WP/02/138

IMF Working Paper

Liberalization of Trade in Financial Services and Financial Sector Stability
(Analytical Approach)

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INTERNATIONAL MONETARY FUND

 WP/02/138

IMF Working Paper

Office in Geneva

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Authorized for distribution by Grant B. Taplin

August 2002

Abstract

The paper seeks to establish a link between the liberalization of trade in financial services undertaken by countries under the WTO and the stability of their financial systems. The paper concludes that liberalization has generally been conducive to stability because of the mutually reinforcing nature of existing international rules and practices. Financial stability and efficiency, which should be ultimate goals of further liberalization, can be ensured by taking advantage of coherent policy advice and the application of existing multilateral mechanisms—in particular, the WTO negotiations and the IMF/World Bank financial sector assessment program.

JEL Classification Numbers: F4, G2, E42, F44

Keywords: financial services, financial sector stability, trade liberalization

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[1] The author is grateful to R. Adlung, G. Bannister, P. Bartholomew, A-M. Gulde, G.B. Taplin, H.-P. Lankes, P. Madrid, J. Marchetti, D. Siegel, and N. Valckx for their useful comments on the draft, as well as numerous colleagues at the IMF, OECD, World Bank, and WTO for their helpful insights. Any remaining errors are those of the author.

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I. INTRODUCTION

"Si nous ne trouvons pas des choses agréables, nous trouverons du moins des choses nouvelles."

"If we do not find anything pleasant, at least we will find something new."

Voltaire, *Candide ou l'optimisme*, 1759

1. **Financial system stability is a concept lying at the heart of macroeconomic stability.** It implies confidence based on sound fundamentals, in which financial institutions can perform their key functions—domestic and international intermediation, wealth and risk management—without disruption and outside assistance. A stable financial system does not mean a system free of risk, barred from contagion spillovers, and growing evenly, but rather a system equipped with instruments for effective risk management, resilient to contagion, and evolving in line with market fundamentals. Factors affecting the stability of the financial system are numerous, ranging from the overall political situation to the perception of banking risks by individuals. Those factors that are systemically and economically important—soundness of macroeconomic management, level of the economy's structural robustness, and the degree of prudence of government involvement in the financial sector—tend to be subject to government interventions. The traditional means for exerting such control have been mainly domestic, such as the national budgetary process, monetary and exchange rate policies, and prudential supervision and regulation, and have imposed strict and enforceable disciplines on financial market participants.

2. **To date, only one multilaterally agreed, binding, and legally enforceable framework related to the financial sector exists—the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS), which includes financial services as part of its sectoral coverage.** The unfolding development of internationally recognized codes and best practices related to the financial sector, supplemented recently by international surveillance over their observance, through the joint IMF-World Bank Financial Sector Assessment Program (FSAP) has contributed to cross-country coherence by helping promote the implementation of sound financial sector practices in various countries.[2] But to date, the WTO GATS, which sets the rules for international trade in financial services and thus affects the financial sector and its stability, remains the only multilaterally agreed legal framework related to the financial sector.

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[2] More information on FSAP can be found at http://www.imf.org/external/np/fsap/fsap.asp.

3. **The purpose of this paper is to analyze a largely neglected factor affecting financial sector stability—the liberalization of trade in financial services (LTFS) under the WTO.** Within this framework, the paper aims at answering three questions: (i) what is the relationship between the WTO LTFS and such policy areas of concern to the IMF as current account convertibility, capital account liberalization, international codes of best practices, and prudential regulation?; (ii) have there been any economic links between LTFS under the WTO and financial sector stability, in particular exchange rate and banking sector stability?[3]; and (iii) what should be the most practical interface between WTO LTFS and the Fund/Bank FSAP?[4]

4. **The remainder of the paper is organized as follows.** Section II describes the history of the liberalization of trade in financial services and sets out key WTO rules in this area. Section III reviews the coverage of the WTO disciplines and commitments relevant to the financial sector and briefly sets out the boundaries between the WTO LTFS, on one hand, and a number of subjects of particular importance to the Fund, on the other hand. Section IV includes some suggestions on enhancing the methodology of financial sector assessment to incorporate the findings of this study. Section V provides some concluding remarks.

II. A Brief History of WTO-Driven Financial Liberalization

5. The inclusion of services in the framework of multilateral trade negotiations is considered one of the main achievements of the Uruguay Round (1986–94). The recent history of WTO-driven financial liberalization has centered around three milestones: (i) the completion of negotiations on the GATS' framework in December 1993; (ii) the Interim Agreement on Financial Services of July 1995; and (iii) the Fifth Protocol on Financial Services of December 1997.[5] GATS is an integral part of the Uruguay Round agreements, which entered into force on January 1, 1995. All WTO members are bound by it. However, at the end of the Uruguay Round negotiations in 1993, participants were not able to agree on the appropriate level of specific commitments on market access and national treatment in a few services sectors, including financial services.[6] Negotiations on financial services were extended until July 1995.

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[3] This issue is addressed in details in a companion paper "Liberalization of Trade in Financial Services and Financial Sector Stability (Empirical Approach), IMF Working Paper 02/139 (Washington: International Monetary Fund).

[4] This paper may be read in conjunction with the conclusions reached in Valckx (2001), who analyzed WTO commitments in the liberalization of financial services, their determinants, and impact on financial stability.

[5] See Dobson and Jacquet (1998) for a detailed history of GATT/WTO negotiations on financial services.

[6] Negotiations in this area were particularly difficult partly because of lack of experience. Even for most developed countries, this was the first attempt to discuss trade in financial services in a multilateral context.

At that time, members again failed to reach a level of liberalization (in terms of market access and national treatment commitments) that could be applicable to all participants on a MFN basis, and agreed instead on a two-year arrangement, usually referred to as "interim." The underlying problem was the refusal by the United States to accept the level of market access proposed by developing, mainly Asian and Latin American, countries. The United States was concerned that these countries would be "free riders" on the relatively more liberal environment offered and bound by the Unites States, while the U.S. financial services suppliers would not have the same access guarantees to markets of developing countries. Therefore, the United States refused to make commitments on a MFN basis, and instead, undertook a broad MFN exemption, which was only lifted and replaced by a milder version at the end of 1997. The results of the "interim" arrangement were included in the Second Protocol to the GATS, but specific commitments made by individual countries could be modified or removed at the end of 1997, depending on the results achieved during further negotiations that year. In December 1997, WTO members finally agreed on a set of specific commitments on market access and national treatment that would be applicable to all participants on the basis of the MFN principle (Box 1).

6. **Recently, many developing countries have undertaken substantial unilateral liberalization of trade in financial services, outside the WTO, often under IMF-supported and World Bank-supported programs.** The structural adjustments undertaken to overcome the Asian financial crisis in 1997–98 provided for extensive opening to foreign participation in banking and other financial services in Indonesia, Korea, and Thailand. The lowering of foreign ownership thresholds allowed foreign banks to take effective control of ailing domestic financial institutions and facilitate their restructuring, while the lifting of restrictions on the number of branches helped create a level playing field for domestic and foreign financial services providers. Such unilateral market openings, called in WTO parlance "autonomous liberalization," have not been bound in WTO schedules of specific commitments and thus are not recognized, in any meaningful way, in the negotiating process.

7. **A new round of negotiations on services—including financial services—began in 2000.** In the GATS, members agreed to enter into successive rounds of negotiations, beginning not later than five years from the date of entry into force of the WTO agreement (January 1, 1995) and periodically thereafter, with a view to achieving a progressively higher level of liberalization. Such a continuation of the negotiations mandated in the agreement itself is commonly referred to as the "built-in" agenda of the Uruguay Round. Currently, the negotiations are being conducted within the framework of the WTO Council on Trade in Services, with separate negotiating time assigned to each type of service (Box 2). In financial services, the negotiations are at the stage of examining initial proposals advanced by 10 members.

