

# The Evolution of Services Trade Policy Since the Great Recession

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## Abstract

Are changes in services markets provoking reform, restrictions, or inertia? To address this question, this paper draws on a new World Bank-World Trade Organization Services Trade Policy Database. The paper analyzes the services trade policies of 68 economies in 23 subsectors across five broad areas—financial services, telecommunications, distribution, transportation, and professional services. Policy measures are quantified into a Services Trade Restrictions Index (STRI) following a novel, consistent and transparent framework. The paper identifies patterns of services trade policies across sectors and economies, and secular trends over the past decade. Higher income economies are still more open on average than developing economies, but

the chronology of reform differs markedly across sectors. In telecommunications and finance, there is convergence toward greater openness driven by liberalization in the previously more restrictive developing economies. In the hitherto universally protected transport and professional services, there is policy divergence, as some higher income economies pioneer reform. But while explicit restrictions are being lowered in most services sectors—in contrast to recent developments in goods trade policy—there is greater recourse to regulatory scrutiny, especially in higher income economies. These measures could reflect legitimate prudential or security concerns, but they could also reflect recourse to less transparent forms of protection.

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<sup>2</sup> **Disclaimer:** This is a working paper, and hence it represents research in progress. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They are not intended to represent the positions or opinions of the WTO or its Members and are without prejudice to Members' rights and obligations under the WTO. They also do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, the Executive Directors of the World Bank, the governments they represent, or any of the aforementioned individuals. Any errors are attributable to the authors.

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## INTRODUCTION

The first international database of services trade policy was created by the World Bank in 2008, just before the Great Recession (Borchert et al., 2014). Since then the economic and political environment has changed dramatically. Global productivity growth has slowed even as technological change is accelerating; multilateral cooperation is ceding ground to a more nationalistic view of policy; and the liberalizing trend post-World War II in goods trade policy is in some cases being reversed. However, we have surprisingly little information on how services policies have evolved.

This gap in information matters because services are intimately linked with developments over the last decade. For instance, the Great Recession originated in financial markets where regulation failed to keep step with liberalization (Rajan, 2010); the emergence of new digital technologies is transforming finance, retail, communication and transport services; and the improvements in information and communication technology could be ushering in a new era of cross-border trade in services (Baldwin, 2019). Are governments reacting to these developments proactively through radical reform, defensively by imposing new restrictions, or inertially by doing nothing?

To answer this question and to facilitate the empirical analysis of policy change, the World Bank and the WTO Secretariat engaged in a major new policy data collection and quantification exercise, which resulted in a new World Bank-WTO Services Trade Policy Database (STPD). This Database updates and enhances the earlier World Bank database, and also offers an updated World Bank Services Trade Restrictions Index (STRI).<sup>3</sup> This paper describes the database as well as the construction of the STRI, reviews services trade policy patterns in 2016, and provides an overview and analysis of the evolution of services policies across economies and sectors between 2008 and 2016.

The STPD offers comparable information on services trade policies applied by 68 economies as of end-2016 in 23 subsectors across five broad sectors—financial services, telecommunications, distribution, transportation and professional services. Data were collected according to a newly developed policy classification that is consistent with both the earlier World Bank database and the current OECD STRI Regulatory Database. The STPD contains information not just on core trade policies but also on other increasingly relevant regulatory measures such as licensing conditions and restrictions on cross-border data flows, respectively.

Policy restrictiveness is quantified following an improved approach that aggregates the qualitative information within a single consistent and transparent measure (the Services Trade Restrictions Index). Data previously collected by the World Bank over 2008-2011 were adjusted to the new classification and quantified on the basis of the updated STRI methodology, thereby for the first time enabling a comparison of services trade policies over a long period of time – between 2008 and 2016 – for a large cross-section of 55 advanced and developing economies.

On the basis of that information, the paper identifies patterns of services trade policies across economies and sectors as well as secular trends in policy making over the past decade. Higher income economies are still more open on average than lower income economies in most sectors. On the face of it, services trade regimes are generally becoming more open, at least as far as explicit restrictions are concerned, in apparent contrast to recent changes in goods trade policy.<sup>4</sup> But we also see a retreat from openness in some sectors.

Taking a longer view, we can identify certain broad waves in policy reform. Higher income economies have led the way in services reform, pioneering the opening up of telecommunications and finance to foreign competition in the 1980s and 1990s. Over time, developing economies began to follow their example. Hence, the picture emerging in the 2008 database was of general openness in higher

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<sup>3</sup> The joint WTO-World Bank Services Trade Policy Database, as well as the updated STRI, is disseminated through the I-TIP services portal (see <http://i-tip.wto.org/services/default.aspx>).

<sup>4</sup> WTO trade monitoring reports published between 2010 and 2016 have shown a substantial increase in the stock of goods related restrictive measures in the last decade, affecting a large share of world imports of merchandise. For services, available information shows that the trend has been towards further liberalization. The December 2016 WTO trade monitoring report stated that on the goods side, "the continuing increase in the stock of trade-restrictive measures recorded since 2008 remains of concern. [...] Of the 2,978 trade-restrictive measures recorded for WTO Members since 2008, only 740 had been removed by mid-October 2016. [...] In the area of trade in services, [...] Albeit with exceptions, the trend has been towards further liberalization and the strengthening and clarification of relevant regulatory requirements."

income economies in telecommunications and finance, and of varying degrees of liberalization in developing economies.

The new Database reveals that developing economies have started to reform those sectors that were first liberalized by higher income economies, with particularly striking examples in some of the most dynamic countries such as Bangladesh or Vietnam, as well as some major emerging economies such as India or China. In parallel, many high-income economies began to initiate reform in transport and professional services, where protection had been deeply entrenched in all economies. Hence, the picture emerging in 2016 is of policy convergence in telecommunications and finance driven by liberalization in hitherto more restrictive developing economies, and of policy divergence and dispersion in transport and professional services, where reform has been mainly concentrated in higher income economies.

But there is a twist. While international services markets, for instance finance and telecommunications, are increasingly free from explicit restrictions on entry and ownership, they are increasingly subject to greater regulatory scrutiny, especially in higher income economies. That raises several questions for future analysis. Do these latter measures reflect “learning-by-liberalizing,” in that lessons have been learned on complementing openness with more stringent prudential regulation? Or do they reflect a shift analogous to the reversal of openness in goods trade, ostensibly on security and stability grounds, but also possibly in response to the increased competitiveness of developing economies’ services firms?

The paper is organized as follows. Section 1 describes the Services Trade Policy Database and the data collection process, while Section 2 is devoted to the updated World Bank Services Trade Restrictions Index (STRI). Using the resultant indices, the following section presents current patterns of services trade policy as well as the evolution of such policy over the past decade. The final section summarizes the findings of the paper and identifies areas for future work.

# 1 THE WB-WTO SERVICES TRADE POLICY DATABASE

The Services Trade Policy Database (STPD) builds on a number of prior initiatives, notably by the WTO, the World Bank and the OECD.<sup>5</sup>

The STPD contains information on policies and regulations that affect international trade in services on a cross-border basis, through a commercial presence, or through the presence of a natural person.<sup>6</sup> We consider policies and regulations applied by the importing/'host' economy (i.e. the economy where the services consumer is located), which affect the ability of foreign suppliers to supply services to consumers in that economy. Certain domestic regulations that apply to both domestic and foreign agents are also covered insofar as they affect trade. The database focuses on economies' Most-Favoured Nation (MFN) policies.

The database contains information on services policy and regulation in 68 economies – 39 high-income, 16 upper-middle and 13 lower-middle income economies (see Annex 1).<sup>7</sup> The sectoral coverage is identical to that in the World Bank survey of 2008-2011. Apart from the continued importance of these sectors and sub-sectors for any economy – a factor that justified the World Bank's approach at the time – sticking to the same sectoral coverage in 2016 has allowed us to have a 'time' dimension in our data, and hence to analyze policy developments in the last decade. That being said, three subsectors were added to the 2016 data to ensure greater comparability with the OECD Services Trade Restrictiveness Regulatory (OECD STRI) database. The database therefore covers 5 major service sectors that are further disaggregated into a total of 23 subsectors, namely financial services (commercial banking, life insurance, non-life insurance, reinsurance), telecommunications services (fixed-line, mobile, Internet), distribution (retail, wholesale), transportation (air freight domestic, air freight international, passenger domestic, passenger international, rail freight, road freight, maritime freight transport, maritime auxiliary services, maritime intermediation and other), professional services (accounting, auditing, legal services on foreign law, legal services on domestic law, advice and representation services).<sup>8</sup> See Annex 2 for more details on the sectoral and modal coverage.

For the purposes of data collection, economies and information sources were divided into two groups. For 25 of these economies the information underlying the updated STRI was collected through a survey conducted jointly by the World Bank and WTO in 2016-2017, while information for the remaining 43 economies was sourced from the OECD STRI regulatory database (2016 information), thanks to the cooperation of the OECD, which is gratefully acknowledged.

Drawing from the World Bank's experience with its original Services Trade Restrictions Database (STRD) and developments since then, notably the OECD STRI, we developed a new classification of measures affecting trade in services. We organized measures into four main policy categories, namely a) conditions on market entry, b) conditions on operations, c) measures affecting competition, and d) regulatory environment and administrative procedures. Relevant policy measures that potentially affect trade but do not fit neatly into any of these four categories are included in a fifth category – miscellaneous measures (see Box 1).<sup>9</sup>

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<sup>5</sup> For an overview of prior initiatives, please refer to Borchert et al (2019).

<sup>6</sup> While strictly speaking we do not cover "consumption abroad", a mode of delivery that is particularly important in services like tourism, education and health – sectors not covered by the database – we take in fact a broad view of 'cross-border supply', covering measures that apply directly to the consumer, such as the ability to make cross-border payments.

<sup>7</sup> The selection of economies was based on two parameters: size of the economy, using Gross Domestic Product (GDP) as a basis; and participation in world services trade on a balance-of-payment (BoP) basis. The full list of economies currently covered is reproduced in Annex 1 to this paper. At the time of writing, data collection is being finalized for signatories of the Central European Free Trade Agreement (CEFTA), Jordan and Niger. Additional data on a significant number of economies in Africa are in the process of being collected or updated. These data will be incorporated in the STPD in due course.

<sup>8</sup> At the time of writing, policy information in additional sectors including architecture, engineering, computer, construction, tourism, and health services is being collected for CEFTA Parties, Jordan, and other African economies.

<sup>9</sup> For more information on the classification, see Borchert et al. (2019).

**Box 1: Structure of STPD classification of measures**

**A Conditions on market entry**

- A1 Legal forms of entry (including foreign equity limits)
- A2 Quantitative measures (for firms and natural persons)
- A3 Conditions on licensing/investment screening/qualifications relating to market entry (firms /natural persons)
- A4 Other conditions on market entry

**B Conditions on operations**

- B1 Conditions on supply of services
- B2 Conditions on service supplier
- B3 Conditions on government procurement
- B4 Other conditions on operations

**C Measures affecting competition**

- C1 Conditions on conduct by firms
- C2 Governmental rights/prerogatives (including public ownership)
- C3 Other measures affecting competition

**D Administrative procedures and regulatory transparency**

- D1 Administrative procedures
- D2 Regulatory transparency (including licensing)
- D3 Nature of regulatory authority (measures related to nature of regulator)
- D4 International standards
- D5 Other regulatory environment and administrative procedures

**E Miscellaneous**

Every individual policy measure is mapped to one category in the above taxonomy and is generally defined in a binary way (yes or no response). As an exception to this rule, by their very nature a few measures require a quantitative reply (e.g. level of foreign equity allowed, number of days required to process a licence application). Each policy category includes measures from across all modes of supply as applicable; for example, category A (conditions on market entry) will thus include the measures affecting entry through each of the modes of supply covered in the database, i.e. cross-border, commercial presence and presence of natural persons.

The meta-classification of measures described above is intended to facilitate convergence towards a single classification and quantification methodology. Therefore, the classification remains, at the measure level, fully compatible with the classification utilized in the OECD Services Trade Restrictiveness Regulatory Database and the previous classification of measures developed by the World Bank more than a decade ago.



## 2 MEASURING SERVICES TRADE RESTRICTIVENESS

The method used to generate the STRI is an updated version of the STRI developed by the World Bank a few years ago. In updating the World Bank STRI, the main principles were maintained but several improvements were introduced; namely the use of an algorithm and an automatized aggregation method to construct the STRI. Introducing these technical improvements removes the subjective bias that may have existed in the previous World Bank STRI. The improved methodology will be briefly described below, and more information may be found in Borchert et al. (2019).

The construction of the STRI follows the same principal steps as in Borchert et al. (2012):

- 1) the **selection** of key restrictions entering the STRI;
- 2) the **determination** of the level of restrictiveness of individual measures (or bundles of measures if they are conceptually intertwined, which we call 'synthetic measures'); and
- 3) the **aggregation** of measures into indices at the sector-mode level, sector level, and economy level, respectively.

### 2.1 Selection

While the Services Trade Policy Database (STPD) contains a large number of measures, the index is based upon a subset of key restrictions to trade in services, approximately 115 regulations and policies. The choice of key restrictions entering the quantification exercise was driven by a number of considerations: 1) to cover the most significant restrictions – this was based on the previous analysis conducted by the World Bank as well as expert advice; 2) to respond to recent regulatory developments perceived as having a discernible impact on trade in services, e.g. screening policies, restrictions relating to cross-border data flows; 3) to ensure comparability with the 2008-2011 World Bank exercise; and 4) to adapt to – and be consistent with – the coverage of measures in the OECD database, which served as a fundamental source of information for economies covered by both the STPD and the OECD STRI. The list of measures selected for the construction of the STRI is provided in Annex 5 of Borchert et al. (2019).

### 2.2 Determination of level of restrictiveness

Trade policies are assessed by looking at specific types of measures for each subsector and mode. For example, for commercial banking, we obtain separate measures for the cross-border supply, commercial presence and the presence of natural persons. We assign a score depicting the level of restrictiveness to each measure. For each individual measure, we generally consider 6 distinct levels of restrictiveness, each of which attracts a different (monotonically increasing) score:

1. not restrictive;
2. minimal procedural/transparency issues;
3. minor restriction;
4. "intermediate" category to reflect measures that are neither minor nor major restrictions;
5. major restriction;
6. service provision not possible.

Table 1 provides examples of concrete policy measures and associates a score to measures for each stage.

**Table 1: Examples of measures, level of restriction and associated score**

Level of restriction	Examples	Score
Not restrictive	No restriction on the type of legal entity, no foreign equity limitation	0.00
Not restrictive, but minimal transparency issue	No provision for prior notice of, or comment on, regulatory changes	0.125
Minor restriction	Acquisition of land and real estate by foreigners prohibited	0.25
Neither minor nor major	Limit on number of suppliers	0.50
Major restriction	Service provision is reserved for statutory monopoly or granted on an exclusive basis	0.75
Closed	Commercial presence is prohibited	1.00

While in previous work (Borchert et al., 2012) five different levels of restrictiveness were used (0, 0.25, 0.5, 0.75, 1), the new STRI is based upon six numerical levels, with the objective of the newly added 0.125 bin being to accommodate regulatory measures around transparency that impart only a minor effect on restrictiveness (e.g. publication of draft regulation and opportunity to comment). The aim is to take account of measures that are aspects of the regulatory environment rather than restrictions, not even minor ones, in regard of the actual supply of services but that can nevertheless adversely affect the policy or regulatory environment in which firms operate.

