

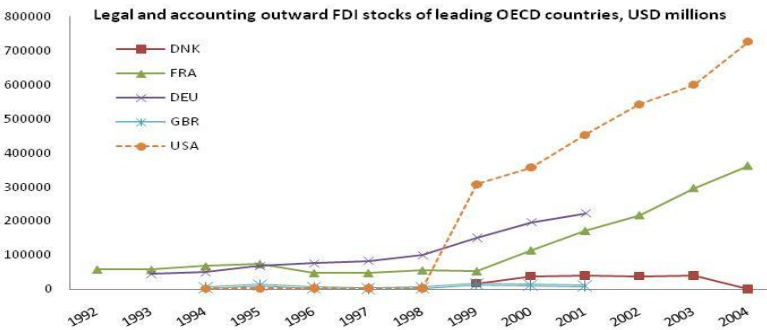
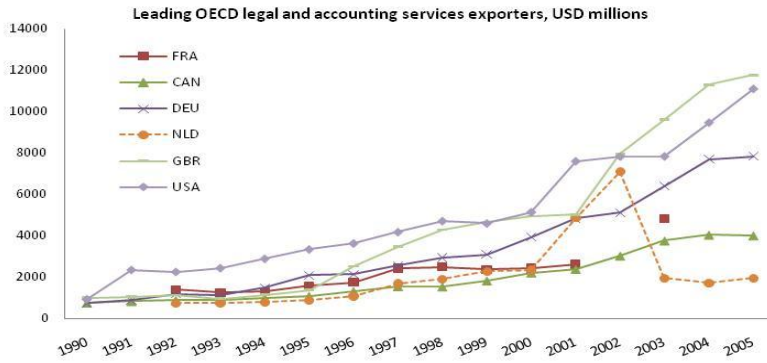
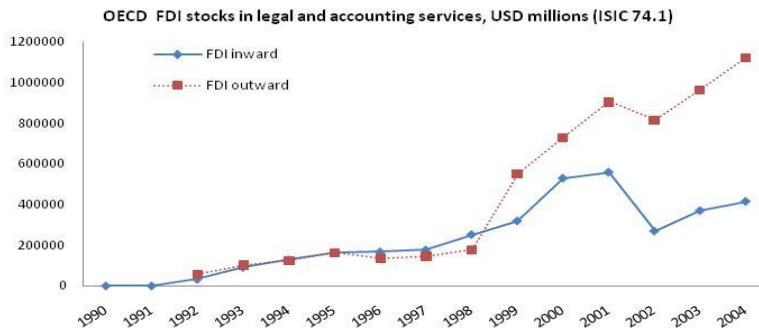
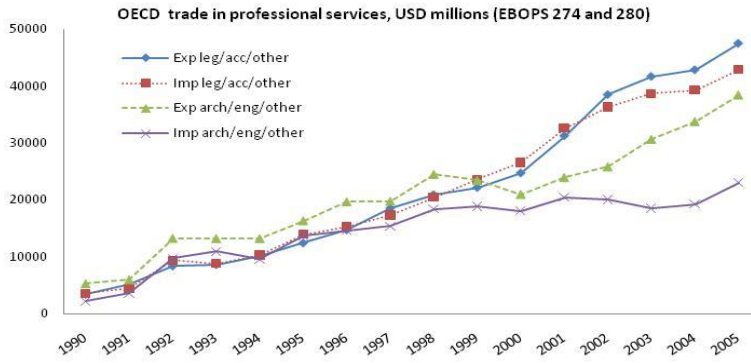
# Towards the development of a services trade restrictiveness index for professional services