Box 1. WTO Rules on Financial Services at a Glance

A number of WTO documents establishing multilateral rules on trade in financial services are often referred to as Financial Services Agreement (FSA). All its components of the permanent agreement entered into force on March 1, 1999. A total of 102 WTO members have undertaken commitments under the GATS.

General Agreement on Trade in Services (GATS). This is a framework agreement for overall rules on trade in services, including financial services. It specifies:
- *Modes of supply*: (i) cross-border supply, (ii) consumption abroad, (iii) commercial presence, (iv) presence of natural persons.
- *General commitments:* obligations binding across all services sectors, among which: most-favored-nation treatment; transparency; impartiality of domestic regulations; fair business practices; freedom of international payments on current transactions; measures to safeguard the balance of payments.
- *Specific commitments:* obligations binding only on the services sectors explicitly listed in the schedules of commitments. Specific commitments include market access, national treatment, and additional commitments.

Annex to the GATS on Financial Services. Designed in recognition of the need for special treatment of financial services under the GATS.
- *Definitions of financial services:* classification covering insurance and insurance-related services, and banking and financial services other than insurance.
- *Prudential carve-out:* an exemption from GATS designed to ensure that governments can protect their domestic financial system and its participants in the case of need, through the application of prudential standards. It is not meant to be an overriding exception to a members' obligations, as prudential measures should not be used to avoid a members' obligations or commitments.
- *Exemption for government services:* activities of the central banks or other government authorities carrying out monetary or exchange rate policies are excluded from GATS.

Understanding on Commitments in Financial Services. An adjunct to rules on financial services, part of the documents of the Uruguay Round, although not part of the GATS, the Understanding is an optional approach for scheduling commitments on market access, national treatment, and additional commitments. Adopted mainly by developed countries, and a few developing countries (Nigeria) and transition economies (Bulgaria), it forms the basis of their commitments in financial services exceeding obligations under the GATS.
- *Standstills:* commitments in financial services should be at least as liberal as the measures actually applied.
- *Commitments in market access:* in government procurement, cross-border trade in insurance services, commercial presence, transfer of information, temporary entry of personnel, removal of non-discriminatory measures.
- *Commitments in national treatment:* access to public payment and clearing systems and to official funding and refinancing facilities.

Schedules of Specific Commitments. Limitations on specific commitments (market access and national treatment) for each country listed by mode of supply.
- *Hybrid listing by developing countries:* specific commitments are taken only for sectors listed in the schedules (positive list); within each sector, limitations on market access and national treatment listed (negative list).
- *Negative listing by developed countries:* specific commitments are taken for all sectors. Limitations on market access and national treatment explicitly listed in the schedules.

Box 2. Doha Development Agenda: Negotiating Mechanism on Financial Services

General principles applicable to financial services

- *Single undertaking*. The conduct, conclusion, and entry into force of the outcome of all negotiations will be simultaneous for all WTO members. Members may also agree to start implementing specific agreements, once they have been reached, before the end of the round.
- *Transparency*. Participants will conduct the negotiations in a transparent manner, with the view to facilitating effective participation, ensuring benefits for all, and achieving a balanced outcome of the negotiations.
- *Participants*. Negotiations are open to all WTO members, states and separate customs territories currently in the process of accession and for whom an accession working party has been established.
- *Decision-taking*. Only WTO members will take decisions on the outcome of the negotiations.
- *Supervision*. A Trade Negotiations Committee established under the authority of the General Council set negotiating mechanisms and supervises the overall conduct of the negotiations.
- *Timeframe and negotiation schedules*. The round is scheduled to conclude not later than January 1, 2005.

Specific provisions for services negotiations

- *Ultimate objective of further liberalization*—to promote economic growth and development of all trading partners, including developing countries and LDCs.
- *Acknowledgment of progress to date*—to recognize the work already undertaken in the negotiations, initiated in January 2000 under GATS Article XIX, and the large number of proposals on a wide range of sectors and several horizontal issues, as well as on movement of natural persons.
- *Negotiating procedures*—the Guidelines and Procedures for the Negotiations adopted by the Council for Trade in Services, with a view to achieving the objectives of the General Agreement on Trade in Services, as stipulated in the Preamble, Article IV and Article XIX of that Agreement.
- *Deadlines*—for submission of initial requests for specific commitments, June 30, 2002; for initial offers, March 31, 2003.

8. **Financial instability occurs through imbalances in the balance of payments and in domestic institutional developments**. The most recent incidents of significant financial instability have had two dimensions—internal and external. For instance, although domestic macroeconomic problems, and the largely weak and poorly regulated banking system lay at the roots of the Asian financial crisis, the behavior of international investors, who failed to calculate the risks accurately, was responsible—along with some domestic capital holders—for capital flight, which ultimately led to a currency crisis. Therefore, in times of strain, financial instability can be analytically related to five different areas: (i) the current account as a macroeconomic misalignment in the savings-investment balance; (ii) the capital account as an abnormal volatility of financial flows; (iii) domestic regulation, including banking supervision, as their obvious weaknesses impede the efficiency of the response; (iv) weak implementation of codes of best practices; and (v) sharp exchange rate fluctuations and persistent banking problems. Thus, the initial demarcation of boundaries would reveal to what extent the

liberalization of trade in financial services under the WTO has functional and institutional links to each of these four areas.

III. TRADE IN FINANCIAL SERVICES: DEMARCATION OF BOUNDARIES

A. Link to Current Account and Corresponding Obligations

9. **WTO rules do not define a "service" but explicitly exclude monetary and exchange rate policies from its scope and therefore from WTO regulations.**[7] Under the GATS, "trade in services" is defined as the supply of services through four different modes of supply. The GATS specifies that "service" includes any service in any sector, except services supplied in the exercise of governmental authority, i.e., services supplied neither on a commercial basis, nor in competition with one or more other service supplies. A financial service is defined in the Annex on Financial Services as any service of a financial nature offered by a financial service supplier. The Annex clarifies that, in the case of financial services, "activities conducted by a central bank or monetary authority or by any other entity in pursuit of monetary or exchange rate policies" are to be considered as "services supplied in the exercise of governmental authority" and fall therefore outside the scope of the GATS. In turn, a financial service supplier means any natural or juridical person of a WTO member country wishing to supply, or supplying, financial services, excluding public entities. Public entity means a government, a central bank, or a monetary authority, or a private entity performing functions normally performed by a central bank or monetary authority. Monetary and exchange rate policies are excluded from the scope of the GATS because they are considered as services supplied in the exercise of governmental authority, not because they are performed by public entities.

10. **Trade in financial services, as well as in any other service, is a category of the current account in the balance of payments.** Financial services included in the current account framework also mean that trade in financial services is subject to obligations that common WTO/IMF members have to undertake according to the IMF Articles of Agreement. Financial services, which is a category in the current account, should not be confused, as often happens, with financial flows, which are included in the capital and financial account of the balance of payments. Statistically, financial services include only fees and charges associated with financial flows, i.e., the reward for intermediation. For example, deposit-taking between resident and nonresident is an item of the capital account, whereas financial service charges for such transactions (fees for opening an account, commission for converting currencies, etc.) is an item of the current account. Within the WTO framework, only financial services which can be associated, or not associated, with financial flows, but not the financial flows themselves—are the subject of negotiation and liberalization.

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[7] There is no definition of a "service" under the GATS or in any other official WTO document, as after almost three years of unfruitful discussions at the beginning of the Uruguay Round, negotiators decided to leave the term "services" undefined. In fact, the definitions of a "good" or a "merchandise" do not exist in the GATT/WTO either.