Assigning a restrictiveness score to a single measure is insufficient in some special circumstances. This case arises when policies that we record as separate measures are intertwined and, hence, their restrictiveness can only be assessed by considering the entire bundle of such measures. For example, foreign suppliers can in principle enter through mergers and acquisitions or via greenfield investment, and it does not make much sense to score restrictions for each route in isolation, for they represent alternative options. Rather, the difficulty of entering a market is most plausibly assessed by looking at the admissible combinations of entry options, rather than individual routes. We call such bundles ‘synthetic’ measures as they consist of two or more individual measures that are separate entries in the database, but whose impact on restrictiveness is scored jointly for the purposes of constructing the STRI. Only when the assessment of restrictiveness, i.e. scoring, is complete at the measure level including synthetic measures, does the process of aggregation start.

## 2.3 Aggregation

In the first version of the World Bank database (2008-11), the associated STRI relied on an assessment of groups of measures, which were encapsulated in a ‘policy summary’. The aggregation methodology described here is similar in spirit in the sense that the overall restrictiveness of a group of policy measures, e.g. at the sector-mode level for a given economy, results both from the types of measures applied as well as from the number of measures applied. The severity of measures is captured directly in the scores assigned to individual measures (Table 1). In a second step, the set of individual measure scores needs to be aggregated for a given sector-mode or even an entire economy.

Aggregation of this kind is a challenge in a wide range of fields, such as in consumer or production theory. One of the most widely used mappings in economics for both utility and production functions is the ‘Constant Elasticity of Substitution’ (CES) functional form, which generically combines an array of  $i = (1, \dots, N)$  elements  $x_i$  according to  $X = \left( \sum_{i=1}^N x_i^\alpha \right)^{1/\alpha}$ .<sup>10</sup> With just one parameter ( $\alpha$ ), the CES function offers a parsimonious way of calibrating the marginal contribution of an additional unit to an aggregate of utilities, inputs or, in this context, policy restrictiveness. For instance, adding a restrictive measure to a set of other restrictive measures should increase the overall restrictions

<sup>10</sup> The parameter  $\alpha$  takes on different interpretations according to the context in which the function is used; for instance, in consumer theory it is related to the elasticity of substitution among varieties consumed ( $\sigma$ ).

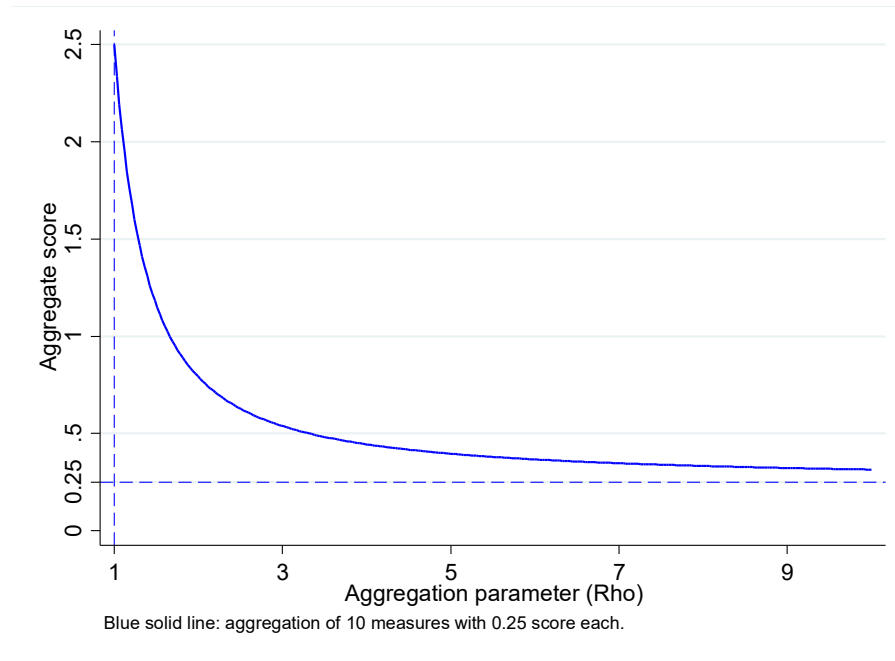
index. At the same time, adding, say, a tenth restriction to a set of nine restrictions should conceivably have less of an impact on overall restrictiveness than applying the first or second restriction to an otherwise open sector. This is the equivalent to the property of 'diminishing returns' (e.g. to utility or output). Correspondingly, in the context of policy restrictiveness, adding more and more restrictions should add progressively less and less to the overall index number.

Against the backdrop of these intuitive underpinnings, we combine scores of individual measures  $m_i$  for group  $k$  according to the aggregator function in equation (1):

$$\text{STRI}^k = \left( \sum_{i=1}^N (m_i^{(k)})^{\rho_k} \right)^{1/\rho_k} \quad (1)$$

The parameter  $\rho_k$  governs the way in which constituent scores are combined. In other applications, these groups  $k$  are sometimes referred to as "CES nests" and different values of  $\rho$  can be assigned to group  $k$  depending on the context. Specifically, higher values of  $\rho$  will lead to smaller incremental contributions of additional measures to aggregate restrictiveness. Figure 1 illustrates the role of this parameter on a set of 10 individual measures with a score of 0.25 each, for alternative values of  $\rho$  ranging from 1 to 10. It is readily seen from equation (1) that for unit values of  $\rho$ , the aggregate score is the simple sum of constituent scores, i.e.  $10 \times 0.25 = 2.5$ . For high values of  $\rho$ , the aggregate score of a group of individual measures with a score of 0.25 each will be only marginally above 0.25. For values of  $\rho$  around 3, the aggregate score is slightly above 0.50.

**Figure 1: Aggregation of scores and the Rho parameter**

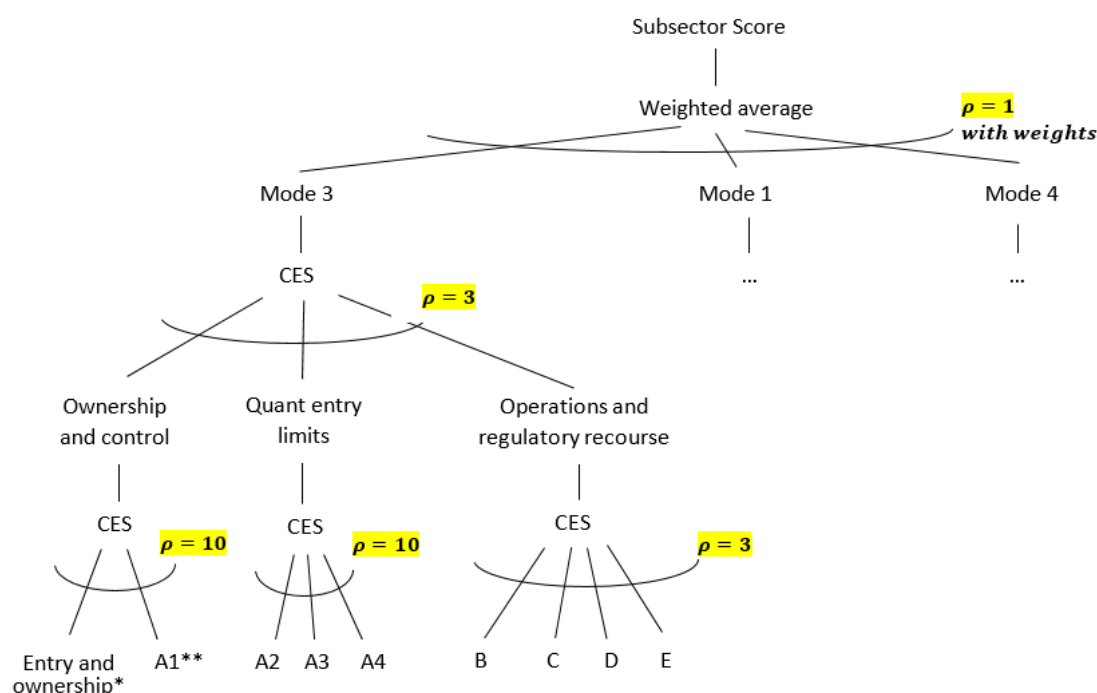


Hence, large values of the  $\rho$  parameter are appropriate for aggregation if the policy measures in question have similar effects or are mostly substitutable. For instance, different forms of quantitative market entry limitations such as quotas and economic needs tests are likely to exert a similar effect on market entry. If a quota already applies to entry in a given sector and mode, then applying an economics needs test may not increase overall restrictiveness by much, since the main contribution to restrictiveness is already captured by the quota measure. This result will be achieved by aggregating both measure scores with a high value of  $\rho$ .

Conversely, measures that can be regarded as adding significantly to the restrictiveness of already applied measures, e.g. operational restrictions that apply after any market entry limitations, would call for a lower value of the aggregation parameter  $\rho$ .

As is well known, CES functions of the type outlined in equation (1) can be nested to accommodate different layers of aggregation, with each nest potentially having a different CES parameter.<sup>11</sup> We take advantage of this **modular property** and break the aggregation of scores across the universe of all measures into several steps, so that bundles of policy measures that bear a similar relationship with each other in terms of substitutability or complementarity correspond to a CES nest with a suitably chosen parameter. The combination of individual measure scores to subsector-level STRI values follows the conceptual classification of measures as set out in Box 1 above. This is because measures within a given category naturally share a similar relationship vis-à-vis each other, so that they form “nests” that can be aggregated with one suitable chosen  $\rho$  parameter.

**Figure 2: Structure of multi-layered aggregation of measure scores**



Source: authors' representation.

Notes: \* Policy measures (including synthetic measures) considered as part of 'entry and ownership' for mode 3 are greenfield entry and mergers and acquisitions entry, respectively, in all sectors, and branch entry for financial subsectors, and partnership and sole proprietorship in professional services subsectors. For mode 4, these relate to the different categories of natural persons allowed to enter the market. \*\* The letters A to E refer to the principal categories of the measure classification, as set out in Box 1. Thus, "A1\*\*" encompasses additional measures of market entry not already included in 'entry and ownership', namely a joint venture requirement or majority of nationals (or residents) on the board of directors.

As shown in Figure 2, we first aggregate all scores pertaining to forms of entry (category A1). This aggregation is performed with a parameter value of  $\rho = 10$  because the remaining measures in category A1, if applied in combination with "entry and ownership" restrictions, do not add much to overall restrictiveness. We also use a parameter value of  $\rho = 10$  for the remaining entry measures reflecting *de jure* and *de facto* 'quantitative entry limits' (i.e. categories A2-A4: quantitative restrictions, licensing relating to market entry, other market entry measures), because the combined use of more than one such measure will ordinarily not add much to the overall restrictiveness of quantitative entry limitations.

Policy measures from all other categories of Box 1 (B, C, D and E) are combined into a score capturing restrictions affecting "operations and regulatory recourse." In this instance, a low value of the aggregation parameter ( $\rho = 3$ ) is appropriate to reflect the mostly additive nature of these

<sup>11</sup> For instance, in modeling production processes, it is not uncommon to have an upper-layer Cobb-Douglas version for combining a numeraire good with a bunch of differentiated intermediate inputs, which emerges in equation (1) as the limit case of  $\rho$  going to zero, and another nest that would aggregate the differentiated inputs using the CES structure within that Cobb-Douglas aggregator.

measures. For instance, not having the right to appeal regulatory decisions should arguably always add to the overall restrictiveness of those policy measures, regardless of whether some minimum share of employees is required to be nationals.

All three principal nests (ownership, quantitative limits and operations) are then combined with a value of  $\rho = 3$  into an overall score per mode of supply. The rationale for using this parameter value is that at this specific stage, each constituent score should add to restrictiveness but moderately so (see Figure 1). An additional advantage of this modular structure, which follows our taxonomy, is that the distribution of restrictiveness (across economies and sectors) is easily made transparent at each stage of aggregation—or “CES nest”—showing which kinds of policy measures drive the overall distribution of STRI values, see Figure 4 in Borchert et al. (2019).

At this point we have aggregated all individual measure scores to one STRI value per economy, subsector and mode. The nested aggregation described thus far is in principle the same within each mode of supply, even though the nature and number of measures within CES nests (such as ‘ownership and control’) will differ across modes.

The next step is to combine the modal scores to one STRI value per economy and subsector. We do this with a weighted arithmetic average, with a set of weights that differs across subsectors, reflecting the relative importance of the three modes for the provision of a given service, see Table A6.2 in Annex 6 in Borchert et al. (2019). Setting the aggregation  $\rho$  parameter to unity in equation (1) yields the arithmetic average as a special case of the CES with weights. We are therefore not stepping outside the framework we have consistently employed thus far. However, the aggregation of scores from different modes is different from the aggregation of measure scores because in any sector, one mode of supply will invariably be more important than others so that the symmetric treatment of measure scores is no longer appropriate for this step of the aggregation.

Finally, to complete the aggregation of scores from the level of individual measures to the modes and the subsector, we then compute STRI at the sector and economy levels, respectively. We do this using the weights provided in Table A6.1 of Annex 6 in Borchert et al. (2019).

Overall, the new aggregation methodology offers conceptual as well as practical improvements. Its modular structure affords the flexibility to accommodate a range of different tasks in one framework, from the aggregation of measures that are nearly additive to those whose incremental impact on restrictiveness is almost negligible. At the same time, the approach is extremely parsimonious and fully transparent. In addition, STRI scores thus constructed are reproducible, implying that comparable scores for new economies or sectors can be obtained as the STPD is continuously being expanded.

These improvements imply, however, that the new STRI scores are not directly comparable to the STRI scores published in the 2008-11 World Bank Database because of changes in methodology and sectoral coverage, respectively. A detailed comparison and a full decomposition of changes in STRI scores relative to the World Bank 2008-11 STRI is provided in Borchert et al. (2019). Both STRI data sets are publicly available from the I-TIP services portal.<sup>12</sup> We emphasize, however, that a comparison of policy restrictiveness over time using the World Bank STRI (as in Section 3 of the paper) requires a separate set of *comparable* scores. Backward compatibility requires two steps: first, the 2008-11 STRI needs to be re-computed using the improved scoring and aggregation methodology. Second, the 2016 STRI needs to be purged of measures and subsectors, respectively, that were not part of the 2008-11 STRI. The STRI data sets thus adjusted are also available from the I-TIP services portal (see Annex 3 for a description of the 2016 STRI for all sectors with STRI for the subset of sectors for which data were collected in 2008-11).

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<sup>12</sup> <http://i-tip.wto.org/services/default.aspx>

### 3 PATTERNS OF SERVICES TRADE POLICY

We begin by describing the pattern of policy across economies, sectors and modes in 2016. We then assess how policy has changed in the decade after the financial crisis.

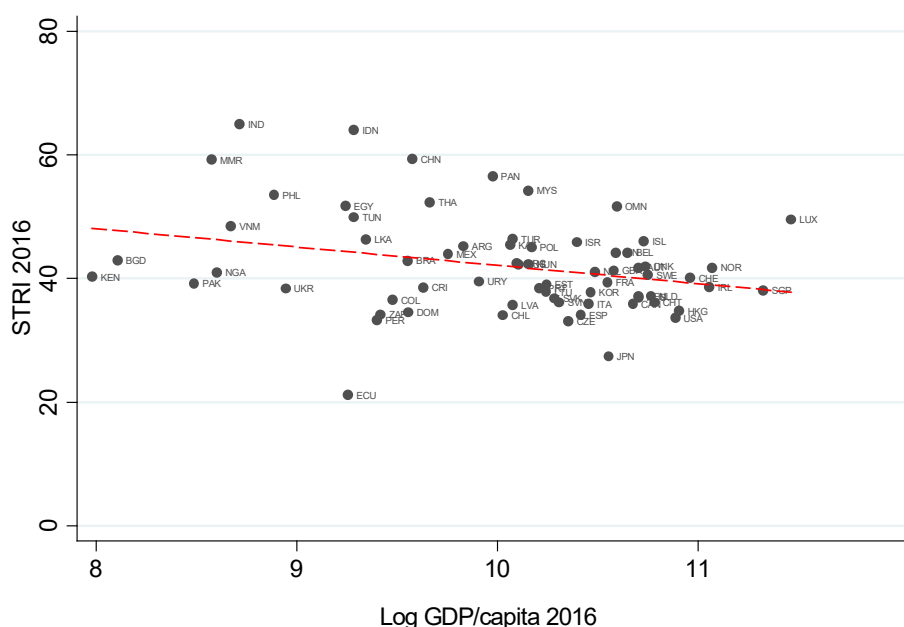
#### 3.1 Services trade policy in 2016 (68 economies)

In 2016, openness to services trade differed substantially across the 68 economies currently included in the STPD.<sup>13</sup> In principle, the STRI can range from 0 (completely open) to 100 (completely closed). At the aggregate level, i.e. looking across all sectors and modes, the median STRI value is about 41, and the STRI scores lie strictly below 53 for 90 percent of the economies. The less restricted economies have an overall STRI below 30, while the most restrictive economies show an overall STRI of approximately 65.

