic with other networks, which may be a good proxy for the level of competition in the market (OECD, 2015a). Three messages can be taken from this graph. First, countries tend to have a similar level of trade restrictions in broadcasting and telecommunications. Second, the emerging economies covered by the STRI appear in the upper right-hand corner of the chart, suggesting that the level of restrictiveness is negatively related to the level of income in the country. However, as demonstrated in Box 2.2, which shows the STRI for telecommunications in Korea over a 20-year period, liberalisation and pro-competitive regulations can evolve over time as the country develops institutional capacity and economic strength.[4] Third, a high level of restrictiveness is associated with fewer autonomous systems.[5]

Figure 2.3. **STRI in telecommunications and broadcasting, 2016**

Openness matters for performance



Source: OECD STRI database (2016) and OECD (2015a).

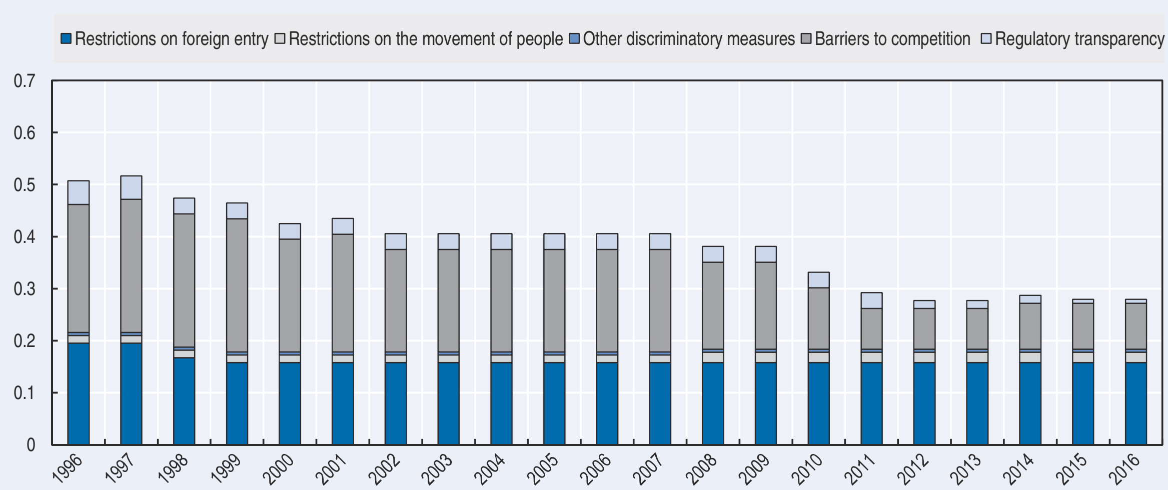
Box 2.2. **Korea's services trade policies over two decades: Telecommunications**

The telecommunications sector in Korea experienced two main waves of reform starting in the late 1990s and in the late 2000s. In the first wave, foreign investment in the sector was substantially liberalised. The foreign equity cap in facilities-based telecommunication businesses was raised from 33% to 49% in 1999, and the ban on foreign investors investing in the Korea Telecommunication Corporation (KTC) was converted into a 33% limit in 1998, raised to 49% in 2001. The requirement that the majority of a facilities-based telecommunication provider's board of directors must be Korean nationals was also removed in 1997, and conditions on cross-border mergers and acquisitions eased in 2001.

During the same period, some reforms towards a more pro-competitive regulatory framework were also implemented, such as mandatory number portability and unbundling of the local loop in 2001. The remaining government stake in KTC was unwound in 2002.

The second wave of reform focused on enhancing the competitive environment and closing the gap with best-practice regulation of dominant players. Between 2008 and 2011, a number of regulatory changes were enacted, including the establishment of an independent Korea Communications Commission, dialling parity, accounting separation, wholesale access conditions and prices, and the resale of public telecommunications services to other suppliers. At the same time, minimum capital requirements for special-category telecommunications were put in place starting in 2008. As of 2015, information on spectrum is made publicly available.

Figure 2.4. **Korea's STRI in telecommunications, 1996-16**



Source: Nordstrøm (2017).

Foreign equity restrictions are quite common in broadcasting, although cable and satellite TV are typically more open to foreign investment than is terrestrial broadcasting. Public ownership of one or more broadcasters or TV channels is also common. Furthermore, state-owned broadcasters often enjoy competitive advantages related to funding or other favourable conditions. In fact, only two countries in the sample have neither foreign equity restrictions nor government ownership of a major TV channel. Turning to limitations on content, some countries require that broadcasters reserve a certain percentage of transmission time excluding news, sports events, advertising, games and teleshopping for local content. A number of countries that have such screen quotas extend this to non-linear demand like streaming for consistency across platforms. In a few countries, there are quotas also on the number of TV channels.

Digital rights management is also covered by the STRI database and indices. Copyright and related rights are integral features of the audio-visual sector, since transactions are essentially the transfer of property rights from a seller to a buyer, or the right to use somebody's intellectual property for a rental or fee. Most countries covered by the STRI database have incorporated compliance with international treaties in their copyright and other IPR legislation, and few discriminate against foreign supplies regarding copyright protection and distribution of license fees. However, this is an area of rapid technical change where implementation and the specifics of regulation are important.

The transport and distribution supply chain

Transport and logistics services are not only extensively traded in their own right but are also intermediate services at the core of global value chains and just-in-time inventory management, with the related demand for door-to-door services. Distribution services are essential for bringing goods from the producer to the consumer, for job creation and for demand-driven economic growth. The rise of online retail sales has led to an increase in parcel delivery, and the importance of global production networks depends on both fast and reliable shipments. As global value chains have become a dominant feature of world trade in recent decades, the concept of transport and logistics services has evolved significantly to cover a wide range of activities for integrated supply management, from network strategy design to the distribution and delivery phases.

The STRI for transport services covers air, maritime, road and rail freight transport. Logistics services complement air cargo, shipping and trucking in the supply chain. In international trade in goods, the process of bringing goods from factory gates across borders and to markets relies heavily on the efficiency of auxiliary services and the speed of carrying out border procedures. In that respect, the STRI covers four types of logistics services: cargo-handling, storage and warehousing, freight forwarding services and customs brokerage.

Air and maritime transport form part of the backbone of merchandise trade, and are important enablers for integration into global value chains. Air transport facilitates particularly the movement of components that have a high value-to-weight ratio and goods that require speedy and reliable transport (for instance, perishable goods). Air transport also facilitates speedy movement of business travellers assisting clients or providing after sales services. Maritime transport, in turn, is crucial for transporting large volumes of cargo at lower costs.

In air transport services, the level of restrictiveness is high across the board. Most countries restrict foreign equity participation in the sector to less than 50%. Notable exceptions include Chile, Colombia, and Costa Rica, which do not apply any limitations on foreign ownership of domestic airlines. As part of a reform package introduced in 2016, India allows foreigners to invest up to 100% in domestic airlines but a 49% limitation remains in place for investments made by foreign airlines. Australia (with the exception of Qantas) and New Zealand also allow 100% foreign ownership in domestic airlines for the purpose of carrying domestic traffic only, whereas Mexico and Japan allow complete foreign ownership in domestic airlines carrying international traffic only. Indonesia allows majority foreign ownership in air freight transport, following recent reforms in its Negative Investment List in 2016. Ownership restrictions are often coupled with specific limitations on the nationality of board members and managers of air carriers. The lease of foreign aircraft with crew ("wet lease") or without crew ("dry lease") is subject to prior authorisation in a large number of countries.

The main impediment to competition in the sector relates to slot allocation at airports for landings and take-offs. Most countries in the STRI database assign slots in high-demand airports based on historical rights – which entails giving preference to incumbent airlines – and typically also forbid the commercial exchange of slots between airlines. However, it is common that, after the allocation of historic slots, half of the remaining slot pool is allocated to new airlines. While this can promote competition, the extent to which it confers a real benefit on new entrants will depend on how many slots are freed up by incumbent airlines.