11. **Balance of payments compilation rules require that trade in financial services be recorded under two categories of service—insurance services and financial services**. Some of the financial services under the GATS are much broader and include services associated with the financial account item "other investment," in particular, trade credits, loans, currency and deposits. For scheduling specific commitments on financial services, countries used different classifications—the so-called W/120 classification,[8] based on the provisional United Nations Central Product Classification (UN CPC),[9] the classification in the Annex to the GATS on Financial Services, or their national classification of financial services. The correlation between the UN CPC, the most comprehensive of the above classifications, and the *Balance of Payments Manual, fifth edition, 1993 (BOP5)* classification of financial services (Appendix I) shows that the provision of all financial services included in GATS between residents and nonresidents should be included in the current account. However, this does not solve the problem of borderline cases (service plus capital flow), such as lending, which are considered by the GATS as situations in which the cross-border movements of capital are essential parts of the service itself. Footnote 8 to the GATS does not identify what sectors or activities are situations in which the cross-border movement of capital is an essential part of the service itself. It only points to a general condition. Actual BOP statistics on the provision of financial services in most, in particular developing, countries remain weak.[10]

12. **As all financial services are part of the current account, all parties to the GATS cannot maintain at least one type of restriction on international trade in financial services—the restrictions on making payments and transfers on such services.** Article VIII of the IMF Articles of Agreement (the commitment to current account convertibility) is a hallmark of the free and open regime of multilateral trade relations. The obligation under the Fund's Article VIII that "no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions," have been echoed for common members in Article XI of the GATS stipulating that, except for restrictions to safeguard the balance of payments, "members shall not apply restrictions on international transfers and payments for current transactions relating to their specific commitments." Thus,

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[8] Sectoral classification in the "Services Sectoral Classification List" (MTN.GNS/W/120; July 10, 1991).

[9] UN Statistical Papers, Series M, No.77, 1991.

[10] BOP current account entries for services minus travel and government services are at times used as a crude proxy for service trade under mode 1, entry for travel as a proxy for mode 2 and compensation of employees for mode 4. By the very nature of mode 3, provision of financial services through commercial presence is not covered by BOP statistics, as foreign affiliates are normally resident in the host country. A foreign affiliate trade in services (FATS) statistical framework is being designed to record transactions between foreign affiliates and local residents.

GATS applies only to scheduled commitments. Therefore, both Fund Article VIII and GATS Article XI should be binding for all 138 common WTO/IMF members and should be part of the accession commitment for the countries currently seeking accession to WTO membership that are also members of the Fund and have already accepted Fund Article VIII (Appendix II). Also, at least in theory, all GATS members should be expected to have accepted Article VIII obligations by the time of the entry into force of the GATS on January 1, 1995. Nevertheless, obligations under the IMF and the GATS are independent, and the text of the GATS preserves common members' rights to retain restrictions on current account transactions under the transitional arrangements consistent with the Fund's Article XIV.

13. **However, some parties to the GATS continue to maintain restrictions on making payments for current transactions, which may impede trade in financial services.** Consistent with IMF obligations, 22 common WTO/Fund members accepted Fund Article VIII after the GATS entered into force on January 1, 1995, 13 of which promptly moved to current account convertibility during 1995 and six more in 1996, clearly suggesting that WTO commitments were among the factors prompting financial liberalization. Nevertheless, at least three GATS signatories, all systemically important, preserved current account restrictions even longer—Bulgaria until 1998, and Brazil and Korea until 1999. To date, five signatories to the GATS—Albania, Angola, Colombia, Egypt, and Nigeria—have not yet accepted Fund Article VIII obligations and maintain restrictions on current account transactions under the transitional arrangements specified in the Fund's Article XIV. However, GATS Article XI is a "conditional" obligation: it is conditional upon the existence and content of the specific commitments made. The fact that any of these countries included only a sub-sector or left some sub-sectors, such as financial services, unbound for certain modes of supply does not mean that they are infringing their commitments on payments and transfers for current transactions under GATS.

14. **GATS commitments on trade in financial services liberalization have broader coverage than those implied by Fund Article VIII.** All the parties to the GATS that undertook commitments on financial services cannot use restrictions on making payments and transfers for current transactions and thus should comply with Fund Article VIII status. For all but five countries with commitments on financial services under the GATS, restrictions on payments for the current account can no longer be a factor impeding trade in financial services. But countries' obligations under Article VIII have a narrower coverage than those under the GATS, which aims at removing restrictions that discriminate between domestic and foreign providers of financial services. Restrictions on payments and current transfers is just one, and possibly not the most important, type of such restrictions. Other typical restrictions include barriers to market entry—restrictions on volume of financial services, foreign equity participation, type of legal entity, or a resident's right to buy financial services abroad.

B. Link to Capital Account Liberalization

15. **Given the heightened debates on both capital account liberalization (in the IMF) and further liberalization of trade in financial services (in the WTO), a proper conceptual distinction between the two phenomena and their areas of overlap could usefully be established.** This would help distill those aspects of financial services trade that are important

for financial sector stability without influence from capital flows, and those whose impact on stability mainly reflects the influence of underlying capital flows. Recent developments in e-finance based on Internet transactions have created a new international financial environment with greater potential for large-scale and rapid cross-border capital movements. Financial transactions without commercial presence seem to increase the possibility of capital flow reversals, which can cause financial crisis through contagion effect and self-fulfilling behaviors. In terms of the impact of trade in financial services on financial stability, capital flows should be distinguished from international trade in financial services in at least three dimensions: in the *object* being moved internationally; in the *subject* of liberalization; and the legal *commitments* under the WTO system.[11]

16. **Regarding the *object*, capital movements are essentially financial flows, while financial services, as understood in the GATS, are merely a list of services included in the Annex and supplied through technical modes facilitating such flows, which may or may not imply underlying capital movements.** Accordingly, the capital account registers international capital flows between residents and nonresidents, while international trade in financial services, depending on the delivery mode, can be recorded elsewhere in the balance of payments. A simple example illustrates the point.[12] A loan extended by a domestic bank to a domestic client using locally raised capital creates neither international trade in financial services, nor international capital flow. A loan extended by a foreign bank to a local customer using only locally raised capital creates international trade in financial services without any international capital flow. A loan extended by a domestic bank to a local customer using internationally raised capital creates international capital flow without international trade in financial services. Finally, a loan extended by a domestic bank to a foreign customer using internationally raised capital creates international capital flows and international trade in financial services. To the extent that a financial service transaction involves an international capital transaction, the capital account needs to be opened for the former to take place freely.

17. **Regarding the *subject* of liberalization talks, there is a clear distinction between the purpose of liberalization of trade in financial services and opening of the capital account.** The purpose of the GATS is to increase market access, remove discrimination, and enhance financial market opening to foreign competition.[13] The purpose of capital account liberalization is to raise domestic investment, facilitate the international flow of savings, and ultimately a

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[11] Tamirisa et al. (1999) provides a typology of financial services depending on their link to underlying capital movements, and Sorsa (1997) provides a useful discussion on the difference.

[12] See World Bank (2000) for details.

[13] GATS Article XVI goes even further: its market access provisions apply to both—domestic and foreign-owned service suppliers. Relaxing some of the restrictions mentioned in that Article, such as on the type of juridical person or on the number of financial service suppliers, benefits both domestically and foreign owned financial suppliers.

better resource allocation for fostering sustainable long-term growth. Liberal competition policies in the financial sector are only one part of the complex process of capital account liberalization, the others being a combination of actual opening of capital account (lifting restrictions on non-residents buying domestic equity shares, elimination of repatriation requirements, etc.) with supporting monetary policies (i.e., the introduction of standing facilities, indirect monetary policy instruments, or best risk management standards), and macroeconomic policies (fiscal policy aimed at medium-term stability, with possible short-run stimulus, firm adherence to inflation targeting, financial deregulation etc.). As the opening up of financial markets is a complex and challenging process that can involve significant risks by exposing countries to financial volatility and sudden reversals in capital flows, liberal competition policies in the financial sector, promoted through the WTO, should be seen as nothing more than just a technical—and fairly narrow—framework, which would help ensure a relatively level and transparent playing field for local and foreign financial sector participants.