In our sample, 39 economies are classified as high income in 2016, while 16 are upper-middle income and 13 lower-middle income. Most economies included in this sample are generally open to services trade (i.e. STRI value below 50), and none is highly restrictive at the overall economy level. While poorer economies have on average more restrictive policies (STRI value of around 46), most higher income economies are clustered together around lower levels of restrictiveness, around an STRI value of 40 (Figure 3).

Policies in middle income economies display a wide range, from an STRI of about 21 to about 65. A few economies such as Colombia, Dominican Republic, Ecuador, Kenya, Peru, South Africa or Pakistan are relatively open. Interestingly, some of the most restrictive policies today are visible in the fast-growing economies of Asia (China, India, Indonesia, Malaysia, Philippines and Thailand), as well as in the Middle East and Northern Africa, including the Arab Republic of Egypt, Oman and Tunisia. This pattern is consistent with the recent observation that East Asian economies attract high inflows of investment into services sectors (Mode 3) in spite of high policy restrictiveness, including ownership limitations (Barattieri et al., 2016).

**Figure 3: Overall STRI by economy and level of income<sup>68</sup> economies, 2016**<sup>14</sup>



<sup>13</sup> The analysis is based on data for 68 economies. Data for additional economies (Jordan, CEFTA Parties and other African economies) are currently being collected and processed for future inclusion in the STPD.

<sup>14</sup> It encompasses 1,534 economy-subsector observations from across 68 economies and 23 subsectors.

The countries which have an STRI above 53 – China, India, Indonesia, Malaysia, Myanmar, Panama, and Philippines – maintained significant restrictions in different sectors in 2016. In India, for example, rail freight is closed, and foreign establishment is not possible for legal, accounting and auditing services. Foreign equity limitations, for both de novo establishment and acquisition of local companies, are applied in retail distribution (51%), life insurance (49%), non-life insurance (49%), reinsurance (49%), and commercial banking (74%). In some sectors (distribution, insurance, and commercial banking), the number of foreign suppliers is limited either directly or through economic needs tests (ENTs). In addition, only single brand retailing is allowed for foreign suppliers. Establishment through branches is not allowed in life and non-life insurance services. Even where foreign involvement is allowed, either the majority of shareholders must be locally licensed, as in legal, accounting and auditing services, or the majority of members of the board of companies must be nationals, as in air transport, telecommunications, and commercial banking.

In China, establishment of foreign law firms to provide advisory or representation services in host country law is not possible. Foreign equity limitations apply for life insurance (50%), maritime freight services, and telecommunications (49%). In air transport, as well as in commercial banking, domestic entity acquisition is subject to 25% foreign equity limitations. Establishment of foreign companies is subject to an ENT in insurance, and some form of numerical limitation of foreign suppliers is also imposed in professional services, telecommunications and commercial banking. Establishment through branches is not allowed by China in life insurance.

In the case of Indonesia, foreign establishment is still restricted in large segments of the retail distribution sector and in legal services. Foreign equity caps for both greenfield establishment and acquisition of local companies were still prevalent in insurance (80%), road and maritime freight transportation (49%), maritime cargo-handling (67%), air transportation (49% for passenger, and 67% for freight), and wholesale trade and telecommunications (67%). In banking, while foreign equity is allowed up to 99%, the number of foreign banks is still subject to ENTs and the majority of the board of directors must be composed of nationals. ENTs on the number of suppliers are also applied in distribution services (only large stores for retail). Insurance and auditing services are also subject to a restriction of the nationality of the majority of the board of directors.

In the Philippines, rail freight transport and legal services (except cross-border supply of home country legal services) are closed. Foreign establishment is not allowed for accounting and auditing services and maritime cargo-handling and storage and warehousing services. Foreign equity has been limited to 40% for both greenfield investment and acquisition of domestic companies, in road freight transport, air transport, freight forwarding, and telecommunications. In addition, in all these sectors except freight forwarding, boards of directors of companies must be composed by a majority of nationals. ENTs on the number of suppliers are applied in commercial banking.

In Panama, supply of services by foreigners of accounting and auditing services, services relating to host country law and rail freight services are not allowed. Foreign establishment and presence of foreign natural persons are not allowed in the retail sector as according to the constitution of Panama, the activity is reserved to nationals. In addition, foreign participation in companies in the air transport sector is restricted through the imposition of foreign equity caps of 40% and 49% in domestic and international services, respectively, as well as through the requirement that board of directors of companies be composed of a majority of nationals.

In the case of Malaysia, foreign establishment is prohibited in rail freight transport and legal services (representation services under host country law). Besides, foreign equity limitations for both greenfield establishment and acquisition of domestic companies are imposed in insurance (70%); maritime cargo-handling and storage and warehousing services (70%); road freight transportation (49%); air transport (49%); and commercial banking (30%). ENTs are used to limit the number of suppliers in the former sectors (except maritime cargo-handling), as in distribution, freight forwarding and legal services under home country law. Domestic entity acquisition is also limited in the accounting and auditing sectors.

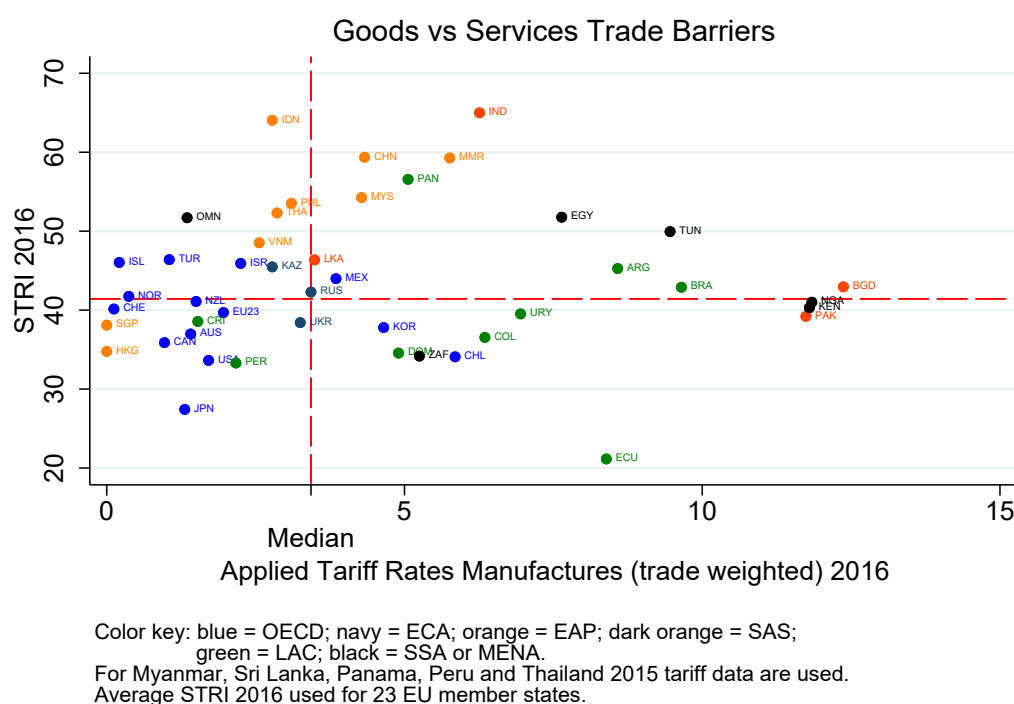
Finally, in Myanmar, insurance, auditing, legal representation and rail transport services are not allowed for foreigners. Foreign establishment of air transportation companies is also not allowed. Also, the government determines the number of suppliers of telecommunication services.

High-income economies tend to be clustered at the lower end of the STRI range (Figure 3). This confirms perceptions about their general overall openness to trade, in particular trade in services. Only Luxembourg (50) stands out taking into account its level of income. This is due to its restrictive

policies in the area of cross-border supply of auditing and distribution services (commercial presence requirements), legal services being closed to foreigners, and labor market tests being applied for mode 4.

But how does this relative openness compare with goods trade policy (as measured by their tariffs)? Most high-income economies present relatively liberal policies for both manufactured goods and services (Figure 4). Some are much more liberal for goods than they are for services (e.g. Indonesia and Oman) and *vice-versa* (the Republic of Korea, Chile and South Africa). Upper middle-income economies tend to be more protective for goods trade, whereas lower-middle income economies tend to have restrictive policies for trade in both goods and services. Also, economies in East and South Asia are appreciably more restrictive in services than in manufactured goods trade. Latin American economies are surprisingly open in services, while most of them retain substantial goods trade barriers (bottom left quadrant).

**Figure 4: Services trade and goods trade policies, 2016**



Across services sectors, distribution and telecommunications are on average the most open (Figure 5). The generally lower level of restrictiveness in telecommunications (both fixed and mobile telephony) reflects the continuous liberalization and regulatory reform of the sector across economies since the 1990s. Within distribution, not surprisingly, wholesale distribution is less restricted than retail distribution, where regulation in some economies has tended to protect smaller retailers from competition (Figure 6).

Financial and transport services are on average more restricted. Commercial banking and insurance services – sectors where there has been gradual liberalization over the last two decades – now constitute the midfield within the sectors covered by the STPD. In transport, the supply of rail and air transportation services are the most restricted (average scores above 50), reflecting in rail transport the difficulties in introducing competition, and in air transport the persistence of policies protecting domestic suppliers from competition. Maritime and road freight transport present the lowest average scores in transport.<sup>15</sup> The maritime transport is fairly open, reflecting in particular the openness in international shipping services. Road transport has traditionally been heavily

<sup>15</sup> Maritime covers maritime freight transport and auxiliary services (agency, freight forwarding, cargo handling, storage and warehousing).

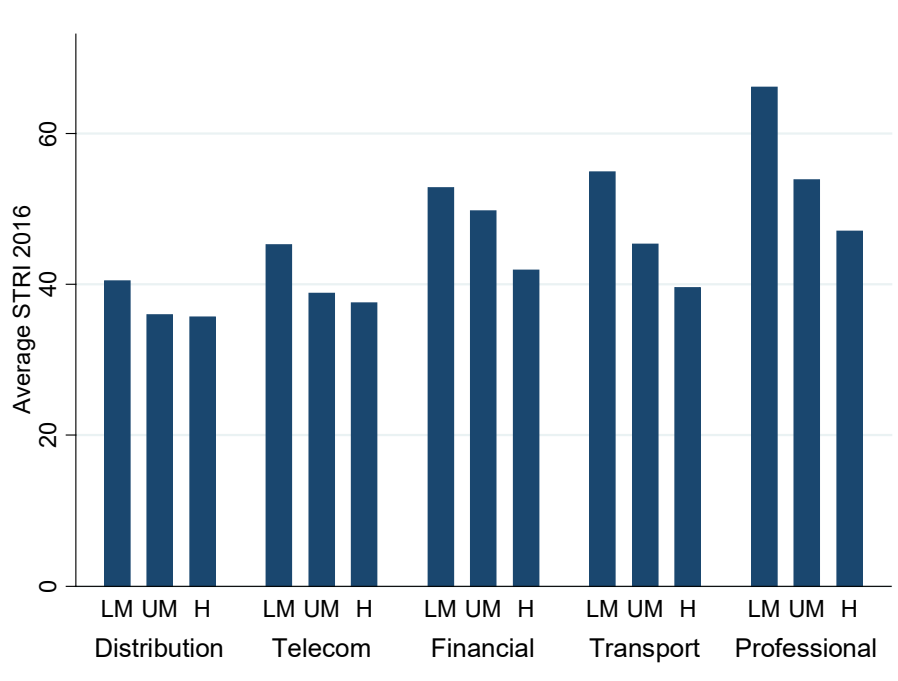


regulated. But in recent years, the restrictiveness in the subsector has been reduced. However, it is important to note that for road freight transport, we do not cover mode 1 (basically international road transport) which is highly restricted, and where regulation is mainly driven by bilateral traffic sharing agreements, such as those found in air transport. It was not possible to estimate the average MFN restrictiveness given the scarcity of publicly available information for that subsector in many economies.

Professional services are the most restricted. This is due in particular to many stringent requirements related to licensing and qualifications, in particular for auditing services and legal services on host country law, e.g. to represent clients before host-countries' courts. For these sectors there are also some other barriers affecting the international movement of professionals (mode 4), which is critical for the supply of services in these sectors.

Across economy groupings, policies in the lower middle-income economies (LM) are the most restrictive in each sector.<sup>16</sup> Bangladesh, Kenya, Myanmar and Vietnam recently graduated from low to lower-middle income. Focusing on these four countries, we note that in financial and transportation services they are on average more restricted than lower-middle income economies. Policies in the upper middle-income economies (UM) are on average slightly more restrictive than those in high-income economies (H). Yet in certain subsectors, such as reinsurance and air transport services, upper-middle income economies are more open than the high-income economies.

**Figure 5: STRI by sector and income group, 2016**

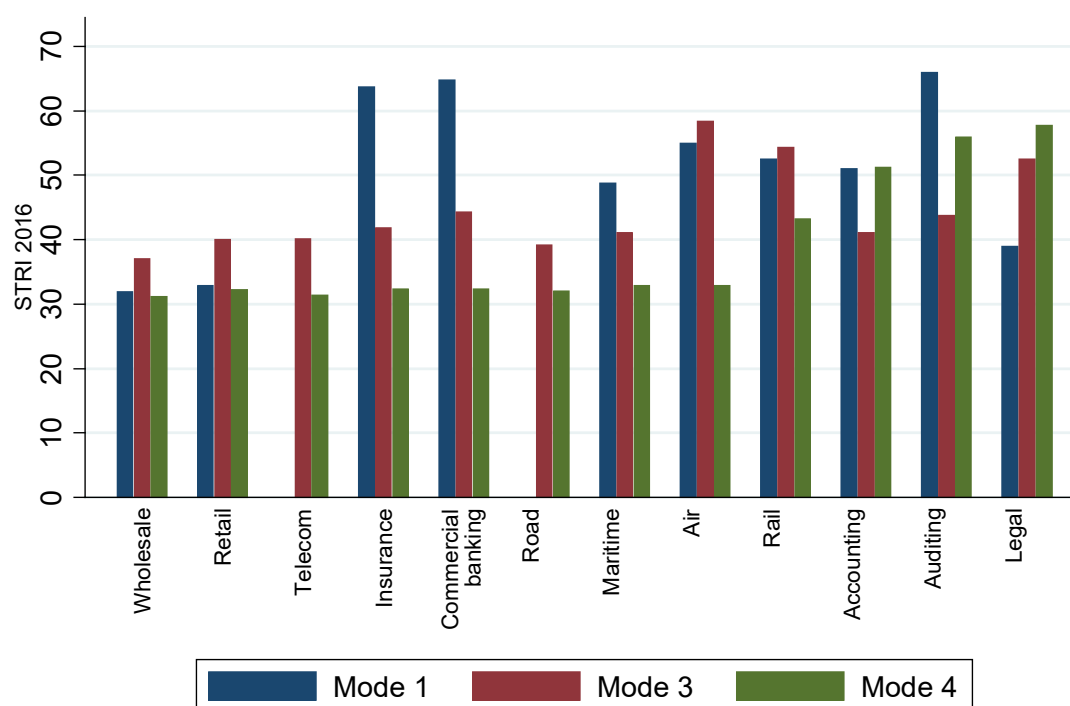


The level of restrictiveness of each mode of supply varies significantly between and within subsectors (figure 6). This may reflect differences in technological feasibility of and regulatory concerns provoked by modes of delivery across sectors. Thus, cross-border supply of services (mode 1) is relatively more restricted in the case of auditing, maritime transportation, commercial banking and insurance services, while the other modes of transport, telecommunications, as well as retail and wholesale distribution services face higher restrictions for supply through commercial presence (mode 3). The presence of natural persons (mode 4) is relatively restricted in all the professions covered by the STRI, but relatively open in other sectors, reflecting the freedom granted to multinational firms to transfer their staff between their affiliates.