Maritime transport carries around 80% of merchandise trade by volume. A special feature of this sector is the separation of nationality of ship owners, the registration of the ship and the routes being serviced by the ships. As of 2016, about 71% of all ships (measured by tonnage) owned by the 35 largest ship-owner nations were registered under foreign or international flag. Maritime transport is thus a truly international services sector where cross-border trade is important.

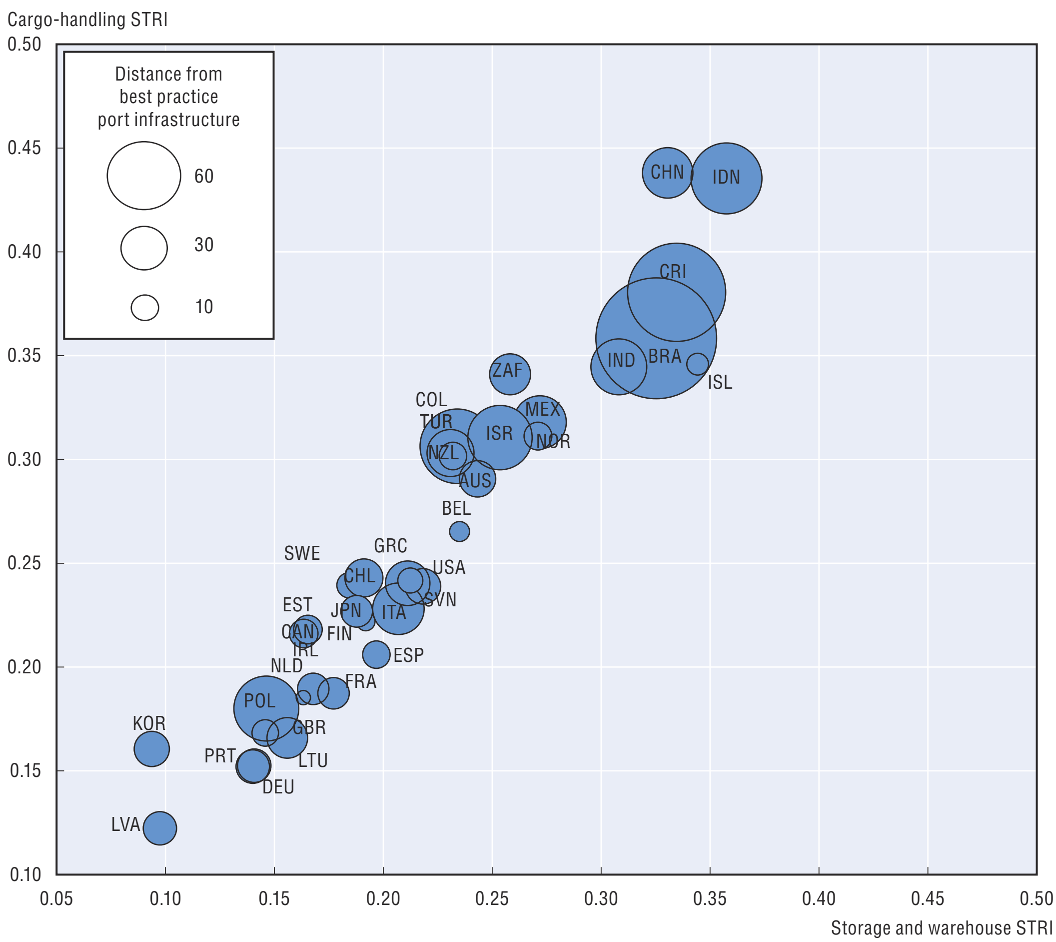
Restrictions on cabotage operations (i.e. traffic between two or more ports within the same country) are predominant, and often combined with restrictions on foreigners owning or registering vessels under the national flag. Ten countries in the STRI database have also signed cargo sharing agreements and five reserve specific types or shares of their domestic cargoes to the national fleet. Ports, which are crucial gateways for cargo flows, are often publicly owned, while port services are provided by private companies operating under concessions. Seven countries still maintain restrictions to the provision of such services, including statutory monopolies precluding the entry of other port operators. A few countries apply discriminatory tariffs for port services and in several countries, domestic shipping companies benefit from tax relief measures or other incentives to further increase the competitiveness of the national fleet. In addition, many countries exempt liner codes from competition law, and a handful of countries reserve the provision of port services to concessions granted with exclusive rights.

Among the four logistics services, cargo handling and customs brokerage have a medium to high overall level of restrictiveness. One country is completely closed both in cargo handling and storage and warehousing as it maintains a statutory monopoly on the provision of these services. Customs brokerage is also completely closed in one country which requires nationality for customs brokers. Barriers to competition are also relevant in cargo-handling services, particularly cross-subsidisation, which is prohibited only in a few countries.

Customs procedures and trade facilitation measures play a significant role in the STRI for cargo-handling services and logistics services. These measures are key for the fast delivery of goods and, hence, for the efficient provision of logistics services. A positive development in this area in recent years has been the creation of a single-window regime, which is found in most countries in the STRI database.[6] The deployment of the single window is valuable for internationally oriented businesses, especially for SMEs. Another important regulation relates to the requirement by different regulatory agencies for an individual license to carry out the different logistics services. This requirement, present in many countries in the STRI database, constrains the provision of integrated, seamless logistics services, which is increasingly the business model nowadays.

With seaborne transport underpinning global trade in goods, logistics services at ports increasingly play a fundamental role in the seamless movement of large-scale cargo. The ability for the supplier of logistics services to handle, store, and forward cargo quickly and efficiently is a major factor in meeting the increasing demand for goods and ensuring an unhindered participation in global value chains. Figure 2.5 shows that the STRIs in cargo-handling and in storage and warehousing services are closely associated with the quality of port infrastructure. The chart also shows that an increased level of restrictiveness in cargo-handling is generally coupled with an increased level of restrictiveness in storage and warehousing. The chart finally suggests a correlation between high scores on the STRI in the two logistics services sectors and the distance to international best performance regarding the quality of port infrastructure.

Figure 2.5. **STRIs in key logistics sectors and quality of port infrastructure, 2016**



Source: OECD STRI and World Economic Forum (2016).

The STRI results for distribution services, covering wholesale and retail depict a relatively liberal sector. Only two countries restrict foreign equity participation in the retail or wholesale segment. One of them allows 67% foreign ownership in the wholesale segment but foreign investment in retail trade is largely precluded. A number of countries require commercial presence before cross-border distribution services can be supplied. Several countries also require that the distribution of certain products, such as alcoholic beverages at either retail level or wholesale level, be reserved for domestic-owned statutory monopolies.

The market structure of distribution services has been changing rapidly with the emergence of e-commerce and multi-channel retailers (Box 2.3). Restrictions that impede these activities can be found in several countries, including bans on business-to-consumer (B2C) e-commerce. Other impediments include discriminatory access to certain payment settlement methods and the lack of provision for non-resident foreigners to register and declare taxes online. Furthermore, regulations on sales periods and opening hours are common, and a few countries also impose restrictions on the distribution of certain products.

Box 2.3. **How platforms changed the retail sector: the case of eBay**

Founded in 1995, eBay Inc. connects millions of buyers and sellers globally through the eBay Marketplace, StubHub and Classifieds platforms. The technologies and services that power the eBay platforms are designed to enable sellers worldwide to organise and offer their inventory for sale, and buyers to find and purchase it, virtually anytime anywhere. In 2016, the eBay Marketplace saw 162 million active buyers from 190 countries and sellers from around the world.

Online commerce platforms make it possible for firms of all sizes, including micro, small and medium-sized enterprises, to serve an international customer base directly from anywhere. They provide low cost access to services such as international marketing, delivery, payments, and effective communication. A study covering 18 countries found that eBay commercial sellers (i.e. sellers with more than USD 10 000 in sales on eBay) engaged in cross-border transactions reach, on average, 27 different countries in a year (eBay, 2016a). To put this in context, in the majority of OECD countries, 50% or more of exporting enterprises trade with only one country (OECD, 2015b).