18. **The overlap between the liberalization of trade in financial services and of the capital account is also important.** The fact of overlap needs to be recognized and requires implementation of carefully designed policies over a wide range of areas, outside and in addition to the four technical modes of trade in financial services, in particular the soundness of macroeconomic policies and a sufficiently strong and robust institutional framework. The importance of capital flows for trade in financial services critically depends on the modes of supply. An assessment using the list of activities set out in the Annex on Financial Services to the GATS (Table 1) suggests the major importance of capital flows for virtually all financial services delivered through mode 3 (commercial presence), as such presence by its nature implies some form of underlying cross-border investment. In contrast, mode 4 (provision of financial services through the presence of natural persons) largely mirrors commercial presence, as it requires little or no capital flows. It is either closely linked to mode 3 (senior personnel coming to manage the establishment of an affiliate) and thus requires no capital movements as happens under mode 3, or requires no capital transfers at all because of the nature of the business (negotiators going to business talks or intra-corporate transferees rotating in-between the headquarters and the affiliates).

19. **The provision of some forms of financial services (acceptance of deposits, lending, leasing, etc.) simply is not possible through the presence of natural persons, without the underlying commercial presence.** The importance of capital flows in modes 1 and 2 is more blurred, mainly due to uncertain distinctions between the modes. Mode 1 potential for capital movements, however, should not be underestimated and this is what probably explains the cautious approach of many countries to openings through that mode of supply. It seems, however, that capital flows are more important for all kinds of banking than for insurance services. Thus, opening the capital account and opening the financial services sector to foreign competition, although distinct issues, should be considered in parallel. At least for some modes of delivery of financial services, taking steps toward liberalization might be impeded by the relevant capital account restriction. Moreover, as financial trade liberalization increases as ever more new foreign institutions enter the domestic financial market, and the natural selection strengthens the domestic financial institutions, pressures for a more ambitious capital account liberalization will inevitably increase.

Table 1. Significance of Capital Flows for Financial Services Supply[14]

	Mode 1 Cross-border Supply		**Mode 2 Consumption Abroad**		**Mode 3 Commercial Presence**		**Mode 4 Presence of Natural Persons**	
	Minor	**Major**	**Minor**	**Major**	**Minor**	**Major**	**Minor**	**Major**
Insurance and insurance-related services								
Direct insurance (including co-insurance):								
life		x	x			x	x	
non-life	x		x			x	x	
Reinsurance and retrocession	x		x			x	x	
Insurance intermediation, such as brokerage and agency;	x		x		x		x	
Auxiliary insurance services (consultancy, actuarial, risk assessment and claim settlement)	x		x		x		x	
Banking and other financial services (excluding insurance)								
Acceptance of deposits		x		x	x			
Lending (including consumer credit, mortgage, factoring and financing)		x		x	x			
Financial leasing	x			x	x			
Payments and money transmission (including credit cards, travelers cheques and bankers drafts)		x		x	x			
Guarantees and commitments		x	x	x	x			
Securities trading								
money market instruments		x		x	x		x	
foreign exchange		x		x		x	x	
derivative		x		x	x		x	
exchange rate and interest rate instruments		x		x		x	x	
transferable securities		x		x	x		x	
other negotiable instruments		x		x	x		x	
Securities issuance and underwriting		x	x			x		
Money broking		x	x		x			
Asset management (including pension fund management, custodial, depository and trust services)		x				x	x	
Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments		x			x			
Provision and transfer of financial information	x	x			x		x	
Advisory, intermediation and other auxiliary financial services	x					x	x	

[14] The table represents the author's own assessment of the potential significance of capital flows for different types of financial services trade and is not based on any official IMF or WTO source. Trade in financial services has no direct capital account implications if it represents domestic financial intermediation (i.e. the instruments themselves are funded locally). In the context of mode 3 services, in particular, both foreign and domestic funding may often be feasible.

20. **In terms of existing legal *commitments*, GATS' link to capital account liberalization is very weak, which can be considered both as its architectural achievement and its limitation.** On the one hand, the final phase of financial services negotiations in 1997 was taking place against the background of the unfolding Asian financial crisis. Thus, the conclusion of the Fifth Protocol could be achieved primarily because at GATS negotiations the issue of capital account liberalization was largely excluded from its scope. On the other hand, capital movements are important for providing retail financial services, even though the ongoing revolution in information technology facilitates cross-border trade. In GATS, the only mention of capital flows is in footnote 8 to Article XVI: "if a WTO member undertakes a market access commitment in relation to the supply of a service through cross-border supply and if the cross-border movement of capital is an essential part of the service itself, that member is thereby committed to allow such movement of capital; if a member undertakes a market access commitment in relation to the supply of a service through the commercial presence, it is thereby committed to allow related transfers of capital into its territory." Thus, GATS regulates capital flows only in relation to modes 1 and 3; there is no clarification as to what constitutes "essential part of the service" or "related transfers of capital." Furthermore, GATS requires neither capital account liberalization for modes 2 and 4, nor liberalization of capital outflows under mode 3.

21. **Thus, the commitments under the GATS, by their design, should make countries more resilient to financial sector instability transmitted through the capital account channel.** Four key arguments support this conclusion:

- *Flexibility*. The GATS and its provisions on financial services leave the timing and the extent of capital account liberalization largely to the discretion of each country, thereby allowing them the flexibility to select the degree of capital account liberalization across different modes, sectors, and time and to tailor financial reforms accordingly. Under the rules, even countries with weak financial systems, where a fully fledged financial sector liberalization is clearly premature, can still open up certain types of financial services trade to international competition. Such partial openings should strengthen their financial system without provoking destabilizing capital flows.

- *Selectivity*. The liberalization of trade in financial services does not necessarily coexist with the liberalization of the capital account. While international trade in some services requires capital account opening, many others do not, which allows a country to preserve a degree of control over its capital account in the sectors, modes, and time periods most important for financial stability. The liberalization of trade in financial services promotes a selective use of a broad spectrum of financial instruments with the view to allow the presence of foreign financial institutions without unduly restricting their business practices, results in less distorted and less volatile capital flows, and promotes financial sector stability.

- *Complementarity*. Capital account liberalization, adequately calibrated and sequenced by each country, is desirable in the long run as a means of promoting investment and growth, and helping to build confidence and ultimately foster financial stability. However, it is not crucial for short-term improvements in market access in financial services, which improves financial stability through a different channel—multilateral binding of commitments, their irreversibility, and transparency.

- *Safeguards.* Under GATS Article XI:2, a member cannot impose restrictions on any capital transactions inconsistently with its specific commitments regarding such transactions. Under footnote 8, however, this broad commitment seems to be restricted to only inward and outward capital flows associated with mode 1 and inward capital flows associated with mode 3. Additional safety valves include: (a) the right to impose restrictions to safeguard the balance of payments "in the event of serious balance of payments and external financial difficulties and threat thereof," which can be interpreted broadly (Article XI); (b) the right to use "exchange actions, which are in conformity with the Fund's Articles of Agreement" (capital controls are authorized under Fund's Article VI, Section 3); (c) the right to impose restrictions "at the request of the Fund" (Article XI:2, mainly to prevent the use of Fund general resources for capital transfers); (d) the right to apply the prudential carve-out clause (Annex on Financial Services to GATS, Article 2:a).