<sup>16</sup> Groups as of 2016:

High income economies (H): AUS AUT BEL CAN CHE CHL CHT CZE DEU DNK ESP EST FIN FRA GBR GRC HKG HUN IRL ISL ISR ITA JPN KOR LVA LTU LUX NLD NOR NZL OMN POL PRT SGP SVK SVN SWE URY USA; Upper-middle income economies (UM): ARG BRA CHN COL CRI DOM ECU KAZ MEX MYS PAN PER RUS THA TUR ZAF; Lower-middle income economies (LM): BGD EGY IDN IND KEN LKA MMR NGA PAK PHL TUN UKR VNM.

**Figure 6: STRI by subsector and mode of supply, 2016**



Notes: Mode 1 is not computed for Road, Telecom, Maritime cargo-handling, storage, etc., Legal host country advisory and representation services. Mode 4 primarily reflects entry barriers such as quantity restrictions and labour market tests for the supply of services by natural persons - especially with respect to intra-corporate transferees (ICT).

### 3.2 Evolution of services trade policy since 2008-11 (55 economies)

The purpose of this section is to chart the evolution of services trade policies in recent years. This analysis is conducted on the basis of a similar set of subsectors and modes (i.e. excluding maritime services, internet and wholesale distribution) and for the same economies (data for 55 economies are available for both 2008-11 and 2016). The information used for 2008-11 is drawn from the World Bank Services Trade Restrictions Database, with some adjustments as explained in Borchert et al. (2019).<sup>17</sup> Regulatory information in the 2008-11 series pertains to 2008 for all economies covered except for Brazil, China and Mexico, respectively, for which data were updated in 2011. Annex 3 describes the difference between the 2016 scores for all the subsectors and modes available in the new STPD (analyzed in the previous subsection) and the 2016 scores for the subset of sectors and modes for which data were collected in 2008-11 (i.e. those described in this subsection). In this part, we present the economies in the income groups to which they belonged in 2008, to show how these economies' regulatory frameworks have evolved in the past decade.<sup>18</sup>

Looking at changes over time in the level of restrictiveness (Figure 7) reveals a secular and broad pattern of liberalization in services trade policies of the 55 economies covered in our analysis. The median STRI decreased by 4 points, from 49 in 2008-11 to 45 in 2016. The STRI ranged from 34 to 73 in 2008-11, and between 25 to 72 in 2016. It appears that the decrease of the STRI is greater for many high-income economies (mainly European Union members). However, some dynamic developing economies such as Bangladesh, India or China have also liberalized significantly in the past decade. Other lower- and middle-income economies that have liberalized their services trade

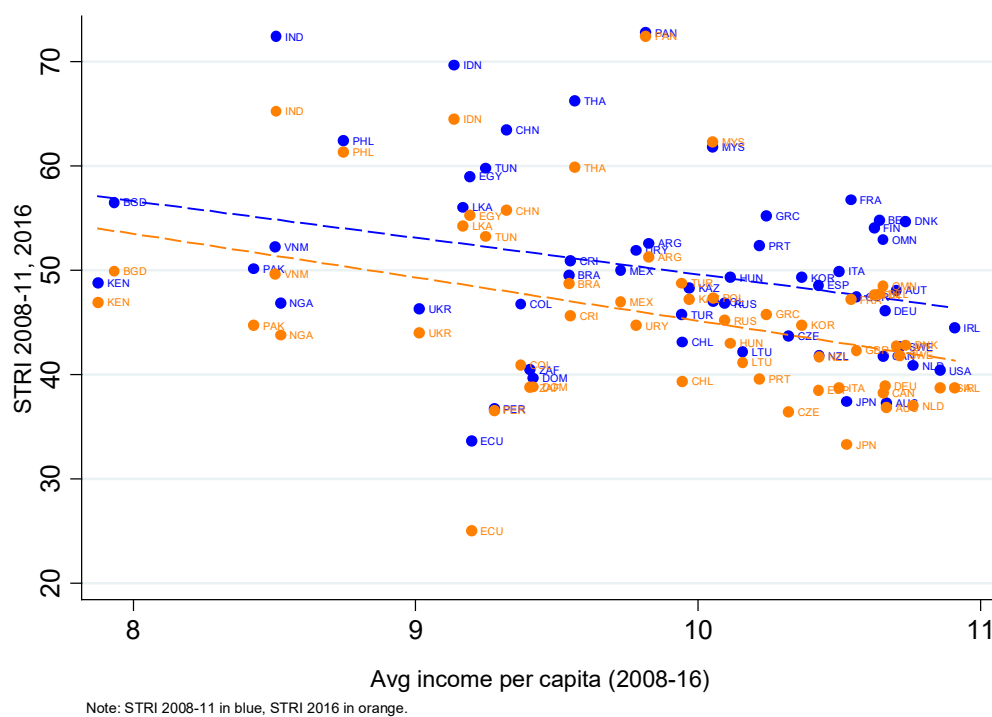
<sup>17</sup> See in particular section 2 (Comparing policy information over time), for a detailed comparison and a full decomposition of changes in STRI scores relative to the World Bank 2008-11 STRI.

<sup>18</sup> Groups as of 2008:

High income economies (H): AUS AUT BEL CAN CZE DEU DNK ESP FIN FRA GBR GRC HUN IRL ITA JPN KOR NLD NZL OMN PRT SWE USA; Upper-middle income economies (UM): ARG BRA CHL COL CRI DOM KAZ LTU MEX MYS PAN PER POL RUS TUR URY ZAF; Lower-middle income economies (LM): CHN ECU EGY IDN IND LKA NGA PAK PHL THA TUN UKR; Low income economies (L): BGD KEN VNM.

policies in the past decade are Ecuador, Uruguay, Indonesia, Tunisia, Thailand, Colombia, Costa Rica and Pakistan (decrease by at least 5 points on average). Underlying these patterns of overall liberalization across economies are differences in the sectoral pattern of liberalization which are discussed in greater detail below.

**Figure 7 Changes in STRI 2008-11/2016 and level of income, 55 economies**



The broad trend towards liberalization described above is also evident when considering changes in the STRI by sector and income group (Table 2). Green shaded cells highlight a reduction in the level of restrictiveness, with dark green pointing to bigger reductions. Grey cells point to insignificant changes in STRI levels.

**Table 2:** Change in STRI by sector and income group:

Sector	Income Group			
	Low	Lower Mid	Upper Mid	High
Distribution	-1.69	-4.45	0.24	-2.78
Financial	-6.42	-3.84	-0.90	-0.02
Telecom	-10.05	-1.68	-1.36	-3.21
Professional	-1.89	-6.31	-5.14	-8.06
Transport	-1.76	-7.87	-3.07	-22.37

Notes: Subsectors aggregated by weighted average into the five broad services sectors displayed in column 1 (based on relative shares of these services sectors in total value added, see table 6.1 in Annex 6 in Borchert et al. (2019). Colour coding: deep green: <-5 STRI-points; light green: (-5, -1); grey: (-1, 1). Grey shading indicates that policy restrictiveness has remained qualitatively unchanged.

All sectors have been liberalized but by varying degrees. Telecommunications, professional and transport services have been liberalized by economies at all levels of development. In professional services, liberalization has been particularly significant in lower middle-income and high-income economies. Liberalization of the transport sector, especially in rail and road transport, by high-income economies stands out. For other sectors, the level of liberalization is generally milder, and may be linked to the initial level of openness. In this context it is important to note that low-income countries, that have since graduated to middle-income, liberalized substantially their financial and

telecommunication sectors (commercial banking and fixed-telecommunication services in Bangladesh, commercial banking in Vietnam, life and non-life insurance in Kenya).

This variation in liberalization 'intensity' over this period may be indicative of different waves of policy reforms. Beginning in the 1990s, high income economies led the way in opening telecommunications, finance and distribution to foreign competition. Hence, the picture in 2008 was of the relative openness of higher income economies in these sectors. Middle- and low-income economies followed the higher income economies in reforming these sectors, with particularly striking liberalization in some of the most dynamic economies, for example Bangladesh and Vietnam. Hence, the picture emerging in 2016 is of policy convergence in telecommunication and finance driven by liberalization in the previously more restrictive economies. In more recent years, certain high-income economies began to initiate reform in transport and professional sectors where protection had hitherto been deeply entrenched. The result today is still a picture of policy divergence in transport and professional services, driven by reform in advanced economies.

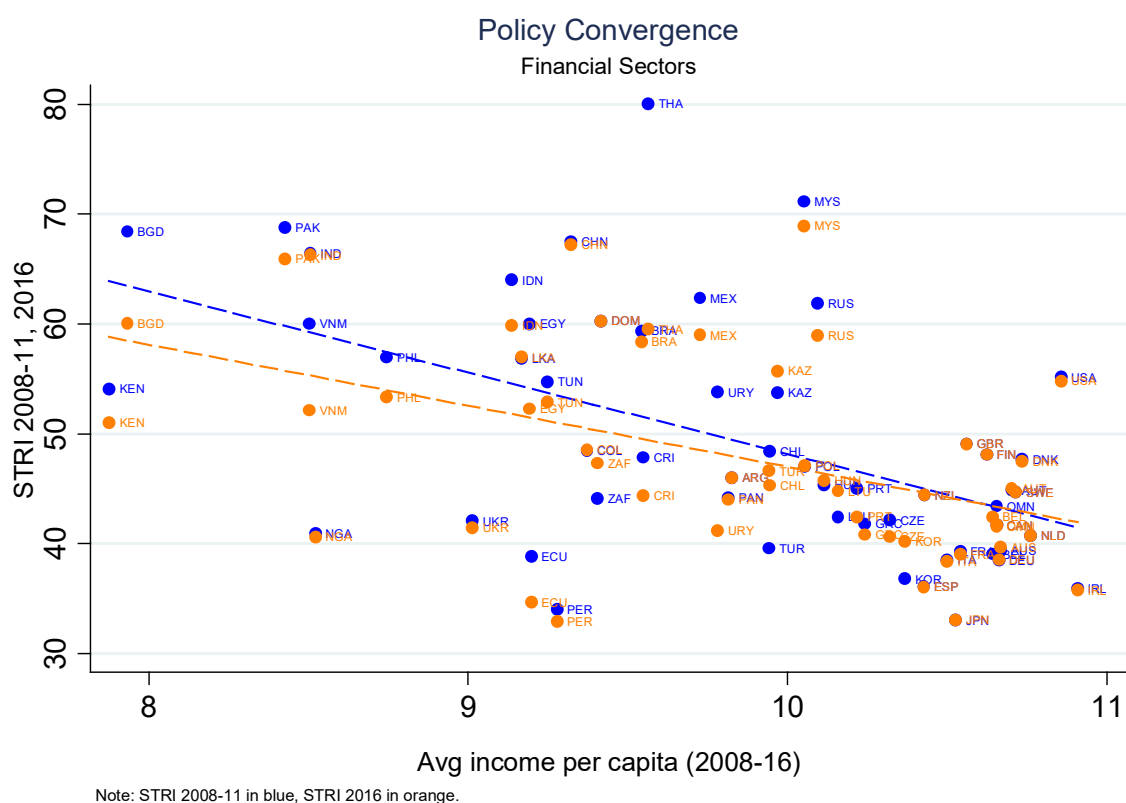
But there is a twist. While markets in telecommunication and finance are increasingly free from explicit restrictions on entry and ownership, they are increasingly subject to greater regulatory scrutiny, especially higher income economies. That raises several questions for future analysis. Do these latter measures reflect "learning-by-liberalizing," in that lessons have been learned on complementing openness with more stringent prudential regulation? Or do they reflect a shift analogous to the reversal of openness in goods trade, ostensibly on security grounds, but possibly in response to the increased competitiveness of developing economies' services firms?

### **3.2.1 Financial services**

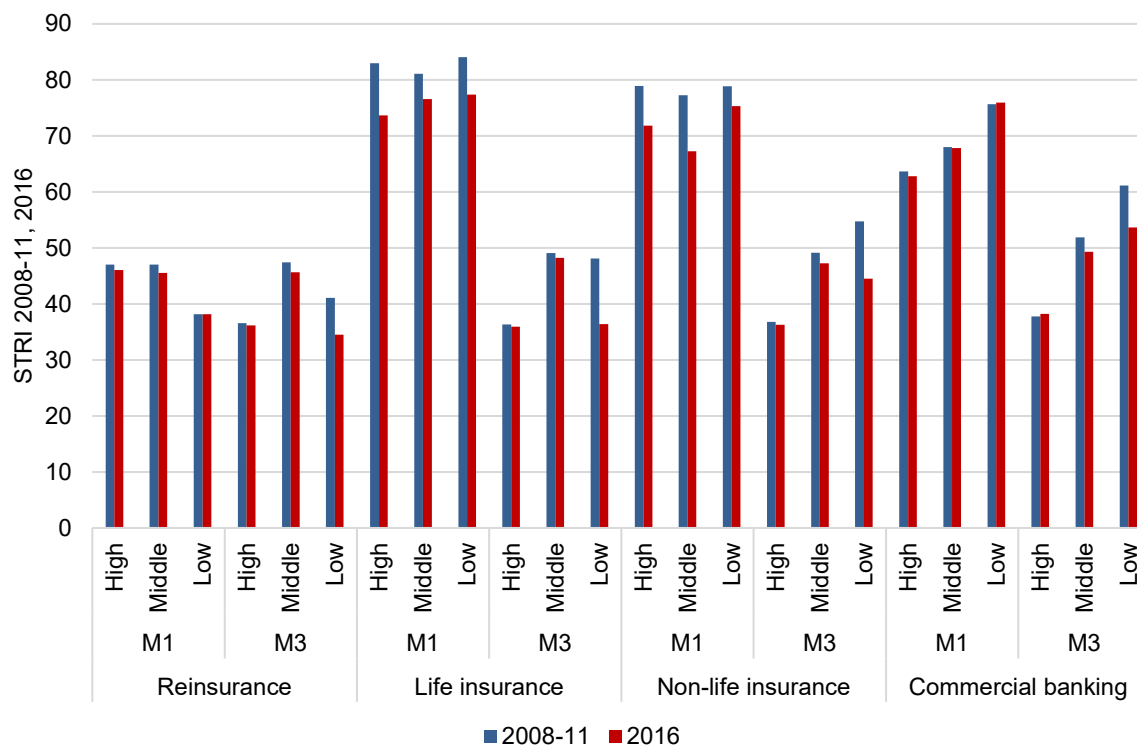
Financial markets have become more open over the period 2008-2016, especially in the low and lower-middle income economies (Figure 8). We observe however asymmetries across modes in market-opening (Figure 9). In reinsurance services, where transactions are typically Business-to-Business (B2B) and mostly conducted globally on a cross-border basis or through intermediaries, the "distance" between modes 1 and 3 is not significant. However, in the case of the other financial sectors, where a high proportion of transactions is Business-to-Consumer (B2C), higher restrictions continue to be placed on cross-border supply rather than on supply through commercial presence. The latter may respond to consumer protection as well as supervisory concerns. In general, regulation and supervision of a foreign financial firm by a host-economy regulator is easier when the firm is incorporated in the host regulator's jurisdiction than when it only has a branch or supplies cross-border. Moreover, there is a greater need for regulation and direct supervision when the consumer is a household rather than a sophisticated customer like wealthy individuals or firms.