Online platforms such as eBay also allow firms to adapt more easily to changes in demand. For example, during the recent economic and financial crisis, companies in general attempted to rebalance their export destinations in response to the significant decrease in demand in Europe (EU, 2015). Large firms were more adaptable and flexible than MSMEs, expanding extra-EU exports by 26% over the period 2009 to 2013. However, EU eBay Commercial Sellers (the majority of which are micro-sized) were by far the most adaptable, increasing their share of extra-EU exports by 52% (eBay, 2016b).

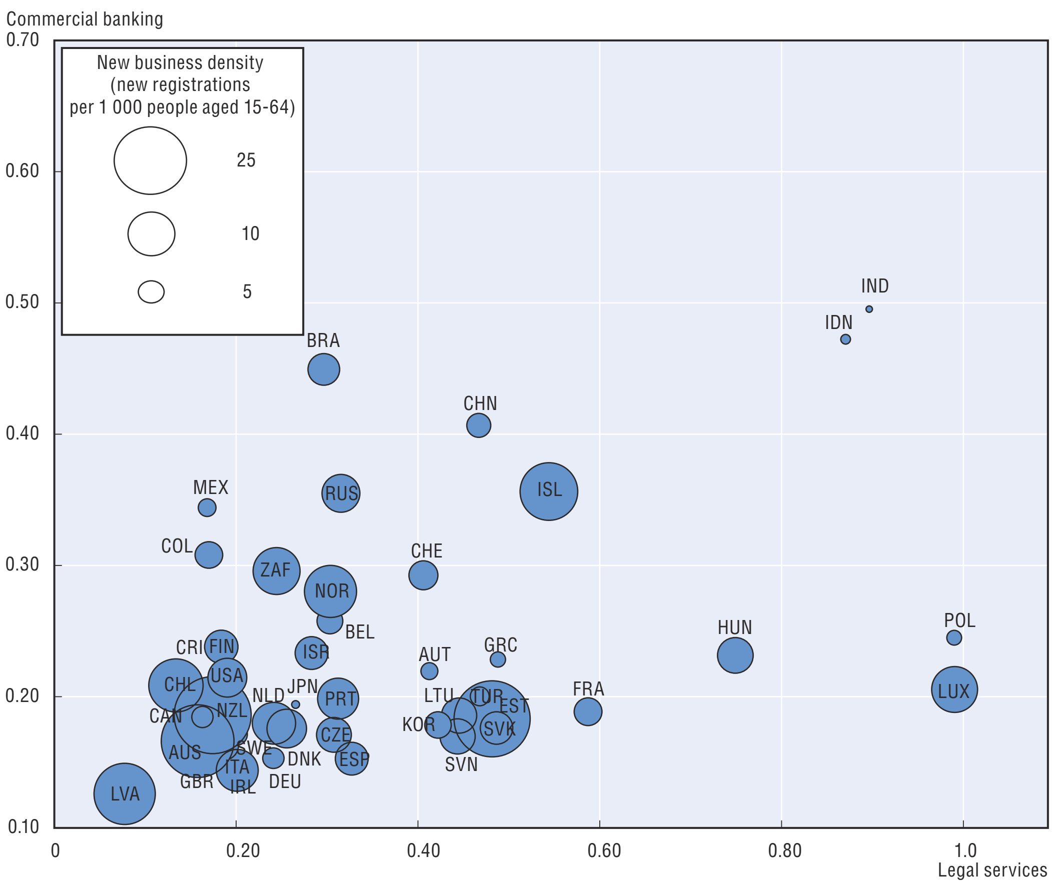
Market bridging and supporting services

Economic activity in general and international transactions in particular rely heavily on access to credit, payment systems and insurance. A legal framework supporting the enforcement of contracts is one of the most important pillars of a market economy in which strangers can do business with each other. Trustworthy, transparent and easy to understand accounting information is needed in order to assess the creditworthiness of strangers. With the growing complexity of international business, these services are essential for entrepreneurs to develop and commercialise their ideas, for the functioning of value chains, and for investors to contribute to growth and innovation. As discussed in greater depth in Chapter 1, digitisation has made these services more easily tradable over digital networks using platforms, clouds and dedicated software. The digital transformation has made them more accessible and affordable for SMEs and consumers. Finally, financial services are important for the transition from an economy based largely on informal economic activities to activities with access to legal enforcement of contracts and protection of worker's rights and other benefits.

However, regulation has not always kept up with technology and there is ample scope for reforms that would strike a better balance between protecting consumers and enabling a more open and competitive market for professional and financial services. Figure 2.6 depicts the STRI for legal services on the horizontal axis and commercial banking on the vertical axis. Each bubble represents a country and the size of the bubble reflects new business registrations per 1 000 people aged 15-64. Three messages can be taken from this graph. First, commercial banking enjoys a less restrictive policy environment than legal services. Second, countries with relatively low scores on the STRI in both sectors (towards the lower-left corner) have more business start-ups. Finally, it is noted that some countries have low business start-up rates in spite of relatively open markets for financial and professional services, suggesting that access to finance and legal advice is not enough to unleash entrepreneurial spirits.

Figure 2.6. **STRI in legal services and commercial banking, 2016**

Openness matters for entrepreneurship



Source: OECD STRI and WDI.

Legal services are typically highly regulated through professional bodies that issue licenses, monitor conduct of professionals and set and uphold professional standards. Among the countries covered by the STRI, four countries reserve both domestic and international legal practice to licenced national lawyers and require that only licensed lawyers form and own law firms. In one of them, there is an opportunity for foreign legal services providers to do business through business visits to provide legal advice to their clients (fly-in-fly-out), another allows foreign lawyers to work for local advocates to advise on foreign law, while in two other countries, the sector is completely closed to lawyers from third countries that are not covered by a common market agreement or mutual recognition. Although most countries have elements of this type of regulation for domestic law, what makes these two countries stand out is the lack of liberalisation regarding international law practice, which is at least partially open in the other 41 countries in the STRI.

The requirements for obtaining a licence to practice and the activities reserved for licensed professionals largely define market access for foreign suppliers of legal services. Domestic law has traditionally played a marginal role in international trade in legal services due to qualification requirements which, like domestic law, are shaped along national lines. Best-practice regulation in this area entails the establishment of a process that provides for substantive criteria (e.g. theoretical and practical aspects of legal training) and administrative procedures (e.g. processing time and right of appeal) for recognising education degrees gained in foreign countries (see Box 2.2 for the case of Canada). In three countries covered in the STRI database, Finland, Latvia and Sweden, licensed lawyers do not have exclusive rights to provide services and appear in court.

Like legal services, accounting services are also intensive users of skilled labour and subject to licensing in a majority of countries. However, in 19 countries covered by the STRI, accounting is not a regulated profession. Foreign equity limits are rarely applied, although some countries restrict firms' ownership to locally licensed professionals. Ownership restrictions are often coupled with requirements that the majority of the board (or equity partners in the case of partnerships) be locally licensed. Foreign accountants tend to be subject to economy-wide limitations on natural persons wishing to provide services in another country on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. In addition, nationality and residency requirements to practice in the host country, coupled with the lack of recognition of foreign qualifications can amount to significant constraints on the ability of accountants to provide services.

Along with accounting, the STRI also covers auditing. This profession is subject to licensing in all but one country in the STRI database. Hence, the requirements for obtaining a license to practice and the activities reserved for licensed professionals largely define market access for foreign suppliers. In cases where only nationals can obtain a license and a license is required to practice and to hold shares in auditing or accounting firms, market access for foreign suppliers is very limited. When these regulations apply to both accounting and auditing services, and are coupled with non-availability of temporary licensing as an additional channel for entry into the market, the sector is completely closed. This is the case for the two countries in the sample which has an STRI score of one.