C. Link to Prudential and Other Domestic Regulations

22. **Under the existing GATS framework, prudential measures in place, or those that might be taken by domestic regulators, are separate from a country's multilateral obligations.** The Annex on Financial Services explicitly allows governments to take measures for prudential reasons, including measures to ensure the integrity and stability of the financial system, notwithstanding their obligations under the GATS. Such measures can be taken for the protection of investors, depositors, policy holders or persons to whom a fiduciary duty is owed by the financial service supplier. Thus, by design, prudential measures are left completely outside the scope of the financial sector commitments under GATS, they do not need to be scheduled or notified to other members as measures capable of affecting market access and national treatment, and their application is not considered as a violation of liberalization commitments. Moreover, according to the Annex on Financial Services, whenever prudential measures do not conform to a member's obligations, they "shall" not be used as a means of avoiding the member's commitments or obligations under GATS. Thus, GATS implicitly recognizes that prudential measures may not conform to its provisions and that they can be used eventually as a means of avoiding its commitments and obligations. Clearly, prudential measures have the potential to be applied disproportionately to the problem they try to solve and become a trade-distorting measure in financial services. However, any measures can be challenged by other members under the dispute settlement mechanism, if they are considered to be merely disguising limitations to market access or national treatment.

23. **Polarization of WTO members' views on the role of prudential measures in GATS is pronounced.** There is no agreement among WTO members on the definition of prudential measures and what constitutes an optimal level of prudential regulation. Some developed countries propose to initiate work on a more precise definition of the exceptions from GATS that can be invoked in relation to prudential regulation. In their view, a clearer definition would help to improve transparency of the financial system for users and operators; this, in turn, would have a positive impact on its stability. At the same time, they recognize that the liberalization of

trade in financial services needs to be accompanied by solid prudential regulations and supervision to ensure confidence in the financial system and its smooth functioning. To achieve this, countries should have plenty of room for maneuver and flexibility. Many developing countries consider that: any prudential measures, even if discriminatory, should be allowed to protect a country's financial integrity; although domestic regulation should be vigorous and efficient, the right of members to take both prudential and non-prudential regulatory measures to ensure the stability and integrity of the financial system should be preserved; and each country should have the freedom to set the scope of prudential measures itself. In their view, the prudential carve-out clause should be left as is and outside the scope of any negotiations on further liberalization of trade in financial services. Overall, with regard to measures taken for prudential reasons based on paragraph 2 of the GATS Annex on Financial Services, member countries should seek to harmonize the necessary measures they take as members of other international institutions (BIS, IMF, World Bank), which have more expertise and technical skills in this field, rather than to try to seek such harmonization in WTO negotiations.

24. **Liberalization of trade in financial services should not be confused or equated with their deregulation**. Quite the opposite, liberalization calls for a strict framework to protect consumers, preserve financial stability, and manage systemic risks. Financial services are a heterogeneous group with a common thread—all of them are subject to widespread government regulation. GATS explicitly recognizes the right of governments to regulate and to introduce new regulations on the supply of services in order to meet policy objectives. Moreover, it acknowledges that, because of disparities in services regulations broadly between developed and developing countries, developing countries have a particular need to exercise the right to regulate trade in financial services.

25. **Domestic regulations should not be used for protectionist purposes**. Following GATS Article VI.4, some WTO members suggest further development of the concept of "necessity" of a domestically taken measure, which would help assess the degree of trade-restrictiveness of a regulatory measure, without questioning its validity, rationale or policy objective. A measure is deemed necessary if it is not disproportionate to the objective stated and pursued. In assessing the proportionality of the measure, a number of factors need to be taken into account, such as the technical and economic context, including the level of development, the specific nature of the sector in which the measure is used, and also of the risks that non-application of the measure would present. The concept of "proportionality" has been mentioned by some members, but as such is alien to the GATS. The fact that some countries impose stricter measures than others does not mean that such measures are disproportionate, as well as measures taken by one member that set stricter requirements than international standards should not, in principle, be considered disproportionate

26. **Although mandated by GATS at large, transparency has a special meaning with regard to financial sector.** In most regional trade agreements that regulate trade in services, transparency is a horizontal requirement, which applies to all types of services. However, specific sectors, especially financial services and telecommunications, may have additional transparency requirements agreed by members. Most of the transparency requirements specific to the financial services sector (Box 3) require: advance notice to partners of any new measure

Box 3. Selected Regional Trade Agreements: Transparency Requirements in Financial Services Regulations

North American Free Trade Agreement (NAFTA). Chapter Fourteen (Financial Services), Article 1411 (Transparency)

- Each Party willing to take a new measure in the financial sector should provide advance notice to other Parties by means of official publication, in other written form, or in such other form as permits an interested person to make informed comments on the proposed measure.
- Each Party's regulatory authorities should make available to interested persons the requirements for completing applications relating to the provision of financial services.
- The regulatory authority should keep informed an applicant of the status of its application. If such authority requires additional information from the applicant, it shall notify the applicant without undue delay.
- A regulatory authority shall make an administrative decision on a completed application of an investor in a financial institution, a financial institution or a cross-border financial service provider of another Party relating to the provision of a financial service within 120 days, and shall promptly notify the applicant of the decision.
- Nothing in this Chapter requires a Party to furnish or allow access to information related to the financial affairs and accounts of individual customers of financial institutions or cross-border financial service providers.

Economic Partnership Agreement between the EU and Mexico. Chapter III (Financial Services), Article 20 (effective and transparent regulation)

- Each Party should make its best endeavor to provide in advance to all interested persons by means of an official publication or in any other written or electronic form, any measure of general application that the Party proposes to adopt to allow an opportunity for such persons to comment on the measure.
- Each Party's financial authorities should make available to interested persons its requirements for completing applications relating to the supply of financial services. The authorities should inform the applicant on the status of its application.
- Each party should make best endeavor to ensure that the Basle Committee's Core Principles for Effective Banking Supervision, the IAIS Standards for Insurance Supervisions, and the IOSC "Objectives and Principles of Securities Regulation" are implemented and applied.

Free Trade Agreement between Mexico, Colombia, and Venezuela. Chapter XII (Financial Services), Article 12-10 (Financial services)

- Each Party should ensure that any measures on financial services are published officially.
- The regulatory authorities of each Party should make the regulatory requirements available at the request of the applicants.
- On the request of the applicants, the regulatory authorities should report on the status of the application.
- The regulatory authorities of each Party should adopt, within 120 days, an administrative resolution with regard to a complete request for investment in a financial institution or for a lender of financial cross-border services of another Party.

to be adopted; the possibility of seeking comments from partners on forthcoming measures; obliging partners to make public information on any new measure in a timely manner; compelling the financial regulatory authorities to respond to applicants wishing to set up new financial services outlets on the status of their applications; and processing such applications within a reasonable timeframe.

D. Link to International Standards and Best Practices

27. GATS functions alongside numerous internationally accepted standards and best practices, which have financial sector stability—explicitly or implicitly—as one of their ultimate goals. Conceptually, both the scheduled commitments under GATS and best practices serve the same objective—to ensure an effective and undistorted market framework for financial sector participants. Nevertheless, GATS and the codes of best practices are different in nature. GATS is a multilateral legally binding agreement, while the internationally accepted standards and practices are largely recommendations of best practices endorsed by governing bodies of relevant international institutions. GATS cannot be considered a code of best international practices in trade in financial services, as it was an outcome of protracted multilateral negotiations designated to distill those practices, which are mutually acceptable, but not necessarily best, applicable in a practical manner, and deemed economically non-distortive. The codes are intended to serve as lists of best practices and guiding rules known at the current stage of development. Further differences are set out in Table 2.

28. **Regardless of their inherent differences, GATS and codes of best practices have an important common feature—they are all internationally harmonized measures.** Although strictly legally speaking, there is no "harmonization" of rules under the GATS and the only principle of general and unconditional application is MFN, GATS achieved de-facto harmonization of rules on trade in financial services, while codes harmonized domestic practices. When appropriate and feasible, reliance on internationally harmonized measures in both forms—establishing trade rules and best domestic practices—as the basis for both domestic regulation and trade, seems to be a promising way to achieve forward-looking regulatory cooperation. In addition to supporting existing trade flows, such harmonization would help avoid the problem of discrimination against third countries. The harmonized application of internationally acceptable standards and trading on internationally agreed rules would obviate concerns that the harmonized practices may be discriminatory for countries following these rules and practices, and could prompt those who do not, to start using them as soon as feasible.