The slight difference between the level of mode 1 restrictiveness in life insurance and non-life insurance is also a reflection of this dichotomy between global and local segments of the industry. Indeed, the relative "openness" of mode 1 in non-life insurance (compared with that one in life insurance) is driven by the openness of cross-border supply of marine, transport and aviation insurance (MAT insurance) – a segment of non-life insurance that, like reinsurance, is characterized by cross-border– transactions that are typically of a B2B nature.

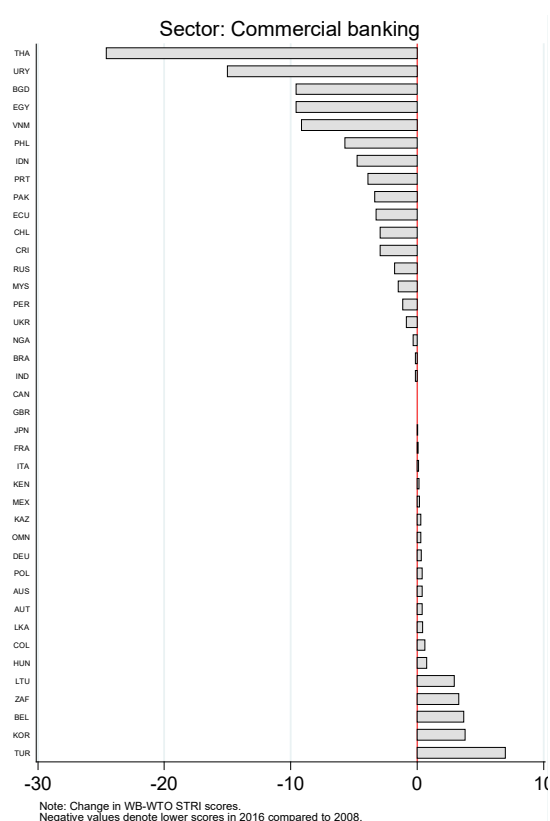
**Figure 8. Financial services: Change in STRI by level of income**



**Figure 9. 2008-11 and 2016 STRI by financial services subsectors and modes of supply, and by income group**

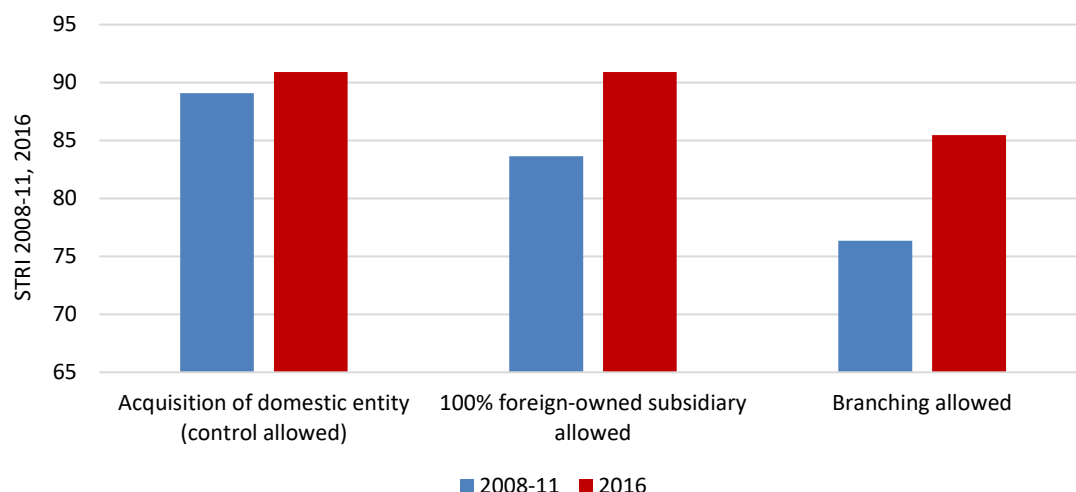


**Figure 10 Change in STRI between 2008-11 and 2016 by economy**



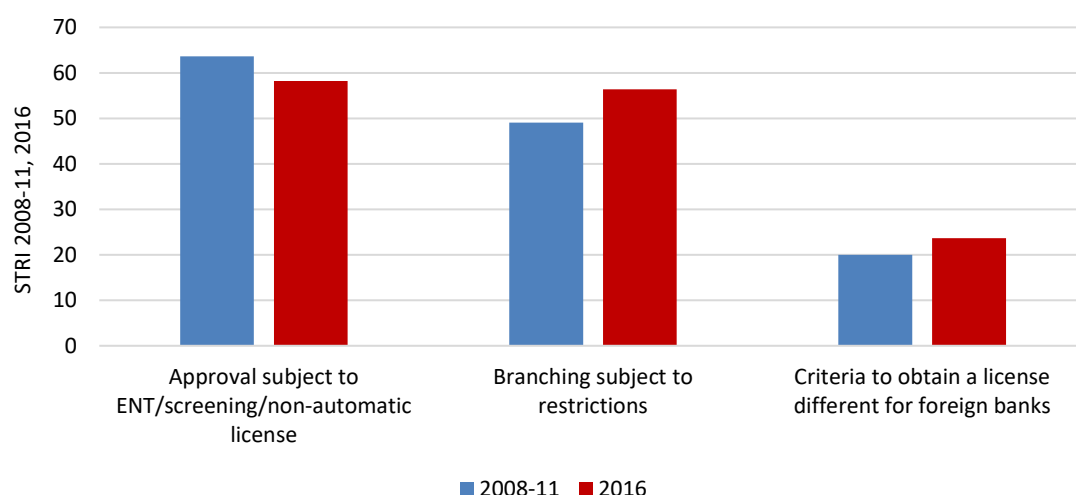
Digging deeper into the policy data on commercial banking services reveals certain patterns worth noting. We see convergence of policies related to entry – with most liberalization already undertaken by 2008 – but in the context of reinforced scrutiny of foreign service suppliers, for prudential or even security reasons. As a result of gradual trade liberalization, a large majority of economies allow entry into their markets through the acquisition and control of domestic entities, through the establishment of wholly-owned subsidiaries and through direct branching (Figure 11). The preferred avenue is the acquisition of already licensed institutions, which may be explained by the host regulators' wish to recapitalize local institutions (notably after the 2008-2009 crisis) while maintaining the existing market structure and therefore current intensity of competition. Both fully-owned subsidiaries and direct branches have been increasingly allowed in most economies, but the former remains a preferred option for local regulators, given the potential for risk transmission that foreign bank branches present, as was evident in the 2008-2009 financial crisis. Interestingly, however, no economy in our sample abrogated access through branching – the increased share of governments allowing direct branching is the result therefore of additional liberalization in emerging economies (e.g. Colombia, Egypt, Indonesia, Philippines, Russian Federation).

**Figure 11 Share of economies allowing different modalities of foreign bank establishment**



Even though there are now fewer explicit restrictions on entry, scrutiny of foreign banks has remained intense or even been strengthened. For instance, even when the presence through branching is allowed, stringent regulatory conditions (e.g. imposition of endowment capital requirements, limitations on the expansion of the branching network) are imposed in a majority of economies. In addition, roughly a quarter of our sample now applies different licensing criteria for foreign banks. Finally, more than half of the economies in our sample subject foreign banks to either economic needs tests, investment screening requirements or non-automatic licensing approvals (even when all formal licensing criteria have been fulfilled).

**Figure 12 Share of economies with different types of restrictions on foreign banking (mode 3)**



### 3.2.2 Telecommunications

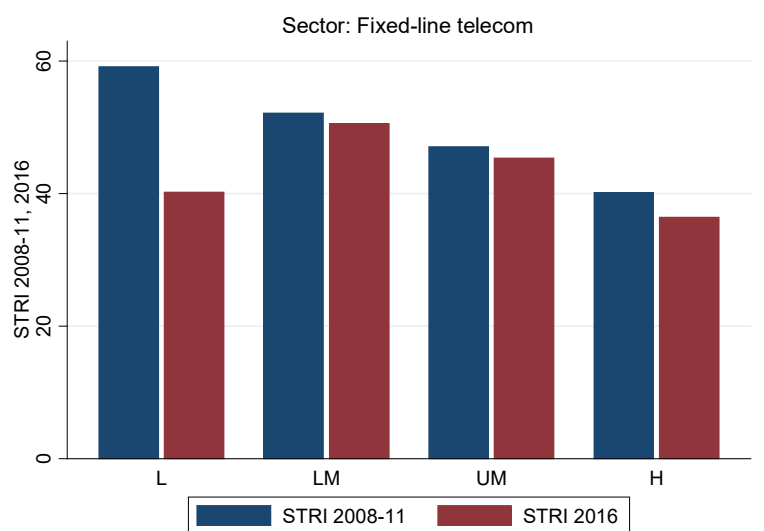
There continues to be a trend towards liberalization in telecommunications services, although a high level of competition was already achieved around 2008 (at least for the set of economies/regions covered). Liberalization since then has occurred mainly in fixed telecommunication services, as the mobile sector had already been opened prior to that date. The biggest liberalization occurred in low-income countries, such as Bangladesh. Policy convergence in the telecommunications sector across different levels of development is confirmed by the low level of correlation between the STRI and per capita income. We also see that economies at different levels of development have

screening policies (covering telecommunications services among other sectors) that often counter-balance the liberalization that may have taken place at the sectoral level (e.g. Canada, Oman, and Egypt allow investment if they are able to demonstrate economic benefits or if they are not contrary to national interests).

#### Fixed-line telecommunication services

Several economies have seen a reduction in market entry measures for fixed telecommunications services by 2016. The reduction of the average STRI for low income countries is mainly driven by reforms in Bangladesh. Up to 2008 the fixed line market in Bangladesh was de facto closed to foreign investors as no licenses were issued to foreign firms. Middle income economies did not show a significant reduction in the level of restrictiveness. The entry conditions were already relatively liberalized for many of the middle-income economies. However, none of the three middle-income economies that had their fixed-line telecommunications sector closed to foreign investors in 2008 (Costa Rica, Egypt and Uruguay) have liberalized (Figure 14). The remaining foreign equity limits in several economies (India, Mexico, Kazakhstan, Malaysia) were lifted. Indonesia reduced its ownership limit from 95 to 67 percent. Many other restrictions remain for middle income economies in this sector. For example, although in principle the law allows foreign investment in Sri Lanka, in practice fixed line services are only provided by Sri Lanka Telecom services which was formerly a fully government owned Telecommunication Corporation.

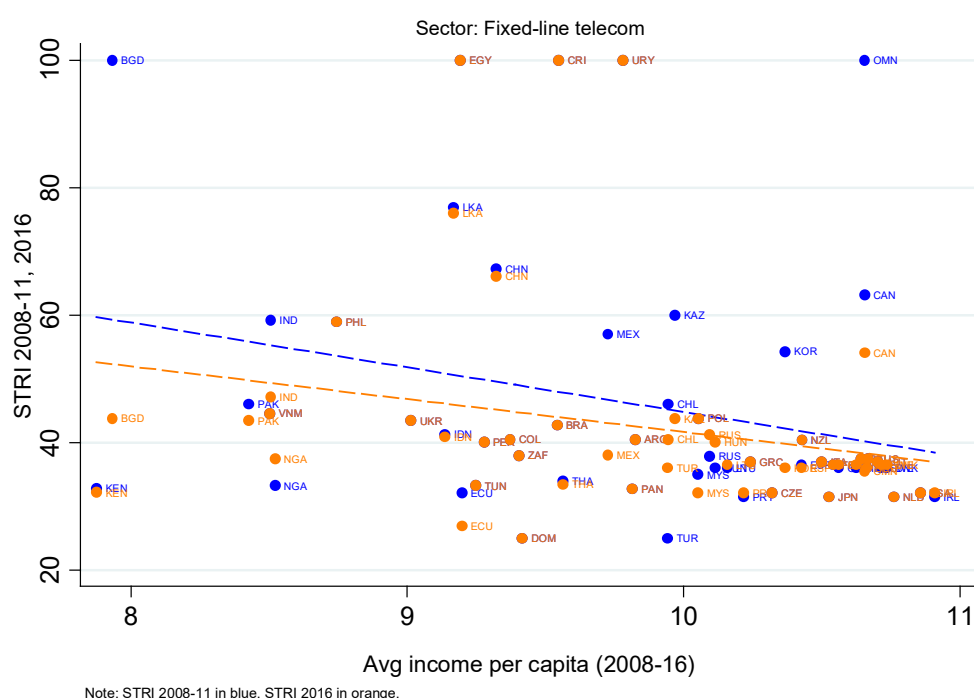
**Figure 13 Fixed-line telecommunication services: Change in STRI by income group**



The liberalization was more pronounced in high income economies. Oman now authorizes foreign operators, but still has a limit of foreign ownership of 70%. Since 2014 (issuance of Telecommunications Business Act), Korea authorizes up to 100% ownership of special category telecom services firms or value-added telecom service firms (previously 49% in direct facilities-based services and 80% in indirect facilities-based facilities but if the largest shareholder was a foreign government, a foreign natural person or a foreign juridical person, it was 15%).



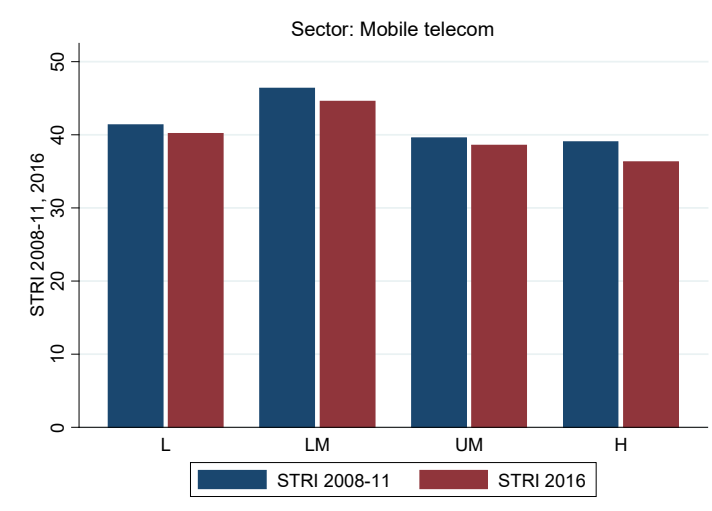
**Figure 14 Fixed-line telecommunication services: Change in STRI by level of income**



#### Mobile telecommunication services

As indicated above, there have been fewer changes in the mobile telecommunications services sector, where all economies in the sample were open to foreign establishment in the mobile segment even by the end of the previous decade. Only a small number of countries had foreign equity limits. Some of those were relaxed (Canada, Korea as described above) or removed (in Malaysia and in India, subject to government approval beyond 49%) between 2008 and 2016. Hungary now allows greenfield investment. Colombia and India have relaxed the limits on the number of suppliers.<sup>19</sup>

**Figure 15 Mobile telecommunication services: Change in STRI by income group**

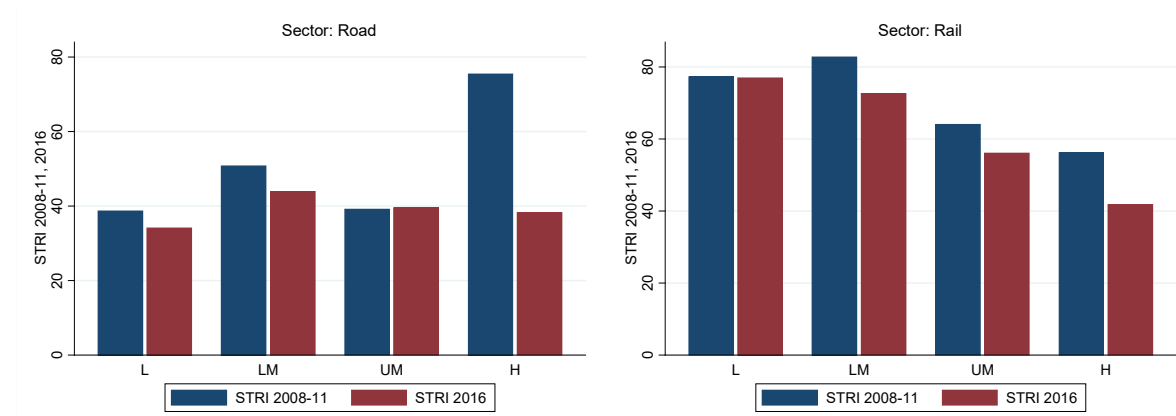


<sup>19</sup> In Colombia the number of licenses was fixed in the 1993 bidding process. In 2016, the quantitative restrictions were removed. For India, the maximum number of firms or suppliers in the sector was four in 2008. This restriction has been lifted and no quantitative limit is applied anymore.