Commercial banking has a relatively high level of trade restricting regulations on average across countries, and the dispersion from the highest to the lowest is relatively narrow (Figure 2.1). This can be explained by the fact that banking is a heavily regulated sector for the purpose of maintaining the stability and soundness of the financial system. Prudential rules and standards are set by national governments and regulators as well as international financial standard-setting bodies.[7] Many countries resort to trade-restricting measures to protect the financial system. Only two countries covered by the STRI impose limits on foreign equity in this sector, but most require a commercial presence to allow cross-border banking and several countries restrict the establishment of foreign bank branches or impose more stringent requirements to grant a license to foreign-owned banks than domestic ones. In most cases, foreign banks must be locally established in order to provide the full range of services in the country. Another common impediment is the requirement that the majority of the board of directors' members of a commercial bank be a domestic national or permanent resident.

Government ownership is also widely observed in the sector. This is often a result of government bailouts during the financial crisis where most countries are yet to re-privatise the bailed out banks. Product-level regulations, including price restrictions and prior approval requirements for individual financial products, are also significant contributions to the STRI indices, particularly in non-OECD member countries. Another common issue is the lack of independence of the regulatory and supervisory authorities. Indeed, in many countries full operational, management and budget independence from the government is not guaranteed.

Box 2.4. **Requalifying as local lawyers in Canada**

In order to obtain a full licence to practise law in any Canadian province or territory, foreign lawyers must apply to the National Committee on Accreditation (NCA) for evaluation of their credentials and experience. The NCA establishes the educational and practising criteria an applicant must meet to be considered for admission to any of the law societies. Upon successful completion of this assessment, which is made before the foreign lawyers apply for admission to the bar in Canada, the NCA issues a Certificate of Qualification.

The NCA applies a harmonised standard on a national basis so that applicants outside Canada do not need to satisfy different entrance standards to practise law in the different provinces and territories. Each application is assessed on an individual basis, taking into account the specific elements of each applicant's educational and professional background (e.g. the type of legal system and the subject areas studied, whether the legal education programme is recognised by the local regulatory authority and professional legal experience).

Once an application has been assessed by the NCA, a candidate may be asked to complete specific law school courses and to pass examinations to demonstrate competence in specific subject areas. The requirements that are assigned focus on the competence of applicants in core common law subjects of Canadian law (e.g. administrative law, constitutional law and criminal law). Other subject areas not specific to Canadian law (e.g. commercial law or civil procedures) may be recognised, depending on the candidate's education and experience.

The NCA processes applications in the order they are received by the Federation of Law Societies of Canada. An applicant will normally receive an assessment report within eight weeks from the time that all required formalities have been completed. Applicants may appeal the assessment issued by the NCA by submitting a letter to the NCA indicating the reasons for the appeal. An Appeal Panel established by the NCA considers the appeal and issues its decision, which may reduce or supplement the requirements set out in the decision being appealed.

Physical infrastructure services

Physical infrastructure services include construction, architecture and engineering services. Construction services have historically been considered strategic for providing the infrastructure for other industries as well as due to its close links to public works and the allocation of fiscal resources. Architects undertake the design of buildings whereas engineers participate in the construction of key infrastructure such as buildings, roads and bridges. Often engineering and architectural activities are combined in projects offered by one company, and are sometimes subsumed in the construction sector. Engineers are also important for the development of production processes and the adoption of new technologies throughout the economy.

The complementarity between architecture, engineering and construction is reflected in the regulation of the sectors where countries take different approaches to which links in the chain to regulate and how. In 17 countries covered in the STRI, engineering is not a regulated profession, whereas for architecture eight countries adopt a similar approach. 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. Rather, some countries consider strong enforcement of object-related regulation, such as building codes, technical and safety standards sufficient to achieve safety and other social objectives.

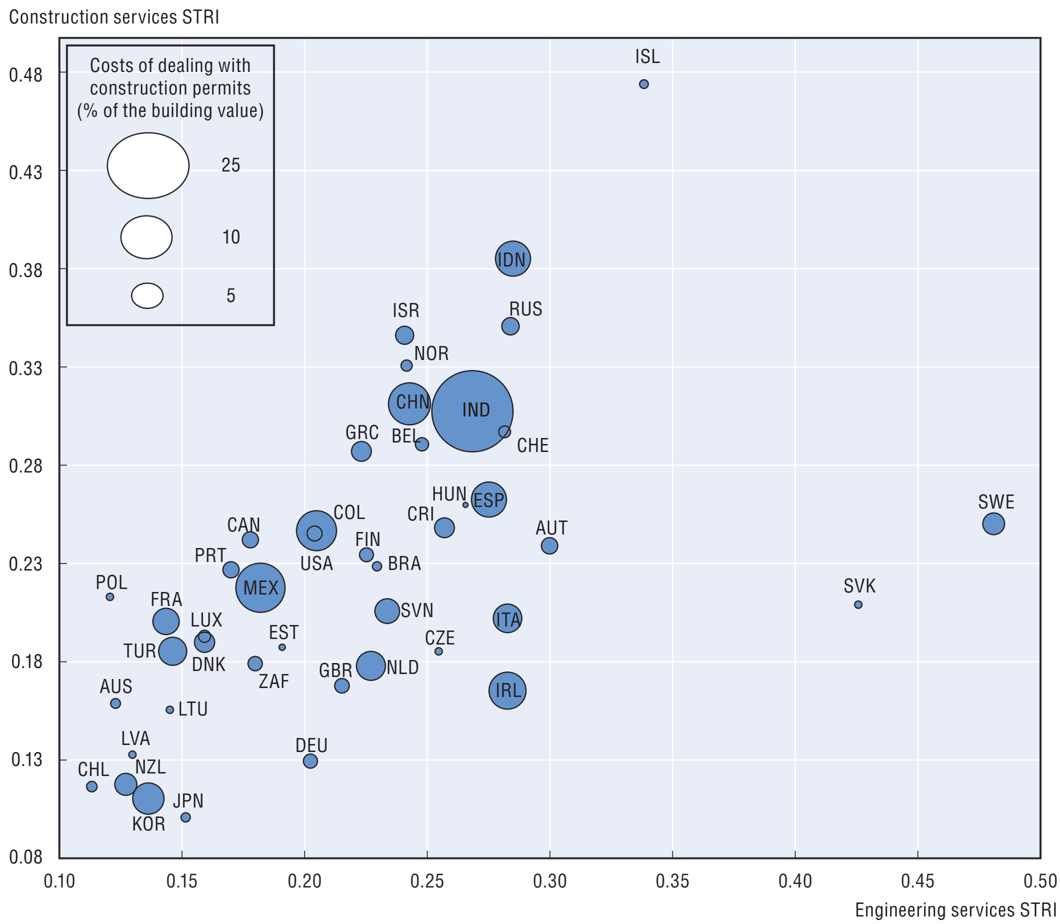
In the construction sector, the more elevated levels of restrictiveness can largely be attributed to general measures affecting all sectors of the economy. This includes impediments on acquiring land and real estate, which typically have a direct bearing on the provision of construction services. For example, property developers may not be able to own real estate under construction until completion of the project. There are 24 countries in the STRI database which have restrictions in this area.

Construction services are a relatively labour-intensive sector (both skilled and unskilled), which is typically reflected in a higher share in employment than in GDP for most countries. Given 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. Apart from labour market tests and other horizontal restrictions, the movement of qualified construction personnel may be affected by licensing and related issues, including lack of recognition of foreign qualifications. In most countries covered in the STRI database, at least one engineer must be locally licensed for the issuance of construction permits.

In light of the importance of government demand for these services, restrictions in public procurement have a particular bearing on the construction sector. A large number of countries limit non-discriminatory access to public procurement to free trade agreements or to WTO Government Procurement Agreement (GPA) partners. Explicit preferences to local suppliers in procurement markets, particularly through price preferences or the use of offsets, are also common. Figure 2.7 shows that the STRI scores for construction services are closely correlated to those for engineering services. Considering that these services are often supplied by the same firms, restrictive policies in complementary sectors lead to joint effects that may impose a heavy toll on services suppliers. Furthermore, Figure 2.7 also shows that the costs of dealing with the procedures needed to obtain a construction permit tend to be more significant in economies with relatively higher score in both sectors, although some exceptions exist.