29. The GATS imposes no obligations on members to adhere to any international standards, codes, principles, or practices, which nevertheless are important for further multilateral rule-making. GATS allows members to negotiate additional commitments affecting trade in services not subject to scheduling under the specific commitments on market access and national treatment. Thus, the whole spectrum of possibilities is open for the interface between best practices and the binding commitments under the GATS—from a full divergence between the two on legal and procedural grounds to the recognition of their complementarity and inevitable

mutual influence and usefulness. WTO negotiations should not try to replicate the competencies of standard-setting bodies, but rather have best practices in mind in striking an appropriate balance between what is desirable in principle and what is feasible in practice as bound multilateral commitments. From the point of view of their contribution to financial sector stability, in an optimal case, the multilaterally bound commitments in financial services could be supplemented by unilaterally adopted best practices in key financial areas.

Table 2. The GATS and Internationally Agreed Standards and Codes: Parallels, Similarities, and Divergence

	GATS provisions on financial services	**Internationally agreed principles** 1/
Implementation	Implementation obligatory, obligations binding	Implementation voluntary, obligations non-binding
Entry into force	Should be ratified and incorporated into national legislation	Can be incorporated into national legislation or introduced by executive orders
Build-up process	Negotiations and a multilateral compromise	Accumulation through research, exchange of experience and international review
Dis-aggregation level	By sectors and modes of supply	By sectors, on an aggregate level
Degree of flexibility	Rigid, although subject to interpretation.	Flexible and flexible interpretation possible
Means of updating	Updating through mandated multilateral negotiations	By endorsement of the top executive/representative body of the respective agency
Monitoring of implementation	Notifications, questions and answers process	IMF/World Bank Financial Sector Assessment Program, respective institutions
Enforcement	Bilateral consultations, dispute settlement mechanism	Self-assessment and its disclosure; publishing lists of countries adhering to principles.

1/ The BCBS Core Principles for Effective Banking Supervision, IOSC Objective and Principles of Securities Regulations, and IAIS Insurance Core Principles.

IV. ENHANCING THE FSAP FRAMEWORK?

30. **The FSAP is still relatively new and is built on analytical techniques, tools, and methodologies which are evolving as all parties involved learn from experience.** Consequently, while the program's central focus on strengthening financial systems will not change, its precise modalities and implementation will continue to be refined and improved over time. This section discusses the suggestion to further enhance the FSAP framework and weighs arguments for and against this approach.

31. **Enhancement of the FSAP methodology to include macroeconomically important features of GATS may be useful for achieving the ultimate objective of improving the stability of the financial system.** The liberalization commitments safeguarded and enforced through multilateral agreements are an important anchoring element making the market access aspect of the financial system predictable, resilient to unanticipated changes, and therefore more stable. Additional commitments that may arise from the ongoing negotiations on further liberalization of trade in financial services, while aiming at more openness, should have the paramount feature of promoting financial stability. In this respect, at least three enhancements to the FSAP methodology could be considered:

- Monitoring the evolution of scores of financial sector liberalization commitments (FSLC) as a dynamic indicator of the degree of financial service sector openness, using the GATS commitment as a benchmark.

- Complement the aggregate stress testing of the financial system by the shock caused by the deviation of a country from one or a number of GATS commitments by assessing the impact of the shock on domestic financial stability and its proliferation to other countries.

- Introduce into FSAP, in cooperation with the WTO, a module assessing a country's compliance with the GATS commitments and thus extend the assessment of observance beyond codes of good practices to an internationally binding agreement of direct relevance to financial sector stability.

32. **Countries' FSLC scores may be used to complement the trade restrictiveness index calculated by the Fund and included in the list of selected financial indicators in FSAP**. The scoring system presented here broadly follows that of Mattoo (2000), as developed further by Valckx (2002). Scores range from 0 if there is no mention of particular measures in the schedules, so the level of liberalization of market entry is practically unknown, and is subject to discretionary measures and incomparable to other countries, to 1, if the schedules commit to no limits on market access in a particular mode. The FSLC scores can be calculated periodically, with GATS commitments used as a starting point, for monitoring the evolution of the liberalization of trade in financial services in the future (Appendix III). This can be an additional aggregated indicator of a country's progress towards more trade openness as applied to their financial sectors. Clearly, although intended as an aggregated measurement of the financial sector openness to trade, the scores cannot incorporate all aspects of the financial services regime and its evolution through time. Particularly difficult and ultimately judgmental

will be the scoring of shifts in modes 1 and 2 and the movements under other financial services in each of the modes. Evolution of the FSLC scores can also be a useful device for future analysis of roots of financial sector vulnerability.

33. **Stress testing of the financial system performed within the GATS framework can be complemented by the analysis of a stress stemming from a hypothetical deviation by a country from one or a number of key GATS commitments.** This would be an aggregate stress for the financial system as a whole and, in the case of large countries, for the financial system of their trading partners, and would therefore be close to the scenario analysis routinely performed at the Fund. As the GATS commitments are binding on the participating countries and thus provide a degree of confidence in the stability and the predictability of the trading and other operational environments, any change in the level of market access would represent a specific stress, whose repercussions and spillover effects should be predicted, or at least assessed in a timely manner. Such an approach would enhance the FSAP stress testing methodology focusing now on the predominantly aggregate and individual reaction of financial institutions of a country to a particular stress coming from market, credit or other risk, and also to the financial system as a whole, including its interface with the systems of main trading partners. This would allow the capture of some of the contagion dimensions of any financial instability and the foresight of its geographical proliferation. Aggregated stress testing would be facilitated by the overlapping of the stress-provoking risks used in the current stress-testing toolkit with the GATS commitment structure. Deviations from commitments in banking services can be used to test credit and liquidity risks, deviation from commitments on securities services can be used to test equity and commodity price risk; deviation in commitments on securities services can be used to test market risks arising from movements in market prices.[15]

34. **The FSAP assessment of observance of codes of good practices could be potentially complemented by a module assessing a country's compliance with its commitments under GATS.** From the Fund's prospective, such an assessment could focus primarily on commitments of macroeconomic and operational importance, those where non-adherence to the multilateral disciplines could ultimately impact on the country's macroeconomic performance. As in the case of the current assessments of the standards set by other institutions,[16] assessment of the GATS could focus on compliance with the commitments of operational importance to the Fund (Appendix IV). In addition to standard GATS provisions for countries with commitments in financial trade liberalization and the systemic importance of such trade for financial sector

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[15] See Blaschke et al (2001) for an overview of stress-testing methodologies used in the FSAP.

[16] Code of Good Practices on Transparency in Monetary and Financial Policies (IMF), Core Principles for Systematically Important Payment System (Committee on Payments and Settlement Systems of the BIS); Core Principles of Effective Banking Supervision (the Basle Committee on Banking Supervision, BCBS), Insurance Supervisory Principles (the International Association of Insurance Supervisors, IAIS), Objectives and Principles of Securities regulations (the International Organization of Securities Commissions, IOSCO).

stability, the observance assessment should take into account the provisions set out in the Understanding of Commitments in Financial Services. Some of the GATS commitments are practically the same and cross-referenced with the Fund's Articles of Agreement, which in itself should prompt the Fund to check their observance by common members. These commitments include no restrictions on current payments and transfers, the possibility of using capital account restrictions, and restrictions to safeguard the balance of payments. Some other GATS commitments are very close to those set out in codes of best practices—national treatment, transparency, recognition of credentials, while the rest are FSA/GATS/WTO specific—MFN treatment, domestic regulations, prudential carve-out clause, exemptions for government procurement and government services. Finally, all specific commitments on market access in financial services should become an integral part of the Fund's strengthened surveillance of members' trade policies, aimed at helping to promote international efforts to open markets, as called for by the fall 2001 meeting of the International Monetary and Financial Committee.