### 3.2.3 Transport services

Among transport sectors, it is land transport that has been driving liberalization.<sup>20</sup> This marked trend towards liberalization has occurred mainly within the high-income group (Figure 16).

**Figure 16 Change in STRI for land transport by income group**



The general liberalization witnessed within high income economies is explained to a large extent by developments in the European Union (Figures 17 and 18). In 2008, the land transport market was very restricted for many European member states. For road, national transport operations were the traditional domain of domestic hauliers.<sup>21</sup> A significant step forward towards the European single road transport market was made by the "road package" adopted in 2009, consisting of regulations 1071/2009, 1072/2009 and 1073/2009, which entered into force as of 2011.<sup>22</sup> In particular, international road haulage operations within the EU and EFTA are liberalized through regulation 1072/2009, in combination with the EEA Agreement of 1992 and the Land Transport Agreement between the EU and Switzerland of 1999.<sup>23</sup> Consequently, foreign transport operators from third

<sup>20</sup> Within air transport, only India substantially liberalized the sector. Foreign investment of 100% is now permitted pursuant to a decision by the government (note that this seeks to eliminate the 49% limitation currently still reflected in the 2016 FDI Policy Circular). Up to 49% of this is done under the automatic route (no approval needed) and beyond this government approval is required. Note that a 49% limitation remains in place for foreign airlines that intend to invest in Indian airlines.

<sup>21</sup> In 2015, a report by the European Commission stated that "[n]ational transport operations - which account for two thirds of all road haulage activity in the EU - are still predominantly carried out by domestic hauliers. While there is significantly more cabotage activity now than in the past, the share of foreign hauliers in all national transport operations is still only around 3%." See "An Overview of the EU Road Freight Transport Market in 2015", available at [https://ec.europa.eu/transport/modes/road/studies/road\\_en](https://ec.europa.eu/transport/modes/road/studies/road_en)

<sup>22</sup> Regulation (EC) No 1071/2009 establishing common rules concerning the conditions to be complied with to pursue the occupation of road transport operator and repealing Council Directive 96/26/EC, OJ L 300, 51, last amended on 10 June 2013 by Council Regulation (EU) 517/2013, Articles 3 and 11): <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R1071>

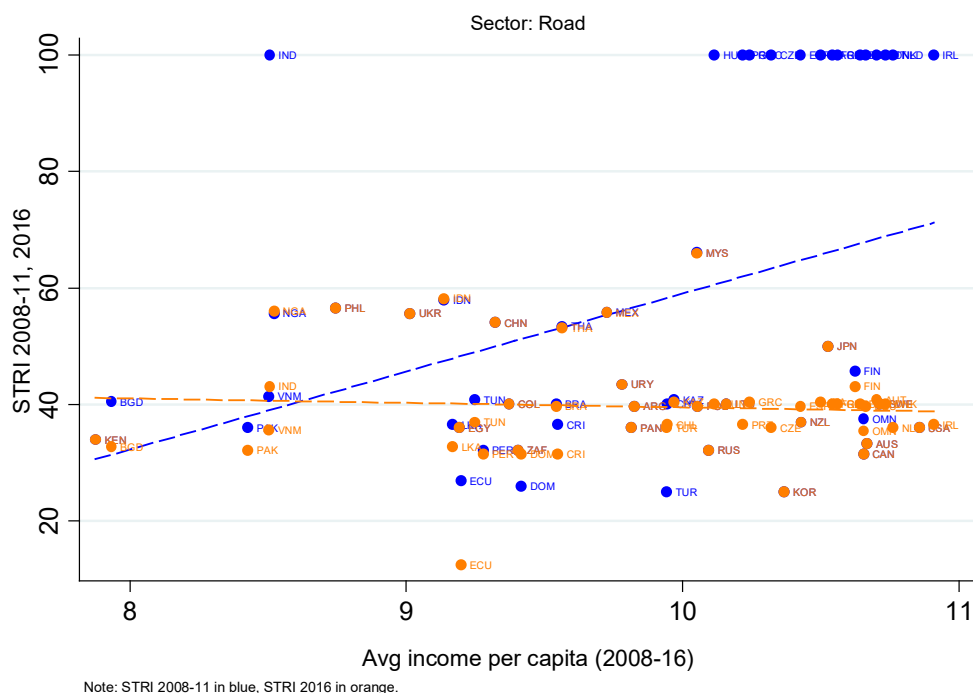
Regulation (EC) No 1072/2009 of the European Parliament and of the Council of 21 October 2009 on common rules for access to the international road haulage market (Text with EEA relevance): <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32009R1072>

Regulation (EC) No 1073/2009 of the European Parliament and of the Council of 21 October 2009 on common rules for access to the international market for coach and bus services, and amending Regulation (EC) No 561/2006 (Text with EEA relevance): <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R1073>.

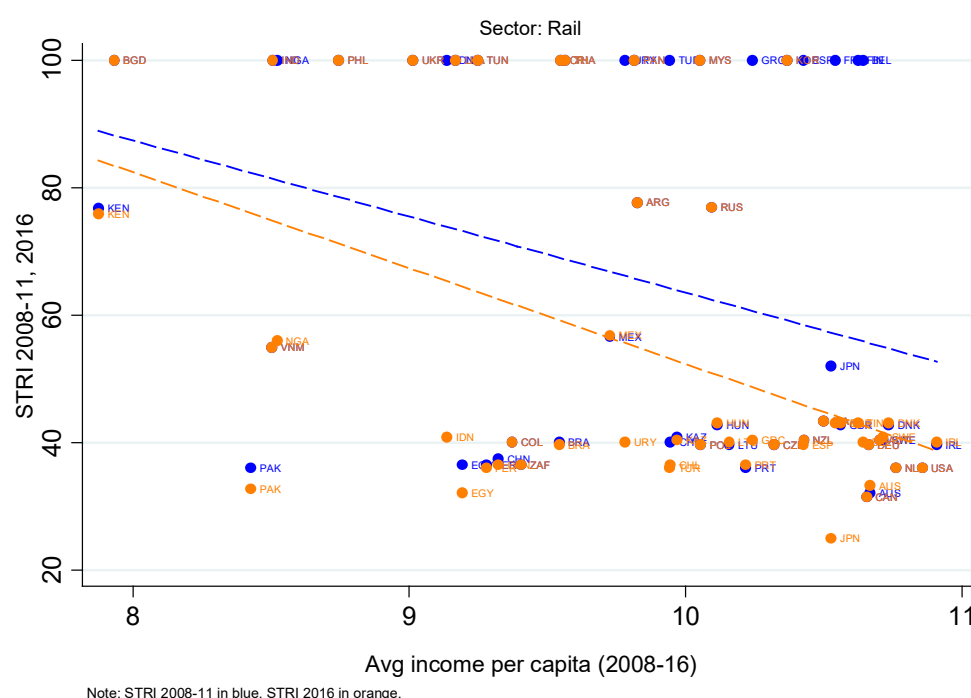
According to Regulation 1071/2009, undertakings engaged in the occupation of road transport operator in the EU must have an effective and stable establishment in an EU Member State. In a move towards the harmonization of road transport policies, Regulations 1072/2009 and 1073/2009 required, respectively, that the international carriage of goods within the EU and of passengers within the EU be subject to the possession of a "Community licence". These Community licences are issued by the competent authorities of the EU Member State in which the haulier is established.

<sup>23</sup> "An Overview of the EU Road Transport Market in 2015", European Commission, DG for Mobility and Transport, Unit C.1 - Road transport, May 2017, <https://ec.europa.eu/transport/sites/transport/files/mobility-package-overview-of-the-eu-road-transport-market-in-2015.pdf>.

parties that are established in one member state can benefit from this liberalization. Up to recent years, rail (freight) transport had traditionally been closed in certain European member states, with services that were only supplied by a single operator (e.g. Belgium, Finland, France, Greece). However, between 2001 and 2016, four legislative packages were adopted, with the aim of gradually liberalizing rail transport service markets in Europe. The second package adopted in 2004, focused on improving safety, interoperability and opening up the rail freight market. Although this had been implemented by many members states by 2008, more time was necessary for some others. By 2016, all EU member states covered in our sample had opened their rail freight market.



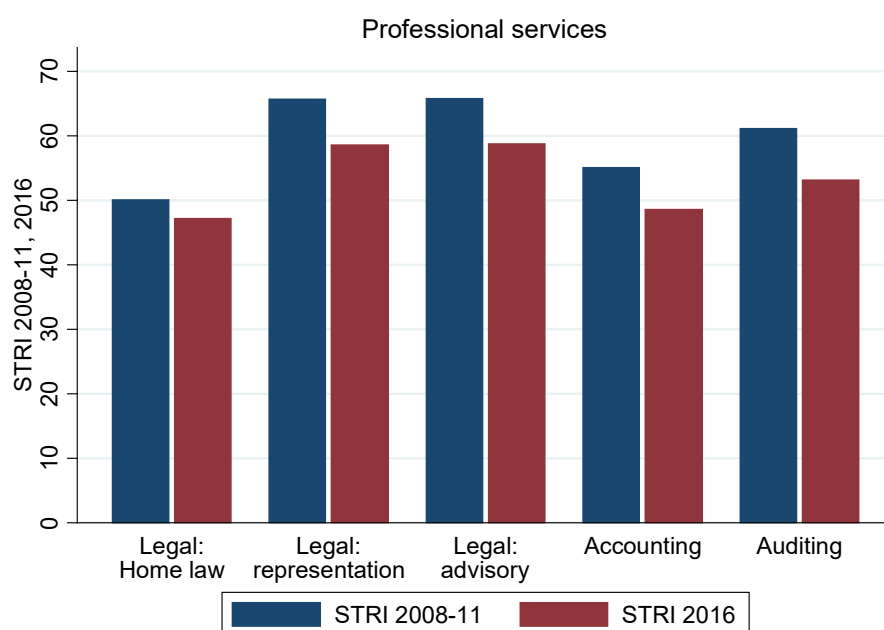
**Figure 18: Rail freight transport: Change in STRI by level of income**



### 3.2.4 Professional services

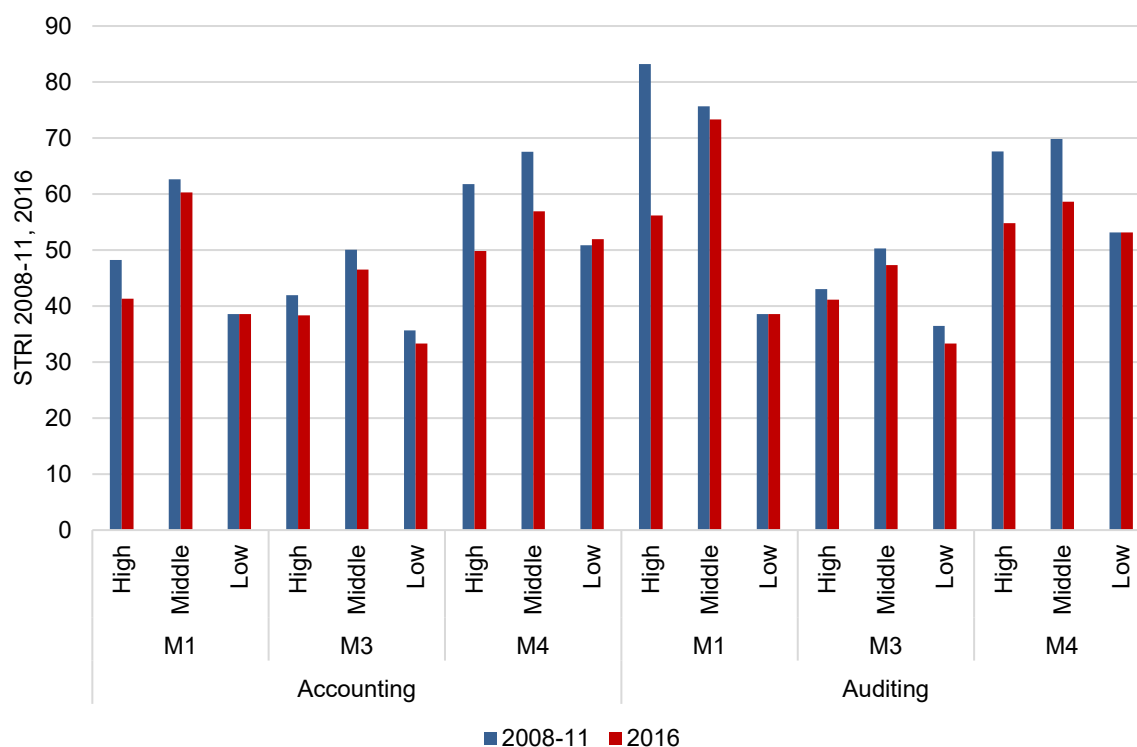
As indicated above, economies in all income groups have significantly cut protection in professional services, though the low-income group less so. All professional services subsectors (home country law, advisory and representation services in host country law, and accounting and auditing services) show a reduction of their restrictiveness index. Legal services in the home country law of the service provider have traditionally been less restrictive, with an average level of 50 in 2008-11. This is mainly driven by the fact that the licensing conditions, in particular for the professionals themselves, are less stringent (or even absent in many cases). Consequently, this is an area where we see less STRI reduction than in other professional services sectors covered. The STRIs for host country legal advisory and representation services were reduced more significantly (from 66 to 59). This was mainly driven by mode 4 (71 to 62), and to a lesser extent by mode 3 (61 to 55). For mode 3, the reduction is mainly driven by five economies that now allow foreign establishment in the sector, namely Germany, Korea, Pakistan and South Africa for both subsectors, and Czech Republic, for advisory services. In many economies, lawyers are subject to nationality or residency requirements to be able to practice, as well as to the limitations pertaining to the entry of services suppliers more broadly, which are usually quite restrictive in many jurisdictions.

**Figure 19 Change in STRI for professional services**



Accounting services are traditionally less restricted than auditing services, in particular for cross-border supply and for the presence of foreign accountants. This is reflected in both the 2008-11 and 2016 data. Restrictiveness in accounting was reduced on average similarly in high- and middle-income groups. Auditing was liberalized to a greater extent than accounting over the period considered, with reform driven by higher income economies.

