

INDIA FINDS OECD INDEX FOR SERVICES TRADE FAULTY

Relevant for: International Relations | Topic: OECD

India 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 the outcomes are biased and counter-intuitive.

Launched in 2014, the Services Trade Restrictiveness Index (STRI), computed by the OECD, is now available for 2018 for a total of 45 economies (36 OECD and the rest non-OECD) and 22 sectors.

The OECD index has a large number of problems associated with it, including some significant design issues that render it impractical for use, a study commissioned by the Commerce Ministry found.

“For example, the index seems to show the Indian services sector as one of the most restrictive, particularly in policy areas like foreign entry,” the study, reviewed by *The Hindu*, said.

“This seems surprising as since 1991, the one area that has seen maximum liberalisation in India is FDI.”

Liberalisation of FDI

“The Ministry said it seems funny that India’s foreign entry restrictions are being classified as being the most restrictive when we know that since 1991, if anything has been liberalised, it’s foreign investment,” said Manoj Pant, director, Indian Institute of Foreign Trade and the author of the study.

“Initial work suggests that there are both theoretical and empirical inconsistencies in the OECD methodology,” the report added. “For example, change in regulatory measures in one policy area can lead to dramatic changes in the STRI in another policy area which is not very useful for policy purposes.”

“In addition, the data seems to have been generated by rather arbitrary procedures and reflects a developed country bias,” the report concluded.

In order to rectify this, Mr. Pant and his team of econometricians designed a new way of measuring restrictiveness in the services trade that would be more robust and would not have a bias either for developed or developing countries.

Building consensus

India has 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.

“We have currently approached China, Brazil, Indonesia, Turkey, and South Africa,” Mr. Pant said.

“We had also planned on Malaysia, but they have not come.

“The manufacturing trade has a well-documented system of classification of commodities through which you can tell exactly what the commodity is and also what the applied tariffs and effective tariffs are, and, hence, see how restrictive any country’s policies are,” Mr. Pant explained.

The problem in services, he explained, is that for a long time there wasn’t any way to know whether a country’s policies were restrictive. “Even if you could ascertain that, one didn’t know what to do about it since services trade is usually regulated by domestic regulations and not border tariffs.

“There have been surprisingly few attempts at quantifying the restrictiveness of the services trade,” Mr. Pant said.

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