35. **The idea of enhancing the FSAP framework can be challenged on the grounds that its practical outcome is not obvious.** GATS commitments in the financial sector do not reflect the actual openness of the financial system in a particular country, and their implications for financial stability are very broad and long-term in nature. In many cases GATS commitments are more restrictive than the policies actually applied by countries. Moreover, the policies themselves may not reflect the actual contestability of domestic financial markets by foreign providers, or the actual provision of financial services by foreign providers in domestic markets. Thus, indicators of the financial services commitments of countries under the GATS may be of limited use for the FSAP.

36. **On more technical grounds, the opponents consider that there is not sufficiently strong evidence to support the proposals for enhancing FSAP for the following reasons**:

- The FSAP reports typically analyze market competition issues and their affects on stability. Thus, a formal assessment of adherence to the GATS does not seem necessary, would be costly, and may be polemical. The incremental benefit from such a formal assessment on financial stability versus the likely resource costs is not that apparent.

- The econometric results show that the direct impact of the commitment is not that strong, suggesting that banking and exchange rate stability are influenced more by other factors and the need for another module is not evident, unless the direct linkages between GATS and financial stability could be more clearly shown.

- Furthermore, from a practical point of view, deviations from GATS commitments do not seem to have played a large part in episodes of financial instability—but this area needs to be explored more formally through case studies or econometric analysis. The difficulty in assessing its direct impact on financial stability would also argue against the inclusion of this variable in stress tests.

- Doing an assessment of the GATS commitments alone may not be acceptable to some countries and could weaken the acceptance of the FSAP, which is voluntary. A country that submits to an GATS assessment risks being pressured on its commitments to financial services liberalization without receiving any potential compensating benefits (e.g., from an assessment of its trading partners on their implementation of their GATS commitments).

V. Conclusions

37. **Binding an achieved level of liberalization of the financial sector into international agreements is an important determinant, albeit one neglected until now, of financial sector stability**. The WTO framework provides secure and transparent rules for liberalizing trade in financial services trade that contribute to stability. The recent financial crises have highlighted the need to strengthen financial systems, the main cause of such crises. The challenge of how to do it—by closing them in an attempt to fend off external contagion or, on the contrary, by making them more open according to internationally agreed and binding rules—seems to have been settled. Measures exemplified by the GATS suggest that foreign participation with fair competition in financial services is a key ingredient in building a reliable and durable financial system. This in turn builds confidence, fosters growth, and is therefore crucial for stability. The guiding principle is progressive, cautious, thoughtful, and adequately sequenced liberalization, not total liberalization overnight. The criterion for the evaluation of its success at each phase is the degree of stability of the domestic financial system. As there are no particular indicators that could help rank countries on a single scale in terms of their financial openness and corresponding financial stability, both would inevitably be based on a judgment about the impact of liberalization on the integrity and stability of the financial system.

38. **Liberalization of trade in financial services evolving in a complex web of other liberalization efforts, is conducive to financial stability, owing to their mutually reinforcing nature.** Under both IMF and WTO rules, trade in financial services, as part of the current account, cannot be subject to any restrictions on payments and transfers for current account transactions. Liberalization of trade in financial services is legally de-linked from the capital account, the main window for international proliferation of financial instability and contagion, although, in practice, provision of some financial services is impossible without the underlying financial movements. GATS allows the taking of any prudential measures, even without the scope being identified, to protect the stability and integrity of domestic financial systems, and the introduction of domestic regulations on the supply of services in order to meet policy objectives. More demanding transparency requirements for the financial sector could be an additional element ensuring its stability. Finally, the emerging trend in financial services negotiations toward closer consistency of future liberalization commitments with the internationally acceptable codes of best practices would also be conducive to financial stability.

39. **Much work still needs to be done to distill the lessons of the past WTO-driven financial liberalization and its impact on financial stability.** Clearly, it would be worth supplementing the econometric analysis with some case studies or examples that elucidate more clearly the link between the openness of an economy to the foreign provision of financial services and the performance or stability of the financial sector. Additional discussion is needed of the various benefits of trade liberalization in financial services Although greater trade liberalization can affect financial stability, it is not clear that financial stability is the sole

objective of the process. Efficiency measured at the firm, industry, and market levels can be an objective as well, and, often there are trade-offs between stability and efficiency. The enhancement of FSAP to capture the results of liberalization under the GATS is not the only way to explore synergies between the two processes. It could be acceptable to make an assessment of GATS-compliance on financial services part of an overall WTO assessment within the context of the Article IV process, which is on a 12 or 24-month cycle for the entire IMF membership. Finally, the empirical work should be improved and enhanced, including by testing additional variables that are most important for the practical analysis, such as different definitions of openness, exchange rate arrangements, and banking crisis.

40. **Future efforts in the liberalization of trade in financial services should be undertaken coherently by all stakeholders with the ultimate goal of ensuring financial stability.** The Fourth WTO Ministerial Conference held in Doha (Qatar) on November 9–14, 2001, launched an ambitious new round of global trade negotiations, opening the door to an updating and reinforcing of multilateral trade rules, and aiming at further liberalization of trade covering effectively the whole spectrum of tradable goods and services, including financial services. But the WTO is not the only, nor invariably the most effective, forum for discussion of market opening in financial services. Historically, financial reforms, including opening up to foreign competition, have taken place through a combination of several factors—market forces, bilateral diplomacy, multilateral policy advice and conditionality, and regional cooperative commitments. A number of international agencies are involved also in work on the financial sector—notably the IMF, World Bank, OECD, WTO—and have multilaterally agreed instruments to promote their policy advice. In particular, the interface between the unfolding WTO negotiations on financial services and the Fund/Bank FSAP program would contribute, through cross-fertilization of experiences, to ensuring coherence between further liberalization of trade in financial services and financial sector stability.

Table A.1. IMF Balance of Payments (BoP) Statistics and UN Central Product Classification (CPC): Correspondence Table on Financial Services

Insurance services (BoP codes 254–258)		
CPC Code version 1.0	**Item title**	**Components**
BOP Code 254 : Life insurance and pension funding		
71311	Life insurance and individual pension services	Life insurance services
71312	Group pension services	Pension and annuity services
71531	Portfolio management services	Portfolio management services
BOP Code 255 : Freight insurance		
71333	Freight insurance services	Freight insurance services
BOP Code 256 : Other direct insurance		
71320	Accident and health insurance services	Accident and health insurance services
71331	Motor vehicle insurance services	Motor vehicle insurance services
71332	Marine, aviation, and other transport insurance services	Marine, aviation and other transport insurance services
71334	Other property insurance services	Fire and other property damage insurance services
71335	General liability insurance services	General liability insurance services
71336	Credit and surety insurance services	Credit and surety insurance services
71339	Other non-life insurance services	Pecuniary loss insurance services
71339	Other non-life insurance services	Other insurance services n.e.c.
71531*	Portfolio management services	Portfolio management services
BOP Code 257 : Reinsurance		
71410	Life reinsurance services	Life insurance services
71420	Accident and health reinsurance services	Other insurance services n.e.c.
71430	Other non-life reinsurance services	Mother vehicle insurance services
		Marine, aviation and other transport insurance services
		Freight insurance services
		Fire and other property damage insurance services
		Pecuniary loss insurance services
		General liability insurance services
		Other insurance services n.e.c.
BOP Code 258 : Insurance services, auxiliary services		
71610	Insurance brokerage and agency services	Insurance broking and agency services
71620	Insurance claims adjustment services	Average and loss adjustment services
71630	Actuarial services	Actuarial services
71690	Other services auxiliary to insurance and pensions	Insurance and pension consultancy services
		Salvage administration services
		Other services auxiliary to insurance and pension funding

