

# Quantification of Services Trade Restrictions

## - A New Approach

The past two decades have witnessed a revolution in the pattern of trade. There has been an unprecedented growth of trade in services, with services now contributing about sixty percent of the exports globally. The World Trade Organisation (WTO) has also emphasized that trade in services is becoming the most dynamic segment of foreign trade, growing much faster than merchandise trade, contributing to more than two-thirds of the world GDP and creating maximum employment globally.

Recognising the importance of the sector in shaping the global economy, it is crucially important for countries to assess the nature and extent of the existing barriers that their exporters face while exporting their services to the rest of the world. In particular, it is critical to understand the level and type of service trade restrictiveness *within* a sector relative to other service sectors and *across* countries as well. Such enquiries assist in understanding how these restrictions not only raise the cost of doing business in a country, but also adversely affect the downstream sectors, particularly the manufacturing sector, which is a heavy user of service inputs. However, it is also clear that services trade is restricted not by border measures, but by internal regulatory procedures, which are not easily quantifiable.

Recently, the World Bank and the OECD have started releasing indices, which quantify existing policies/regulations and indicate the potential areas for reforms for different developed and developing countries. Launched in the year 2014, one such index (STRI) computed by the OECD is now available for the year 2018 for a total of 45 economies (36 OECD and the rest non-OECD) and 22 sectors. For each of these sectors, they have categorized various regulations under 5 major heads (or policy areas) viz. Foreign entry restrictions, restrictions on movement of people, Other Discriminatory Measures and International Standards, Barriers to competition and Regulatory transparency and other Administrative requirements. A few examples of the type of restrictions (or measures) covered under each of these five policy areas are as follows:

1. **Foreign Entry Restrictions:** Foreign Equity Limits, restrictions on cross-border M&As, nationality requirements for board of directors
2. **Restrictions on movement of people:** Labour market tests, recognition of degrees, duration of stay
3. **Other Discriminatory Measures & International Standards:** National treatment, discriminatory taxes/subsidies
4. **Barriers to Competition:** Minimum capital requirement, restrictions of advertising/fee-setting
5. **Regulatory Transparency and other administrative requirements:** Visa cost, availability of single contact points, number of procedures to register a company

A recent study commissioned by the **Ministry of Commerce & Industry**, GOI is being undertaken by IIFT, which looks at the OECD index in particular. The team, led by IIFT Director, Manoj Pant includes some top econometricians in the country and dedicated researchers. Initial work suggests that there are both theoretical and empirical shortcomings in the OECD methodology. For instance, in the case of developing countries like India and China, the index seems to show the services sector as one of the most restrictive, particularly in policy areas like foreign entry. This is quite surprising since various efforts, more specifically in India, have been undertaken to relax the FDI norms since 1991.

While formulating the index, opinions regarding the *relative restrictiveness* of various policy areas were taken into account for each sector. However, opinions of only the experts from OECD economies were considered, and hence, the index reflects a developed country bias. The IIFT study aims to counter this bias by creating a diverse repository of experts, whose insights on restrictions and challenges faced by the service traders will of immense help to the policymakers to identify their country's priority areas for reforms. Not only this, the expert

views and suggestions received from the stakeholders will be very useful to carry forward the future trade negotiations in the WTO as well.

It is hoped that the study by MoCI and IIFT will throw up new ideas at the time when services trade liberalization is taken forward at various plurilateral and multilateral fora.

