India Finds OECD Index for Services Trade Faulty

A study, commissioned by the Indian Ministry of Commerce and Industry, has found problems with the current method, under which the Organisation for Economic Cooperation and Development (OECD) ranks countries based on their services trade policies, indicating that the outcomes are biased and counter-intuitive.

Services Trade Restrictiveness Index (STRI)

- **Launched in 2014,** the OECD's Services Trade Restrictiveness Index (STRI) provides **information on regulations affecting trade in services in 22 sectors across all OECD member countries and Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Malaysia, the Russian Federation, and South Africa**. The countries and sectors represent over 80% of global trade in services.
- The 22 sectors include computer services, air transport, legal services, construction etc.
- **Composite STRI** indices quantify restrictions on foreign entry and the movement of people, barriers to competition, regulatory transparency and other discriminatory measures that impact the ease of doing business, are released.
- There is also a **Digital STRI** that identifies, catalogues, and quantifies cross-cutting barriers that affect **services traded digitally**.
- The STRI indices take values between zero and one, one being the most restrictive.
- The regulatory database and indices are **updated annually in December**.
- **Significance:** The STRI can support policymakers to scope out reform options, benchmark them relative to global best practice, and assess their likely effects.
    - Also, it helps traders in noting down the requirements that they have to comply with, while entering the foreign markets.
- **India's Performance in STRI 2018:** India has a STRI score **above average** in all sectors.

Problems with the Index

- The index has some **significant design issues** that render it impractical for use. For example, the index seems to show the **Indian services sector as one of the most restrictive,** particularly in policy areas like foreign entry, but since 1991, the one area that has seen maximum liberalisation in India is Foreign Direct Investment (FDI).
- There are both **theoretical and empirical inconsistencies** in the OECD methodology. For example, changes in regulatory measures in one policy area lead to dramatic changes in the STRI in another policy area which then does not remain useful for policy purposes.
- The **data** seems to have been generated by rather arbitrary procedures and **reflects a developed country bias**.

India approached several developing countries during the recently-concluded World Trade Organization talks in New Delhi to try to build consensus around the new method of measuring trade restrictiveness in the services sector. A robust and an unbiased index for quantifying the restrictiveness of the services trade is needed.