Engineering is a knowledge-intensive business service. In the 27 countries in which engineering is a regulated profession, foreign professionals may face costly and time-consuming procedures related to licensing and recognition of qualifications. When licensing is combined with residency or nationality requirements in order to obtain a license, access to the market for foreign nationals is very limited. Only one country in the

Figure 2.7. **STRIs in construction and engineering services and costs of dealing with construction permits, 2016**



Source: OECD STRI and WB Doing Business Indicators.

STRI database restricts foreign equity in engineering services. In some of the other economies, the majority of shareholders in engineering firms must be licensed professionals. Other impediments relate to restrictions on acquiring land and real estate, and participating in public procurement, which may be particularly pernicious for engineering services given their complementarity with the building industry.

Engineering services are not limited to the building industry. They are also a vital input in the process of gaining competitiveness in high-technology products. Manufacturers employ engineering services through several channels, including hiring engineers for in-house provision of engineering services, and sourcing from local and international engineering firms. Many activities in the sector have been digitalised in recent years, substantially transforming the sector as discussed in Chapter 1.

Reforms of services policies in the STRI (2014-16)

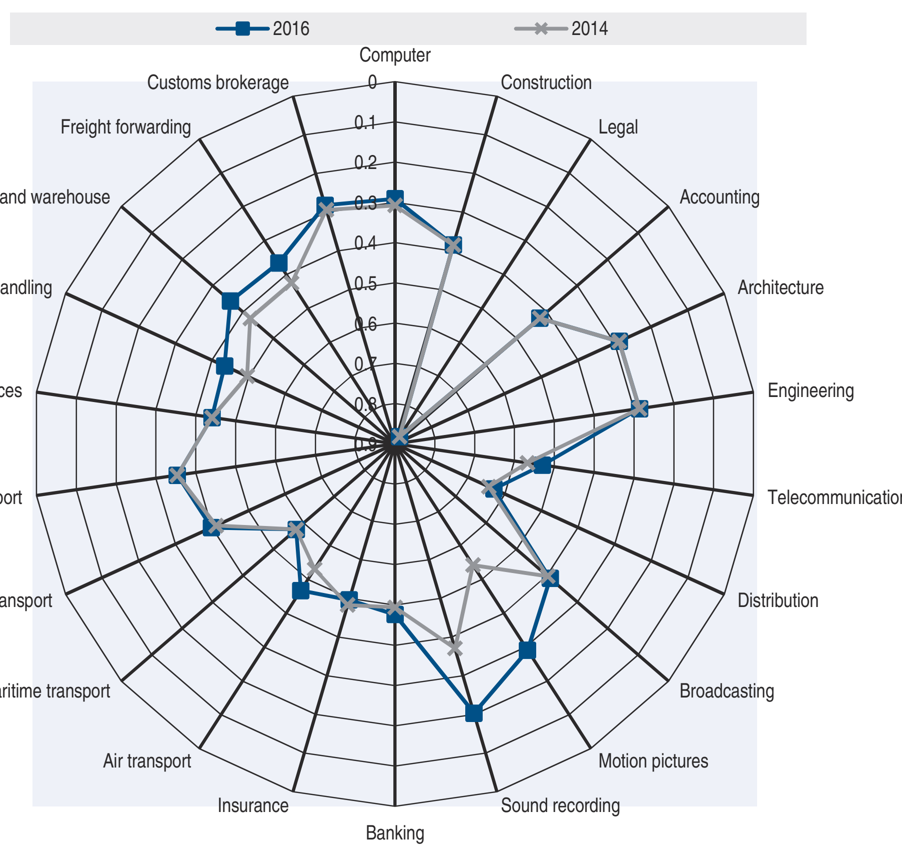
The reforms collected in the STRI reflect changes in the trade policy framework that lead to changes in the answers recorded in the STRI databases. This section presents the main policy changes recorded in the STRI between 2014 and 2016 as well as the effect of these reforms on the indices.

Main reforms

Indonesia introduced significant reforms in 2016 when it updated its Negative Investment List, the main instrument governing foreign investment in the country. The most important reform was to liberalise foreign investment by lifting limitations on foreign equity in a number of service sectors. In telecommunications services, foreign participation in internet communication companies was raised from 49% to 67%, and in fixed and mobile telephone companies from 65% to 67%. The amended list fully opened motion pictures and sound recording to foreign investment. Liberalisation in the air transport sector entailed increasing the limit for foreign participation to 67% from a previous 49%. Segments of logistics services (cargo-handling, storage and warehousing, and freight forwarding) have been liberalised as well: 67% foreign participation is now permitted in all three segments instead of the previous 49% in cargo-handling and freight forwarding, and 33% in storage and warehousing services.

Figure 2.8 shows the changes in Indonesia's STRIs between 2014 and 2016. It shows there was a decrease in the indices of several sectors in 2016 as a result of the updated Negative Investment List. The greatest effect was in motion pictures and sound recording, where the elimination of foreign equity limits almost halved the indices in both sectors. The decrease is less significant in other sectors since foreign equity continues to be capped, although at a higher level than before the 2016 amendments.

Figure 2.8. **Policy reforms in Indonesia, 2014-16**



The **People's Republic of China** (hereafter "China") revised the Catalogue for the Guidance of Foreign Investment Industries in 2015. The Catalogue is the main instrument governing foreign direct investment. Industries not listed in the Catalogue are deemed to be open for unrestricted foreign investment. Industries covered by the Catalogue are separated into three categories: encouraged, restricted, and prohibited. In the revised Catalogue, rail freight transportation services and services related to direct sales, including online sales, were removed from the restricted category, thereby allowing full foreign ownership. In telecommunications services, China introduced pro-competitive regulations and revised the Telecom Business Classification Catalogue to allow the resale of mobile communication services. Furthermore, the revised Catalogue introduced more liberal policies towards e-commerce.

In **India,** policies on foreign investment are published in the "Consolidated FDI Policy", which is updated annually. The 2014 edition of the Consolidated FDI Policy raised the foreign equity cap for telecommunications companies from 74% to 100%, although investment above 49% remained subject to Government approval. In 2015, policy reforms particularly targeted the insurance services sector. As an initial step, foreign participation was raised from 26% to 49%. The Insurance Laws (Amendment) Act of 2015 allowed foreign reinsurers to open branch offices in India and set out the conditions for their operation. In 2016, the Consolidated FDI Policy eased the conditions on foreign investment in broadcasting services (i.e. Direct-to-Home (satellite), digital cable networks and so-called Headend-in-the-Sky services (HITS) – a satellite-based system to deliver TV channels to cable operators) by raising foreign participation from 74% to 100%. As an addendum to the FDI Policy, the Government also liberalised investment in air transport companies, except for investment made by foreign airlines, in which case, the threshold remained at 49%.

Mexico adopted a package of reforms, including *inter alia* new legislation in sectors such as telecommunications, broadcasting and financial services. In 2015, a new telecommunications and broadcasting law (*Ley Federal de Telecomunicaciones y Radiodifusión*) entered into force rolling back foreign equity restrictions in fixed-line and internet services segments of the sector. The law also introduced a new independent regulator and a series of pro-competitive measures to challenge the dominant position of incumbent telecommunications firms. With respect to broadcasting services, foreign investment in local corporations remains possible only on the basis of reciprocity whereas other limitations on the broadcast time and discriminatory subsidies were introduced in the new law. The financial reform aimed at strengthening prudential regulation, increasing credit penetration and promoting competition. The reform also allowed foreign financial institutions to open up branches in Mexico for the provision of insurance services.

Less sweeping policy changes relevant to the STRI also took place in other countries:

- Norway adopted the EU postal directive, in 2015, which entailed eliminating the postal monopoly for letters, and introducing other liberalising measures relating to the conditions for operation and access to the postal network.
- Greece lifted the requirement for prior approval for foreign investors to acquire shares in publicly-controlled firms in some service sectors as well as removing fee regulations for professional services (although recommendations on minimum fees remain in place for accountants) in 2014.
- Hungary introduced a decree in 2015 setting out quotas on the number of non-EU nationals that can be granted work permits in the country.