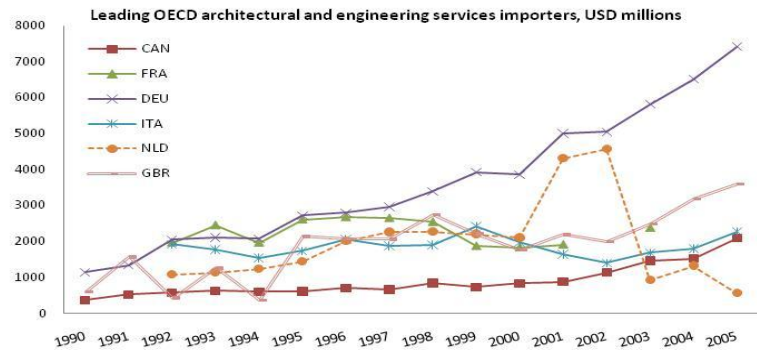
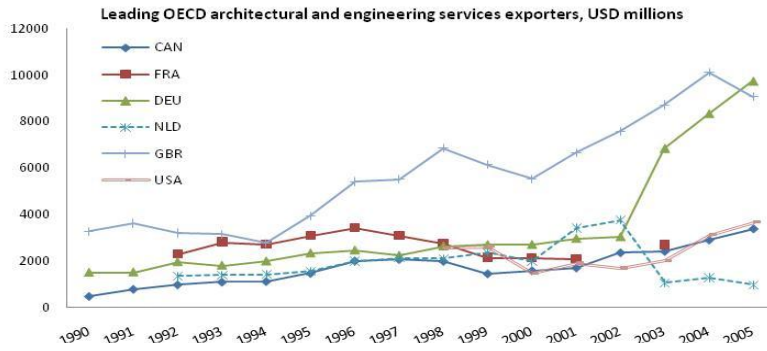
OECD Experts Meeting on Business Services  
Paris, 24 June 2008

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Ben Shepherd, Groupe d'Économie Mondiale, Sciences Po

## Outline

- Trade and investment flows
- Regulation of professional services
- The effects of regulation on trade





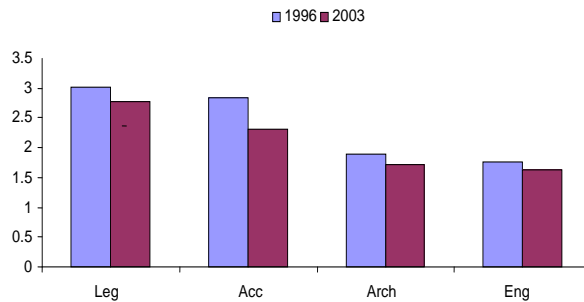
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## Regulatory measures affecting trade

Restrictions affecting all modes		
	<i>Establishment/entry</i>	<i>Operations</i>
<b>Discriminatory</b>	1. nationality requirements 2. residency and local presence requirements 3. quotas on foreign provision/economic needs tests 4. exclusive rights 5. government procurement restrictions	
<b>Non-discriminatory</b>	1. licensing/qualification requirements	3. restrictions on fee-setting 4. restrictions on advertising
Restrictions to commercial presence and the movement of people		
	<i>Establishment/entry</i>	<i>Operations</i>
<b>Discriminatory</b>	1. FDI/foreign ownership restrictions  2. temporary entry and stay of professionals subject to labour market tests	3. partnerships with locally licensed professionals 4. hiring of local professionals 5. restrictions on foreign firm names 6. temporary entry and stay of professionals subject to labour market tests
<b>Non-discriminatory</b>	1. ownership/control for non-professionals	2. restrictions on incorporation/form 3. restrictions on multidisciplinary partnerships

## Regulation in OECD countries: the PMR



Source: Conway and Nicoletti, 2006.

## Discriminatory regulation

- The OECD FDI Regulatory Restrictiveness Index
- The 1996 OECD Inventory of Measures Affecting Trade in Professional Services
- WTO commitments
- DAFFE's Roundtables on Competition
- The OECD Economic Surveys
- The WTO Trade Policy Reviews
- The APEC Directory on Professional Services
  