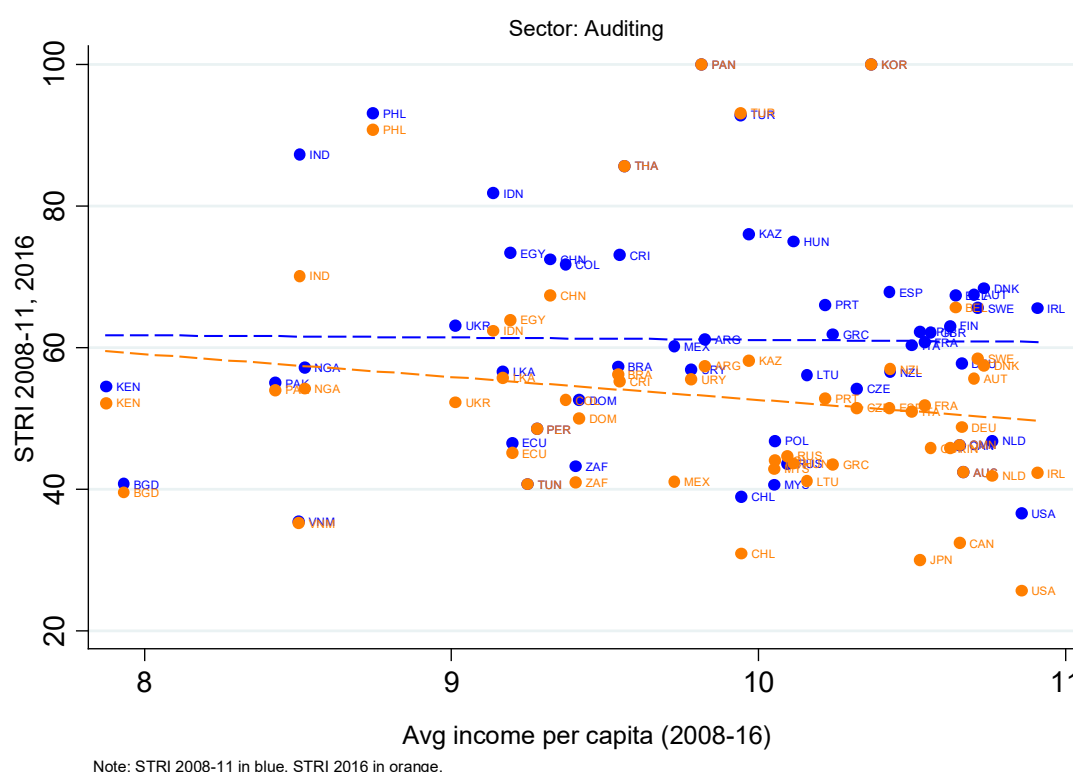
**Figure 20 2008-11 and 2016 STRI accounting and auditing, by modes of supply and income group**



The median index for auditing services was around 60 in 2008-11 and is just over 51 in 2016. Most of the decrease in the STRI is linked to less restrictive policies regarding the entry of professionals in high- and middle-income economies, as well as the loosening of restrictions for cross-border supply for high income economies (in many economies this mode was not possible for auditing services in 2008). Mode 3 restrictiveness was reduced only slightly in the 3 groups, with highly restrictive economies remaining so in 2016 (India, Korea, Panama, Philippines, Turkey).

The high-income economies presenting the biggest reductions in restrictiveness are Finland, Greece, Hungary, Ireland, Japan, Spain, and the United Kingdom. In 2008, available information showed that commercial presence of audit corporations was required for cross border supply in Japan, whereas it appears in 2016 that this is no longer the case. Also, reform in the audit subsector was introduced in 2014 and came into force in June 2016 in the European Union in the aftermath of the 2008 financial crisis. One of the aims was to improve auditing quality, as well as introduce rotation of auditors because of the concentration of the market. One of the tools envisaged was to facilitate cross-border provision of statutory audit services. Focusing more specifically on mode 4, restrictions decreased since 2008-11 in Austria, Denmark, Germany, Hungary, Portugal) as well as in some other high-income economies (e.g. Canada, Japan, United States). This was accomplished either by relaxing some of the economy-wide restrictions on the movement of persons (quantitative limitations), the lifting of nationality or residency requirements to obtain a licence to practice, or the recognition of foreign qualifications.

**Figure 21: Auditing services: Change in economy STRI based on initial level of restrictiveness**



In middle-income economies, the STRI for Colombia, Costa Rica, Kazakhstan and Mexico, as well as India and Indonesia decreased substantially, most of them from a higher base. For the former four countries, mode 4 is now allowed for auditing services, albeit still with significant restrictions on entry, such as quantitative or qualification-related restrictions (e.g. mandatory additional domestic education or absence of recognition of qualifications). In India, cross-border supply of services was allowed in 2016. For Indonesia, Mode 3 was prohibited, but the Regulation on State-registered Accountant (No. 25/2014) removed this restriction. But to conduct business in Indonesia, foreign licensed public accounting firms have to associate with a local public accounting firm. China included auditing (and accounting) as "encouraged" activities in the 2015 edition of the Catalogue of Industries for the Guidance of Foreign Investment Industries. The requirement to enter as equity

joint ventures or contractual joint ventures was removed. Article 24 of the Law on Certified Public Accountants and Article 8 of the Interim Measures provide for the establishment of an accounting firm as a legal entity with limited liability, although the government encourages the transformation of large-scale and mid-scale accounting firms into special common partnerships.

## CONCLUSION

Even as international trade in services has grown in importance, the systematic analysis of services trade policy has been inhibited by the dearth of internationally comparable data over time. The Services Trade Policy Database, developed jointly by the World Bank and the WTO with substantial inputs from the OECD, contributes to filling this gap. It provides comparable information on services trade policies for more than 68 economies on five key service sectors and, for 55 of those, at two points in time (2008-11 and 2016). While the rich policy information is the backbone of the Database, the qualitative information has been quantified to obtain Services Trade Restrictions Indices (STRI), building on the methodology previously used by the World Bank. A key methodological improvement is the aggregation of different applied policy measures on the basis of a Constant Elasticity of Substitution (CES) functional form, which offers a parsimonious, flexible and transparent way of calibrating the marginal contribution to restrictiveness of an additional trade policy measure.

Building on the policy data and the new STRI, the technical details of which are discussed in-depth in Borchert et al. (2019), the main contribution of this paper is to provide a response to two questions. First, what is the current pattern of services trade policy? Second, how has services trade policy evolved after the 2008-09 financial crisis?

Today, most economies covered by our analysis are fairly open to services trade (i.e. STRI value below 50), and none is highly restrictive at the overall economy level. Higher income economies are still more open on average than lower income economies in most sectors. Interestingly, some of the most restrictive policies today are enforced in some of the fastest-growing economies of Asia, the Middle East and Northern Africa.

Looking across sectors, distribution and telecommunications services appear as the most open, on account of the openness of wholesale distribution (compared to retail) and the continued regulatory reform of the telecommunication sector over the last 25 years. At the other extreme, professional services appear as the most restricted, due in particular to stringent requirements on licensing and qualifications, in particular for auditing services and legal services on host country law. In terms of policy restrictiveness, financial and transport services appear in between these extremes.

Our analysis reveals a broad trend towards further liberalization of services trade between 2008 and 2016, across economies as well as sectors. Yet the aforementioned variation in liberalization 'intensity' across sectors suggests that reform comes in waves. Beginning in the 1990s, high income economies led the way by opening telecommunications, distribution and finance to foreign competition. Middle-income economies followed. Much of the current level of openness in those sectors in most middle-income and higher income economies had therefore been achieved by 2008. This may explain the relatively low 'action' witnessed in the level of restrictiveness of these groups of economies in these sectors. In that context, low-income economies covered in our analysis appeared as laggards back in 2008, but caught up afterwards, recording significant liberalization of financial and telecommunication services. Hence, the picture emerging in 2016 is of policy convergence in telecommunication and finance driven by liberalization in the previously more restrictive economies.

A second wave of policy reform may currently be unfolding in sectors such as transport and professional services. Indeed, data show that high-income economies have broken new ground by reforming their trade policies in these sectors, where protection had hitherto been deeply entrenched. The picture today is still one of policy divergence in these sectors, with developed economies leading the way of regulatory reform.

But there is a catch. While markets in services, e.g. finance and telecommunications, are increasingly free from explicit restrictions on entry and ownership, they are increasingly subject to greater regulatory scrutiny (e.g. economic needs tests, FDI screening), especially in higher income economies. This raises several questions for future analysis. Does this type of measure reflect "learning-by-liberalizing", in that lessons have been learned on the need to complement openness with more stringent prudential regulation? Do they reflect a shift analogous to the reversal of openness in goods trade policy, ostensibly on security grounds, but possibly in response to the increased competitiveness of developing economies' services firms? And do they signal a trend towards *de jure* openness but *de facto* discretionary policy, in particular at the point-of-entry stage (e.g. through FDI)? These policy trends deserve further analysis.

The availability of these data, and of additional data when the STPD is expanded to cover more economies and sectors, allows for further research on the effect of trade policy on services trade flows. Three specific strands of research are pursued in a companion (forthcoming) paper (Borchert



et al, 2020). Firstly, the availability of separate STRI scores by mode of supply offers the opportunity of exploring "cross-modal effects". Specifically, we set up a gravity model of bilateral cross-border services trade flows with a view to (i) evaluating the general effect of policy restrictiveness across the different services sectors, and (ii) tracing this overall effect down to its root cause in terms of restrictiveness by mode of supply. Secondly, the STRI scores are used to construct ad-valorem equivalents (AVEs), reflecting the percentage change in iceberg trade costs associated with a given change in a non-tariff measure affecting services trade. These AVEs can be used to quantify the impact on variable trade costs, in ad valorem terms, of observed changes in policies between 2008-11 and 2016. Thirdly, the STRI allows for policy simulation, by modifying and/or eliminating specific restrictions, to assess the impact of such counterfactual changes on overall policy restrictiveness and hence on trade costs.

## ANNEX 1: LIST OF ECONOMIES COVERED, AND SOURCE

### 2016

<b>Economy</b>	<b>Source</b>	<b>Economy</b>	<b>Source</b>
Argentina	WB-WTO	Lithuania	OECD
Australia	OECD	<i>Luxembourg</i>	OECD
Austria	OECD	Malaysia	WB-WTO
Bangladesh	WB-WTO	Mexico	OECD
Belgium	OECD	<i>Myanmar</i>	WB-WTO
Brazil	OECD	Netherlands	OECD
Canada	OECD	New Zealand	OECD
Chile	OECD	Nigeria	WB-WTO
China	OECD	<i>Norway</i>	OECD
Colombia	OECD	Oman	WB-WTO
Costa Rica	WB-WTO	Pakistan	WB-WTO
Czech Republic	OECD	Panama	WB-WTO
Denmark	OECD	Peru	WB-WTO
Dominican Rep.	WB-WTO	Philippines	WB-WTO
Ecuador	WB-WTO	Poland	OECD
Egypt, Arab Rep.	WB-WTO	Portugal	OECD
<i>Estonia</i>	OECD	Russian Federation	OECD
Finland	OECD	<i>Singapore</i>	WB-WTO
France	OECD	<i>Slovak Republic</i>	OECD
Germany	OECD	<i>Slovenia</i>	OECD
Greece	OECD	South Africa	OECD
<i>Hong Kong SAR, China</i>	WB-WTO	Spain	OECD
Hungary	OECD	Sri Lanka	WB-WTO
<i>Iceland</i>	OECD	Sweden	OECD
India	OECD	<i>Switzerland</i>	OECD
Indonesia	OECD	<i>Chinese Taipei</i>	WB-WTO
Ireland	OECD	Thailand	WB-WTO
<i>Israel</i>	OECD	Tunisia	WB-WTO
Italy	OECD	Turkey	OECD
Japan	OECD	Ukraine	WB-WTO
Kazakhstan	WB-WTO	United Kingdom	OECD
Kenya	WB-WTO	United States	OECD
Korea, Rep.	OECD	Uruguay	WB-WTO
<i>Latvia</i>	OECD	Vietnam	WB-WTO

Data for all economies are available for 2008-11, except the ones shown in *italics*.

**2008-11**

Albania	Greece	Pakistan
Algeria	Guatemala	Panama
Argentina	Honduras	Paraguay
Armenia	Hungary	Peru
Australia	India	Philippines
Austria	Indonesia	Poland
Bahrain, Kingdom of	Iran, Islamic Rep.	Portugal
Bangladesh	Ireland	Qatar
Belarus	Italy	Romania
Belgium	Japan	Russian Federation
Bolivia, Plurinational State of	Jordan	Rwanda (2009)
Botswana (2009)	Kazakhstan	Saudi Arabia, Kingdom of
Brazil (2011)	Kenya	Senegal
Bulgaria	Korea, Rep.	South Africa
Burundi (2011)	Kuwait, the State of	Spain
Cambodia	Kyrgyz Republic	Sri Lanka
Cameroon	Lebanese Republic	Sweden
Canada	Lesotho	Tanzania
Chile	Lithuania	Thailand
China (2011)	Madagascar	Trinidad and Tobago
Colombia	Malawi	Tunisia
Costa Rica	Malaysia	Turkey
Côte d'Ivoire	Mali	Uganda
Czech Republic	Mauritius	Ukraine
Democratic Rep. of the Congo	Mexico (2011)	United Kingdom
Denmark	Mongolia	United States of America
Dominican Republic	Morocco	Uruguay
Ecuador	Mozambique	Uzbekistan
Egypt, Arab Rep.	Namibia	Venezuela, RB
Ethiopia	Nepal	Vietnam
Finland	Netherlands	Yemen, Rep.
France	New Zealand	Zambia
Georgia	Nicaragua	Zimbabwe
Germany	Nigeria	
Ghana	Oman	

Data sourced from the previous World Bank exercise (see Borchert et al., 2012), with some adjustments, see Section 2. All data correspond to 2008, except as indicated otherwise.

## ANNEX 2: SUMMARY OF THE COVERAGE OF SECTOR AND MODES

Sectors	Subsectors	Mode 1	Mode 3	Mode 4
<b>Financial</b>	Commercial banking (deposit-taking, lending)	X	X	X
	Non-life insurance (incl. MAT)	X	X	X
	Life insurance	X	X	X
	Reinsurance	X	X	X
<b>Telecom</b>	Telecom fixed (international and local)		X	X
	Telecom mobile		X	X
	Internet		X	X
<b>Distribution</b>	Retailing services	X	X	X
	Wholesale services	X	X	X
<b>Transportation</b>	Air passenger domestic and international		X	X
	Air freight domestic and international		X	X
	Maritime shipping international	X	X	X
	Maritime auxiliary (intermediation, other services)	X	X	X
	Road freight domestic and international	X	X	X
	Rail freight domestic and international	X	X	X
<b>Professional</b>	Accounting	X	X	X
	Auditing	X	X	X
	Legal advice domestic law <sup>24</sup>		X	X
	Legal representation on domestic law <sup>11</sup>		X	X
	Legal advice foreign law	X	X	X

### Mode 1 content (apply to some sectors):

- i. Form of entry
- ii. Licensing/registration
- iii. Operations

### Mode 3 content (apply to all sectors)

- i. Form of entry
- ii. Quantitative limits
- iii. Licensing/registration
- iv. Operations

### Mode 4 content (apply mainly to all sectors for generic questions)<sup>25</sup>

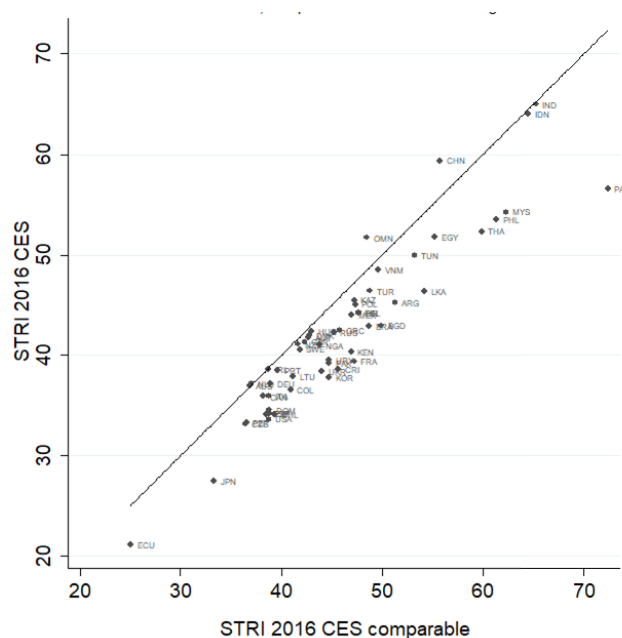
- i. Form of entry
- ii. Quantitative limits
- iii. Licensing/qualification (apply only to professional services)
- iv. Operations

<sup>24</sup> Cross border legal advice/representation on domestic law is not covered, as it is unlikely/technically infeasible to provide the services via this mode.