- Japan lifted residency requirements for board members of a domestic corporation in 2015. In 2016 it also strengthened the measures to prevent the transfer of criminal proceeds to fully comply with the best-practice recommendation of Financial Action Task Force on Money Laundering.
- In Korea, the requirement that foreign investors must transfer stocks to Korean national(s) within six months in cases where their registration is cancelled was lifted in 2015. Restrictions on internet banking were also removed. On the other hand, a requirement that only licensed architects may establish an architect firm was introduced.
- The Russian Federation introduced limitations on foreigners' participation in the total authorised capital of credit institutions and reduced the permitted share of foreign equity in broadcasting companies in 2016.
- South Africa eliminated quotas for contractual services suppliers and independent services suppliers, and also repealed labour market tests for intra-corporate transferees in 2014.
- Turkey adopted a regulation in 2015 that implemented the 2013 Law on Liberalisation of the Turkish Rail Transport. The new regulation filled some gaps and paved the way for operationalising the reforms planned for the rail transport sector. In 2016, Turkey also adopted a new law on the protection of personal data.
- In the United States, as of July 2016, foreign banks with USD 50 billion or more in US assets must form a US intermediate holding company to act as the parent company of all of the foreign bank's subsidiaries in the United States.

The extent of policy changes in the STRI

The STRI recorded 140 relevant policy changes between 2014 and 2016 across all countries covered (Figure 2.9). Close to half of the reforms took place in 2015, and one-third in 2016. Most reforms affected regulations that apply across the economy (horizontal measures) while most sector-specific reforms occurred in the telecommunications, financial services (insurance and commercial banking), and broadcasting services sectors.

Some policy changes have a more substantial effect on the STRI than others. Figure 2.10 shows the aggregate change in the scores in each STRI sector where reforms occurred. In both years, the decrease in the scores is greater than the increase. This indicates that, in general, the policy shift has moved towards trade liberalisation. However, there have been some sectors such as broadcasting services and some professional services, where the change has shifted the overall picture in the opposite direction.

Horizontal changes (i.e. common across all sectors) contributed both to increasing as well as decreasing the scores. On the one hand, common trade liberalising changes included improvements on the conditions for foreign firms' establishment and operation by means of removal of minimum capital requirements for registering limited liability companies or corporations, the lifting of residency requirements for board of directors, and the elimination of conditions on capital transfers, among others. Furthermore, improvements in administrative procedures contributed to a lower STRI in various sectors. On the other hand, more stringent regulations on labour market tests and shorter permitted durations of stay for natural persons providing services temporarily as intra-corporate transferees, contractual services suppliers or independent services suppliers, represented the main reason behind horizontal increases in the STRI scores.

Figure 2.9. **Policy changes in the STRI, 2014-16**

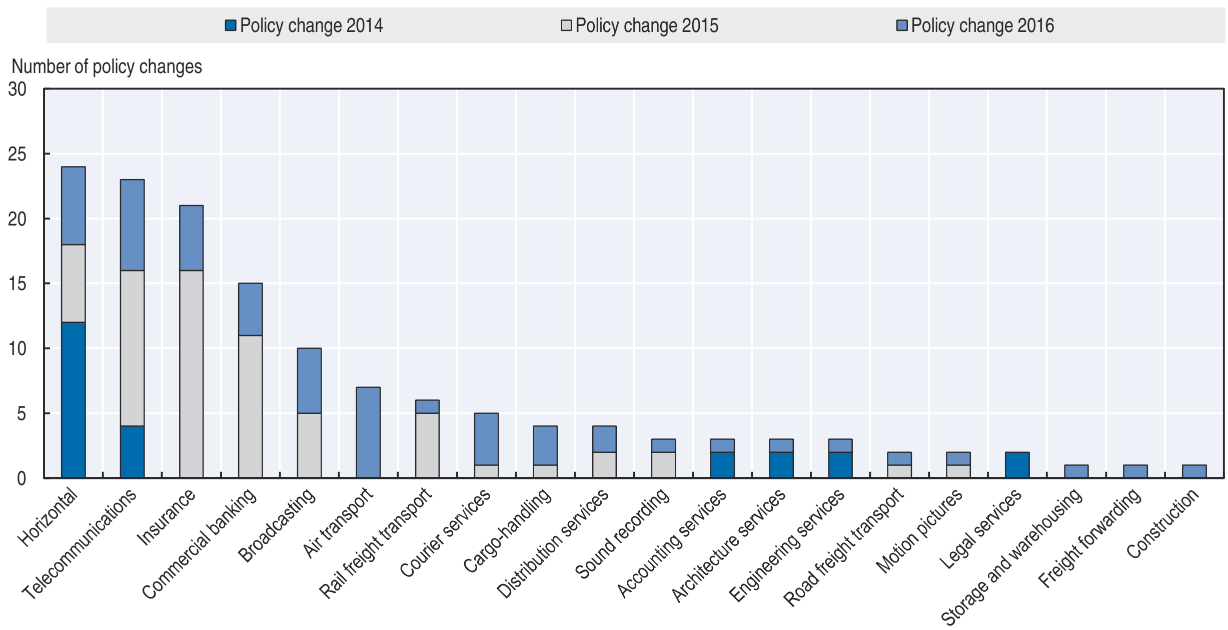
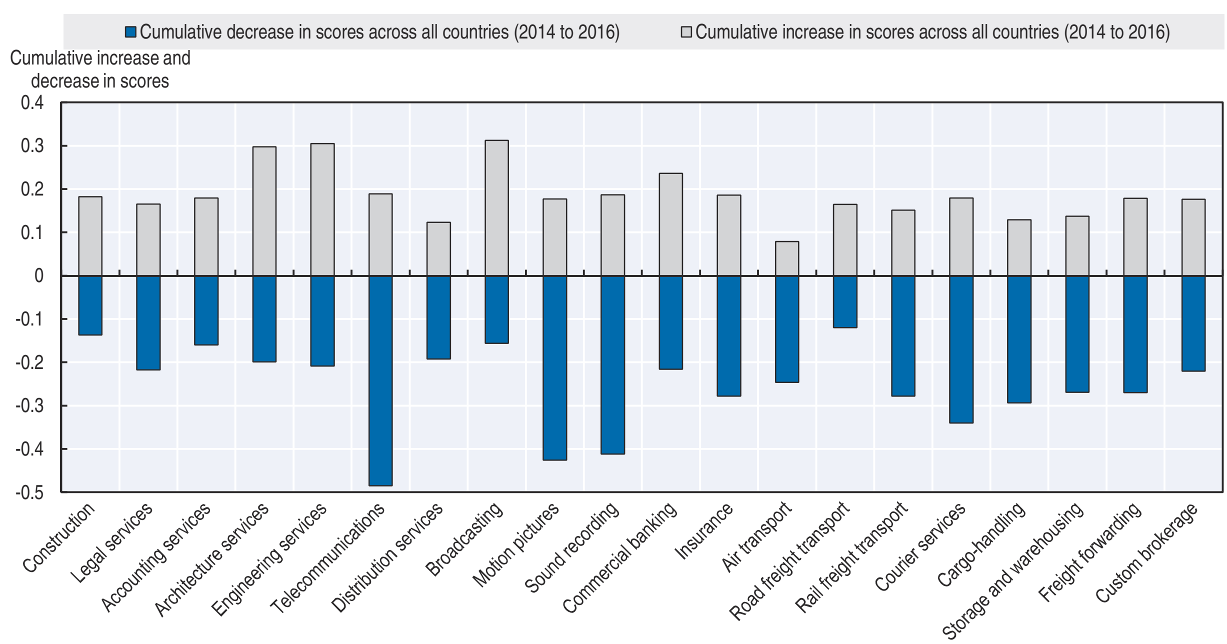


Figure 2.10. **Change in scores by sector, 2014-16**



Telecommunications, audio-visual services (broadcasting, motion pictures, sound recording), some professional services, courier services, and logistics services (cargo-handling, storage and warehousing and freight forwarding) have been most affected by sector specific changes. In telecommunications, the main drivers behind the change were the easing of barriers to foreign investment and introducing pro-competitive *ex ante* regulation for dominant suppliers. In audio-visual services, changes in the scores were largely due to changing conditions on foreign participation in audio-visual companies. The increase in professional services stems from horizontal limitations on temporary movement of services suppliers. Due to the knowledge-intensive nature of these services, barriers on movement of people have a higher impact on trade. In courier services, the elimination of conditions on operation and improvement of the competition environment have contributed to the changes. In logistics services, the less restrictive foreign equity limitations have contributed to better indices in cargo-handling, storage and warehousing and freight forwarding services.