- The new PMR and TAD's survey

## Simplification of regulatory requirements

Nationality requirements	<ul style="list-style-type: none"> <li>– Objective, competency-based testing</li> <li>– Membership in local professional associations</li> <li>– Requirement to collaborate with locals</li> </ul>
Residency/local presence requirements	<ul style="list-style-type: none"> <li>– Appointment of a representative agent</li> <li>– Bonding requirements</li> <li>– Liability insurance</li> </ul>
Incorporation/legal form	<ul style="list-style-type: none"> <li>– Allow partnerships not implying dilution of liability, e.g. "professional corporations"</li> </ul>
Investment in professional service firms by non-professionals and partnerships with and hiring of locals	<ul style="list-style-type: none"> <li>– Require that the board of directors (or a majority of them) are professionals</li> <li>– Allow at least minority of equity participation on non-professionals in firms</li> <li>– Require membership of professional associations</li> <li>– Acceptance of the host country rules of professional conduct and discipline</li> <li>– Ensure locals undertake all domestic work (e.g. host country law) on behalf of foreign firms</li> </ul>
Licensing and qualification requirements	<ul style="list-style-type: none"> <li>– Promote recognition of foreign qualifications and standards</li> <li>– Allow for limited licensing</li> <li>– Streamline procedures</li> </ul>
Restrictions on advertising	<ul style="list-style-type: none"> <li>– Strengthen rules on prohibition of deception</li> </ul>
Restrictions on fee-setting	<ul style="list-style-type: none"> <li>– Promote recommended fee schedules</li> </ul>

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## Preliminary econometric estimates for mode 1

	Legal		Accounting		Architecture/Engineering	
	Outcome	Selection	Outcome	Selection	Outcome	Selection
PMR Entry (exp.)		-0.289 [0.771]		-0.493 [0.470]		-0.777*** [0.291]
PMR Entry (imp.)		-0.677 [0.792]		0.167 [0.229]		-0.451 [0.356]
PMR Conduct (exp.)	-1.548 [1.344]	0.544 [1.021]	-0.895 [0.635]	-0.441 [0.280]	-0.323 [0.214]	0.671*** [0.152]
PMR Conduct (imp.)	-0.147 [1.341]	0.303 [0.983]	-2.153*** [0.685]	-0.247 [0.230]	-0.536** [0.269]	0.703*** [0.163]
Distance	0.119 [0.196]	-0.103 [0.138]	-0.744*** [0.226]	-0.156* [0.091]	-0.208** [0.088]	0.111* [0.060]
Contiguity	1.12 [1.102]	0.268 [0.555]	1.725 [1.570]	1.062* [0.555]	1.178** [0.594]	-0.471 [0.602]
Common Language	-0.276 [0.840]	-0.175 [0.609]	-0.654 [1.732]	-0.158 [0.611]	0.298 [0.587]	0.950* [0.494]
Colony	0.907 [0.827]	1.800*** [0.671]	-0.241 [2.049]	-1.582** [0.708]	0.469 [0.551]	0.566 [0.511]
RTA	1.34 [0.900]	1.582*** [0.548]	2.500* [1.318]	1.410*** [0.449]	1.686** [0.847]	2.943*** [1.044]
Constant	-38.515*** [0.341]	1.010*** [0.180]	-41.867*** [0.614]	0.189 [0.184]	-38.204*** [0.178]	1.796*** [0.237]

## Preliminary econometric estimates for mode 3

	FDI	
	Outcome	Selection
PMR Entry (exp.)		2.252** [0.903]
PMR Entry (imp.)		0.775 [0.857]
PMR Conduct (exp.)	-6.554 [4.852]	-1.088 [1.283]
PMR Conduct (imp.)	2.194 [5.233]	-3.807** [1.582]
Distance	-1.164*** [0.246]	-0.421*** [0.072]
Contiguity	0.42 [1.146]	-0.519** [0.254]
Common Language	-0.137 [0.990]	0.048 [0.243]
Colony	0.145 [1.154]	0.106 [0.294]
RTA	0.981 [0.785]	-0.034 [0.215]
Constant	-53.009*** [0.271]	0.364*** [0.060]

### Questions for discussion

- Priority areas for collection of trade data
- The framework for analysing regulations
- Alternative-less restrictive regulations and scoring
- Additional information sources on regulation
- Validity of the econometric approach
- Regional preferences and a bilateral STRI
- Complementarity and modal focus of trade restrictiveness