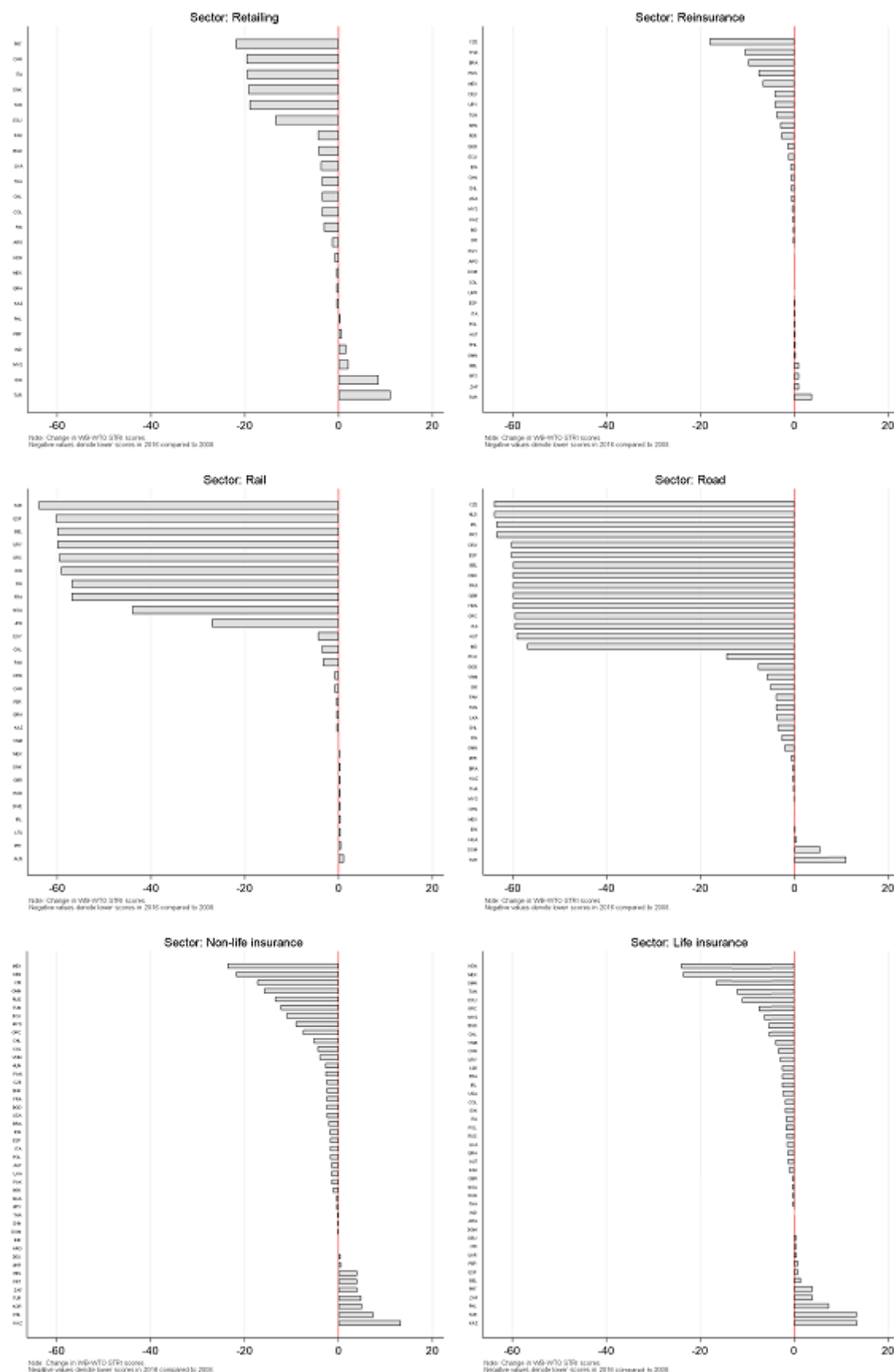
<sup>25</sup> Some generic questions on mode 4 are raised for consistency reasons across all sectors covered by this survey. In principle they will trigger the same responses. Such relevant restrictions may not be part of sector-specific legislation/regulation. However, even if regulation (e.g. immigration legislation) is of a general nature, insofar as it applies to the sector, information was reported accordingly. More detailed questions on mode 4 are included for professional services (licensing, qualifications).

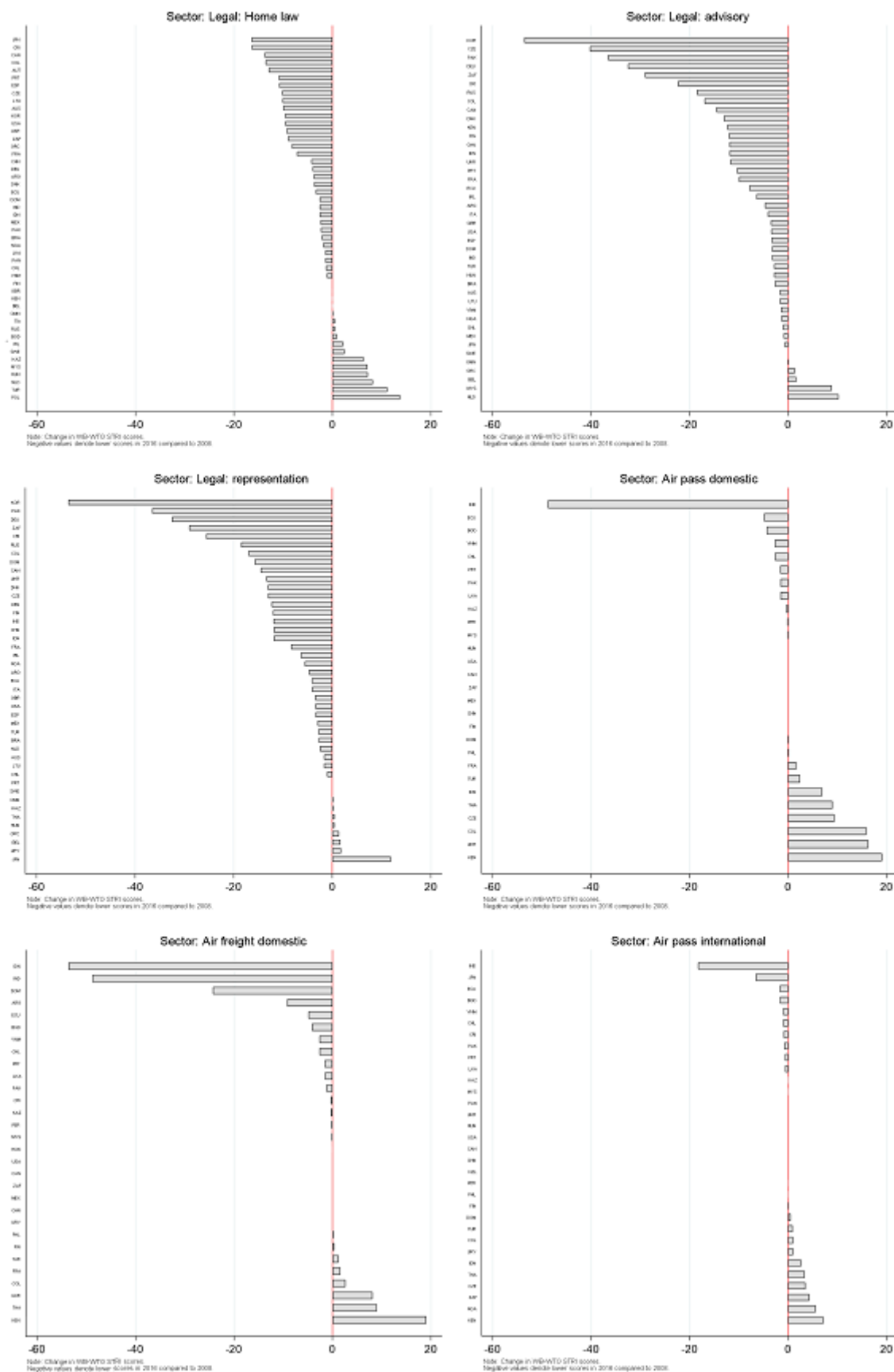
### ANNEX 3: COMPARING THE 2016 STRI FOR ALL THE SECTORS WITH THE STRI FOR THE SUBSET OF SECTORS FOR WHICH DATA WERE COLLECTED IN 2008-11

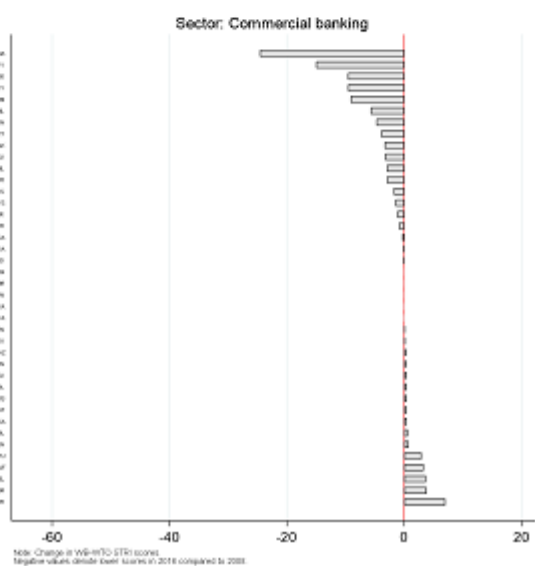
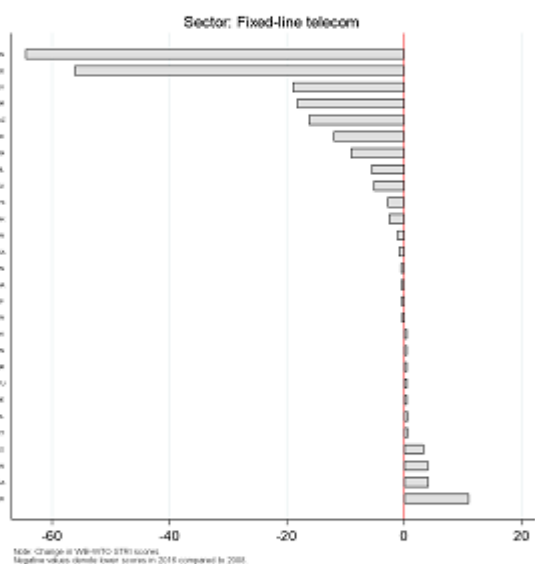
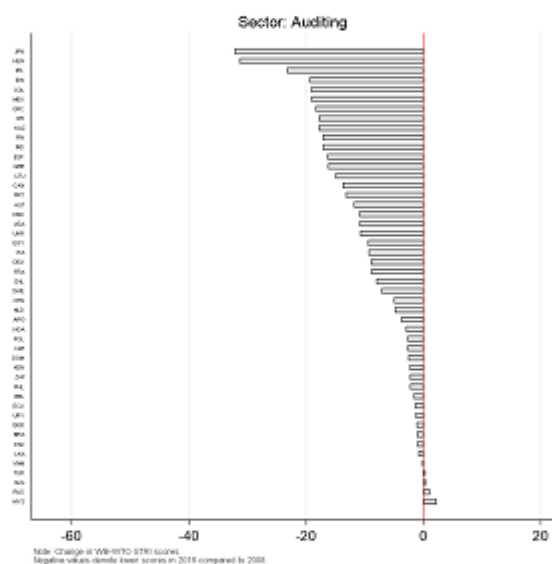
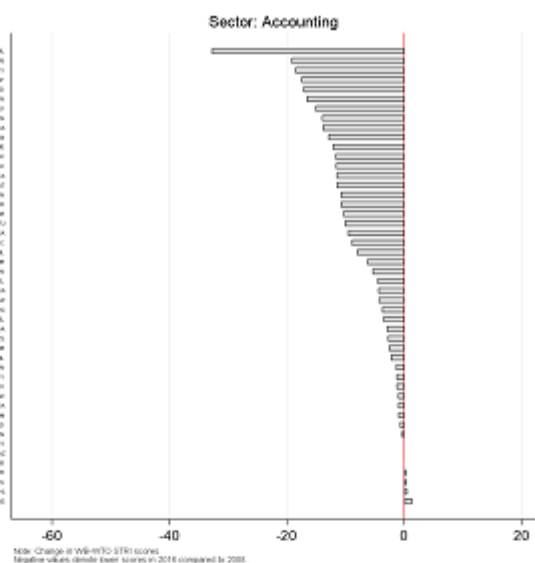
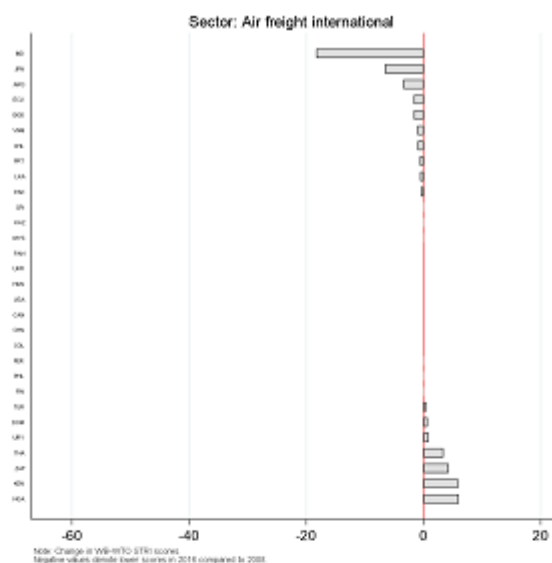
Both sets of scores are aggregated using the same (new) CES methodology described in section 2.3. They differ in the coverage of subsectors (comparable information for maritime services, internet and wholesale distribution is not available in the 2008-11 data set) as well as in broader modal coverage for a number of subsectors (mode 4 is included in all subsectors, whereas previously it was covered only for professional services, and mode 1 is now covered for retail trade services and rail freight transport). The finding illustrated in the chart below is that the overwhelming majority of economy scores lie below the 45-degree line, indicating that the broader sectoral scope of the 2016 scores (vertical axis) generally leads to lower restrictiveness, compared to the comparable 2016 scores (horizontal axis). This difference is mainly a consequence of the inclusion of the wholesale distribution subsector in the 2016 STPD, which effectively doubles the sector weight for distribution in the aggregate score from 20% to 40%. Since service trade policies in the distribution sector are generally more open than in other sectors, the regular 2016 scores encompassing all subsectors (including wholesale distribution) are typically lower.



## ANNEX 4: CHANGES IN SUBSECTOR STRI BETWEEN 2008-11 AND 2016, BY ECONOMY









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