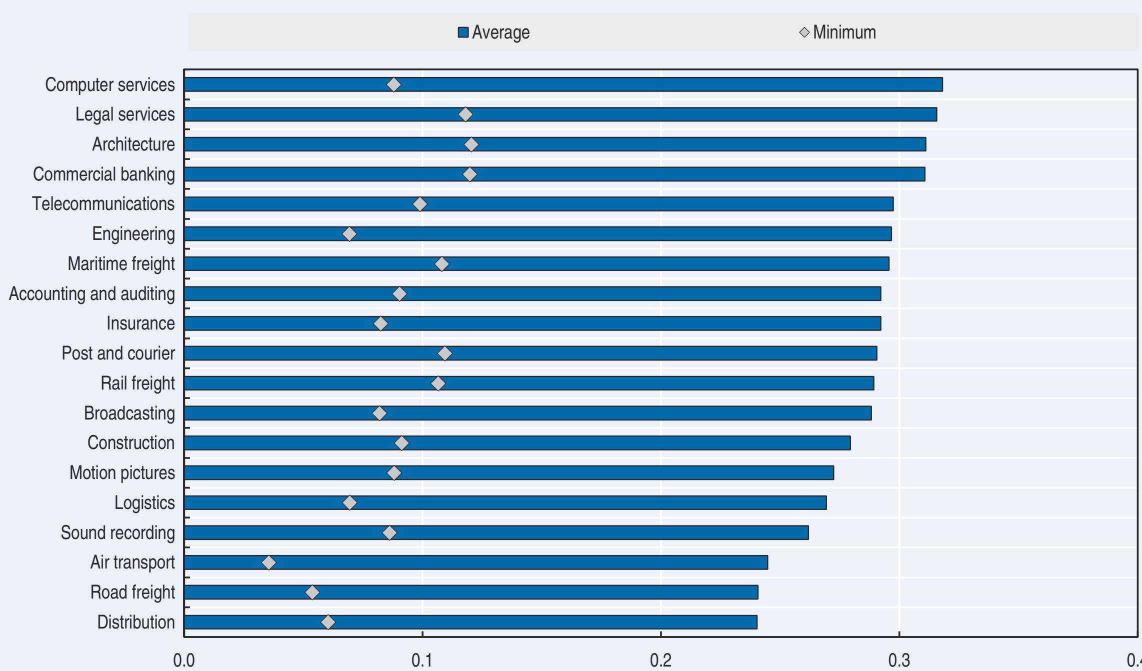
Regulatory trade frictions

Services exporters must comply with the regulations in all countries they trade with, and facing a different set of regulatory requirements in each market may add to their cost of doing business.[8] The STRI regulatory heterogeneity indices capture such differences by country pair and sector (Box 2.5)

Box 2.5. **How large are regulatory differences?**

The detail of the STRI database provides information not only on the level of restrictions in force in each country, but also on the extent to which regulatory systems in different markets resemble each other. Indices of regulatory heterogeneity are constructed by comparing countries pairwise, measure by measure and sector by sector. For each measure, the country pair has a score of one if both countries have the same answer (similar regulation) and zero if they have different answers (diverging regulation). The scores are aggregated using the same weights as for the STRI indices, yielding a regulatory heterogeneity index for each country pair in each sector (Figure 2.11).

Figure 2.11. **Regulatory heterogeneity in services, 2016**



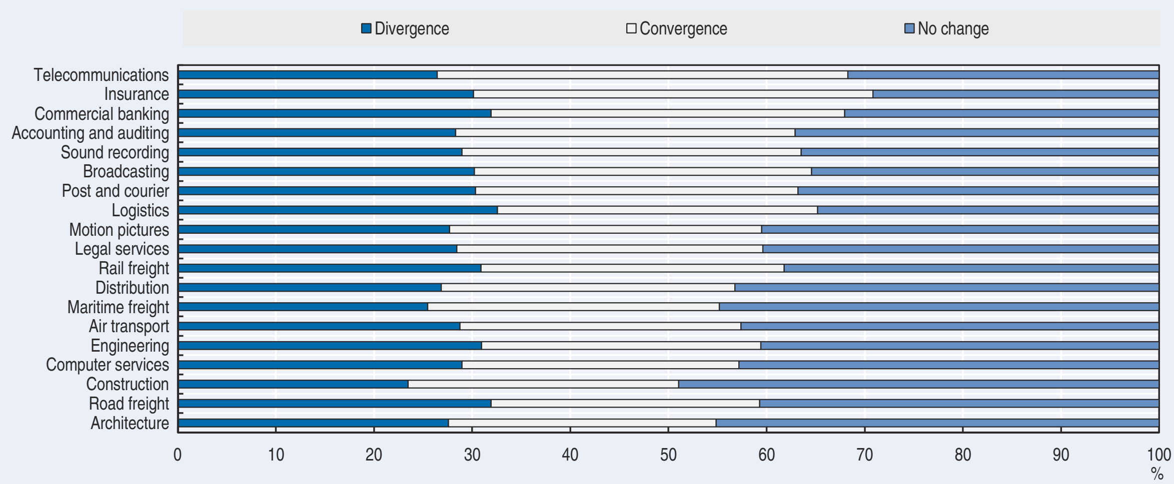
Note: The bars are averages of all country pairs among the 44 countries.
Source: OECD STRI database.

Box 2.5. **How large are regulatory differences?** *(cont.)*

Approaches to regulation differ most across countries in computer services (mostly capturing horizontal regulation), professional services, banking and telecommunications. In these sectors, with the possible exception of the IT industry, regulatory systems were largely established before the advent of new technologies and trade liberalisation turned the markets from local to global.

From 2014 to 2016, the most significant convergence is observed in the telecommunications sector – one of the few sectors for which trade agreements often entail binding commitments on pro-competitive regulation – but also in financial services, audio-visual services, accounting and auditing services. Conversely policy changes have led to a significant divergence in regulation in road freight transport, engineering and computer services (Figure 2.12). It is too early to assess whether divergence over this short period is due to widening regulatory differences or if it is a temporary phenomenon as countries implement reforms at a different pace.

Figure 2.12. **Convergence and divergence in regulation, 2014-16**

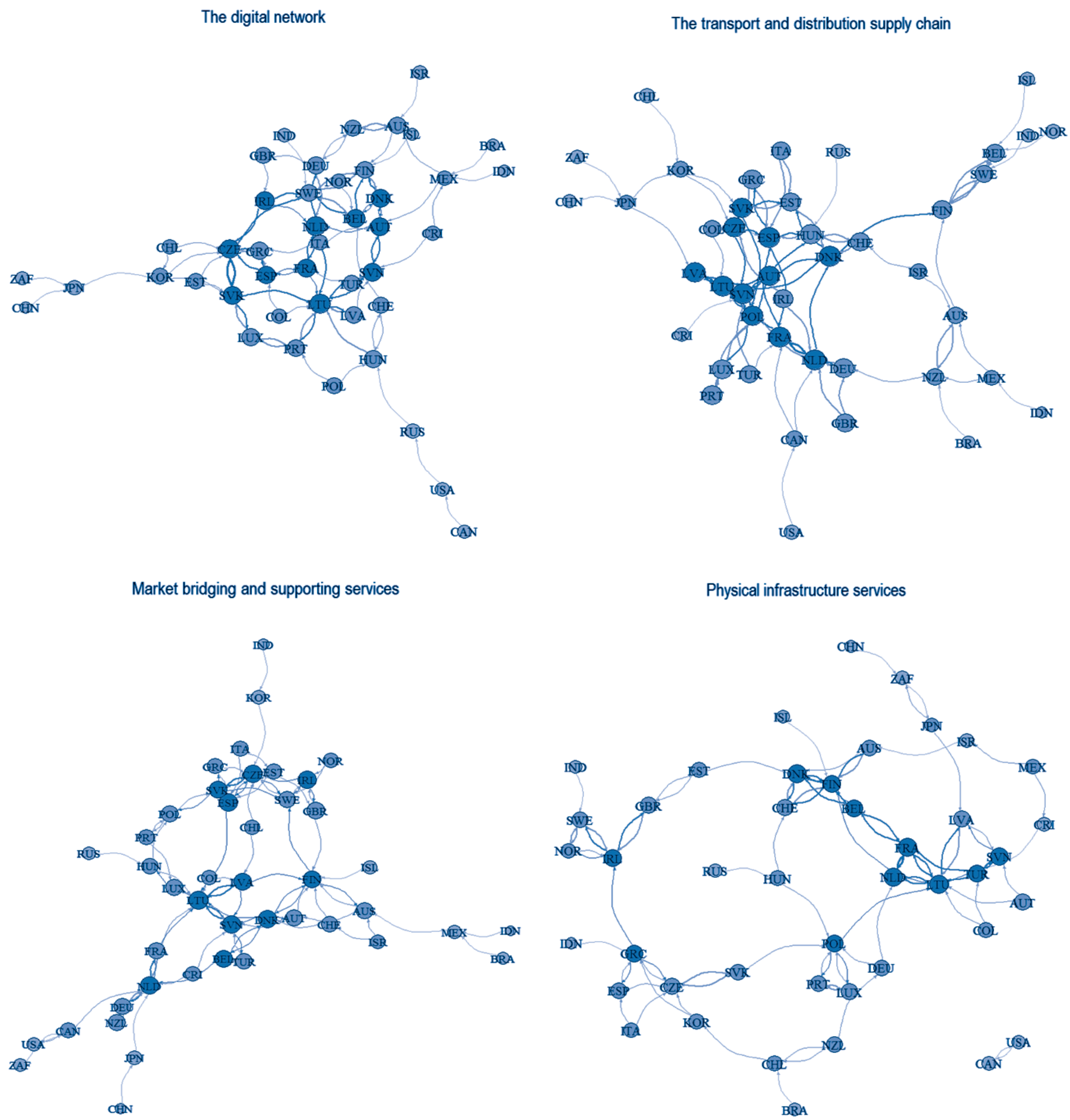


Note: The bars represent the share of all country pairs where the regulatory heterogeneity indices have decreased, stayed constant or increased between 2014 and 2016.
Source: OECD STRI database.

Network graphs are a simple way of visualising the complexity of regulatory heterogeneity across countries and sectors. Network graphs are mathematical structures used to model pairwise links between objects. They are made up of vertices or nodes, which are connected by edges or arrows. The network graphs presented in Figure 2.13 show connections between countries with the most similar regulation, based on the STRI heterogeneity index for the four clusters analysed in this chapter. The size of each country node is measured by its similarity to all other countries. The centrality of countries is indicated by darker shades of blue. Arrows point towards the most similar countries from the perspective of the country from which the arrow originates. The thickness of the lines indicates the degree of bilateral similarity. All countries are assigned at least one arrow to the most similar country. Beyond that, the number of arrows is determined by the number of countries with which the country has a lower than average bilateral heterogeneity index.

A quick glance at the charts suggests that the regulatory heterogeneity indices may be related to distance between countries. Indeed, the correlation between the regulatory heterogeneity index of a country pair and the geographical distance between them is

Figure 2.13. **Regulatory heterogeneity visualised with network graphs for the four STRI sector clusters, 2016**



positive and statistically significant.[9] A common feature in all four charts is one or more clusters of mainly European countries. This is unsurprising since the European Union not only shares a common market, but also has a common regulatory framework for telecommunications, transport, audio-visual services and commercial banking, and the services directive covers most of the other sectors.[10] The highest degree of bilateral similarity is found between the Czech and the Slovak Republics, which in the recent past was the same country; and between France and the Netherlands. The countries that tend to have a distinct regulatory profile across all sectors are Indonesia, China and Brazil, which are found with a small node at the fringe in all four charts.

The four charts also show interesting differences across sectors. The digital network chart shows a large core of relatively similar countries, with a fringe of countries having a more distinct regulatory profile. The transport and distribution supply chain chart is less concentrated, with a cluster of mainly European countries, but also two smaller clusters around the Nordic countries and Australia/New Zealand respectively. However, Denmark is closer to continental Europe than the other Nordic countries in all four charts. The bridging and support services chart depicts a circular network with one major satellite and some outliers with distinct regulatory profiles. The most central countries in the circular network are the Czech Republic, Finland and Lithuania. The satellite to which Japan and Canada/United States are connected is centred on the Netherlands. Finally, the physical infrastructure services chart displays a much more dispersed pattern with smaller clusters. The smallest cluster contains the United States and Canada, being somewhat similar but distinct from the other countries. In the European Union, the professions are regulated (or not) at the national level, subject to a directive on mutual recognition, which is why there is no distinct European cluster in these sectors.

Concluding remarks

The STRI aims at capturing the trade restrictiveness of regulation. In sectors where regulation is necessary for anti-trust purposes, the STRI captures the trade restrictiveness due to lack of regulation. The STRI indices are not meant to be normative, but rather to describe the situation in a given year. It is clear that capacity to adopt best practice evolves over time with experience and resources available to the regulatory bodies. Furthermore, best-practice regulations ensuring that legitimate social objectives are met without restricting international trade themselves evolve as technology brings new services into international markets and provides new tools both for informing and protecting consumers, and for monitoring conduct of services suppliers. The STRI tools are designed to keep up with such changes. They are and will always be work in progress. Reforms must be based on an assessment of costs and benefits of proposed changes. Chapter 3 summarises OECD work on estimating the costs of trade restricting regulations.

Notes

1. See Chapter 3 for further discussion of the link between goods and services.
2. Cross-border trade is governed by a network of bilateral agreements. Work is under way to cover these as well. The same applies to road transport.
3. The pairwise Pearson correlation coefficients range from -0.21 in road transport to -0.67 in commercial banking, with insurance and telecommunications also above 0.6 (in absolute value). The road transport coefficient is statistically significant at the 2% significance level, all others at the 0.1% level or better.
4. The time series of STRIs in selected sectors for Korea come from a recent country-study (OECD, 2017).
5. A common observation for all sectors is that Iceland is an outlier with relatively high scores on the STRI, but which still exhibits a good performance with respect to the sectoral performance indicators shown in this section. A possible explanation for this is that Iceland is a very small economy and a member of the European Economic Area which makes it open to a region that is about 1 000 times its size measured by GDP.
6. A discussion on the development of single windows, and of trade facilitation more generally can be found in Moïsé and Sorescu (2016), which discusses evidence from the OECD Trade Facilitation Indicators covering 163 countries.

7. It should be noted that the STRI does not seek to define the scope or nature of what measures would be considered prudential, but aims to record in an objective and comparable manner the state of legal and regulatory impediments faced by foreign banks.
8. See Nordås (2016) for a full description of the methodology and the indices.
9. The pairwise correlation coefficient is 0.5 and statistically significant at a 0.1% level.
10. EU directives leave some space for member countries to incorporate them into their own legal frameworks and the details may differ somewhat across EU members.

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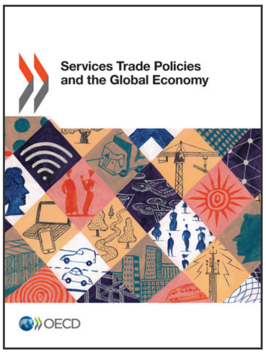

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