Financial services (BoP code 260)		
CPC Code	**Item title**	**Components**
71100	Financial intermediation services, except investment banking, insurance services and pension services	Central bank deposit services
		Central bank supervisory services
		Central bank reserve management services
		Central bank currency issue services
		Wholesale deposit services
		Other bank deposit services
		Other deposit services
		Financial leasing services
		Mortgage loan services
		Personal installment loan services
		Credit card services
		Other credit services
		Intermediation services n.e.c.
71200	Investment banking services	Intermediation services n.e.c.
71511	Mergers and acquisition services	Intermediation services n.e.c.
71512	Corporate finance and venture capital services	Intermediation services n.e.c.
71519	Other services related to investment banking	Intermediation services n.e.c.
71521	Securities brokerage services	Security broking services
71522	Commodity brokerage services	Other services related to securities markets
71523	Processing and clearing services of securities transactions	Securities issue and registration services
		Other services related to securities markets
71531*	Portfolio management services	Portfolio management services
71532	Trust services	Closed end investment trust services
		Property unit trust services
		Open-ended investment and other unit trust services
71533	Custody services	Other financial market administration services
71541	Financial market operational services	Financial market operational services
71542	Financial market regulatory services	Financial market regulatory services
71549	Other financial market administration services	Other financial market administration services
71551	Financial consultancy services	Financial consultancy services
71552	Foreign exchange services	Foreign exchange services
71553	Financial transactions processing and clearinghouse services	Other services auxiliary to financial intermediation n.e.c.
71559	Other services auxiliary to financial intermediation n.e.c.	Non-central bank currency issue services
		Loan broking services
		Other services auxiliary to financial intermediation n.e.c.
85400*	Packaging services	Coin and currency packing services

* excluded from this BOP code are financial intermediation services indirectly measured that may be imputed or derived from the differences between reference interest rates and rates actually applied to loans, debt securities or deposits.

Sources: *Manual on Statistics of International Trade in Services*, EC, OECD, IMF, UN, WTO, Draft, November 5, 1999.

Table A.2. WTO and IMF: Countries' Commitments Related to Financial Services

	WTO Commitments					IMF Commitments	
	Uruguay Round/GATS - December 1993	Interim Agreement on Financial Services, July 1995	Fifth Protocol on Financial Services, December 1997	Additional commitments: unilateral or taken in WTO accession	MFN exemptions	Current account convertibility (Article VIII Status, date of acceptance)	Transitional arrangements (Article XIX Status)
Albania				GATS/SC/131			*
Angola	GATS/SC/115						*
Antigua & Barbuda	GATS/SC/2					November 22, 1983	
Argentina	GATS/SC/4					May 14, 1968	
Australia	GATS/SC/6	GATS/SC/6/Suppl.1/Rev.1	GATS/SC/6/Suppl.4		GAT/EL/6/Suppl.1	July 1, 1965	
Austria (EC member from 1995)	GATS/SC/7					August 1, 1962	
Bahrain			GATS/SC/97/Suppl.1			March 20, 1973	
Barbados	GATS/SC/9					November 3, 1993	
Benin	GATS/SC/11					June 1, 1996	
Bolivia			GATS/SC/12/Suppl.2 *			June 5, 1967	
Brazil	GATS/SC/13	GATS/SC/13/Suppl.1/Rev.1	GATS/SC/13/Suppl.3 *			November 30, 1999	
Brunei Darussalam	GATS/SC/95					October 10, 1995	
Bulgaria			GATS/SC/122/Suppl.2	GATS/SC/122		September 24, 1998	
Canada	GATS/SC/16	GATS/SC/16/Suppl.1/Rev.1	GATS/SC/16/Suppl.4/Rev.1		GATS/EL/16/Suppl.2	March 25, 1952	
Chile	GATS/SC/18	GATS/SC/18/Suppl.1/Rev.1	GATS/SC/18/Suppl.3			July 27, 1977	
Colombia	GATS/SC/20	GATS/SC/20/Suppl.1	GATS/SC/20/Suppl.3 and Corr.1				*
Costa Rica			GATS/SC/22/Suppl.1			February 1, 1965	
Côte d'Ivoire				GATS/SC/23/Suppl.2		June 1, 1996	
Croatia				GATS/SC/130		May 29, 1995	
Cuba	GATS/SC/24						Not member
Cyprus	GATS/SC/25		GATS/SC/25/Suppl.2/Rev.1			January 9, 1991	
Czech Republic	GATS/SC/26	GATS/SC/26/Suppl.1/Rev.1	GATS/SC/26/Suppl.3			October 1, 1995	
Dominica	GATS/SC/27					December 13, 1979	
Dominican Republic	GATS/SC/28	GATS/SC/28/Suppl.1	GATS/SC/28/Suppl.3 *			August 1, 1953	
Ecuador			GATS/SC/98/Suppl.2	GATS/SC/98		August 31, 1970	
Egypt	GATS/SC/30	GATS/SC/30/Suppl.1	GATS/SC/30/Suppl.2				*
El Salvador	GATS/SC/29		GATS/SC/29/Suppl.2			November 6, 1946	
Estonia				GATS/SC/127		August 15, 1994	
EC and Member States	GATS/SC/31	GATS/SC/31/Suppl.1/Rev.1	GATS/SC/31/Suppl.4/Rev.1			All EC members accepted Article VIII	
Finland (EC member from 1995)	GATS/SC/33					September 25, 1979	
Gabon	GATS/SC/34					June 1, 1996	
Gambia	GATS/SC/112					January 21, 1993	
Georgia				GATS/SC/129		December 20, 1996	
Ghana	GATS/SC/35		GATS/SC/35/Suppl.2			February 21, 1994	
Guatemala	GATS/SC/36					January 27, 1947	
Guyana	GATS/SC/37					December 27, 1966	
Haiti	GATS/SC/111					December 22, 1953	
Honduras	GATS/SC/38		GATS/SC/38/Suppl.1		GATS/EL/38/Suppl.1	July 1, 1950	
Hong Kong SAR	GATS/SC/39	GATS/SC/39/Suppl.1	GATS/SC/39/Suppl.3				Not member
Hungary	GATS/SC/40	GATS/SC/40/Suppl.1, Corr.1	GATS/SC/40/Suppl.3		GATS/EL/40/Suppl.1	January 1, 1996	
Iceland	GATS/SC/41		GATS/SC/41/Suppl.2			September 19, 1983	
India	GATS/SC/42	GATS/SC/42/Suppl.1	GATS/SC/42/Suppl.4		GATS/EL/42/Suppl.2	August 20, 1994	
Indonesia	GATS/SC/43	GATS/SC/43/Suppl.1	GATS/SC/43/Suppl.3			May 7, 1988	
Israel	GATS/SC/44		GATS/SC/44/Suppl.2			September 21, 1993	
Jamaica	GATS/SC/45		GATS/SC/45/Suppl.2 *			February 22, 1963	
Japan	GATS/SC/46	GATS/SC/46/Suppl.1/Rev.1	GATS/SC/46/Suppl.3			April 1, 1964	
Jordan				GATS/SC/128		February 20, 1995	
Kenya	GATS/SC/47		GATS/SC/47/Suppl.1			June 30, 1994	
Korea	GATS/SC/48	GATS/SC/48/Suppl.1/Rev.1	GATS/SC/48/Suppl.3/Rev.1			November 1, 1998	
Kuwait	GATS/SC/49	GATS/SC/49/Suppl.1	GATS/SC/49/Suppl.2			April 5, 1963	
Kyrgyz Republic				GATS/SC/125		March 29, 1995	
Latvia				GATS/SC/126		June 10, 1994	
Lesotho	GATS/SC/114					March 5, 1997	
Liechtenstein	GATS/SC/83-A						Not member

	WTO Commitments					IMF Commitments	
	Uruguay Round/GATS - December 1993	Interim Agreement on Financial Services, July 1995	Fifth Protocol on Financial Services, December 1997	Additional commitments: unilateral or taken in WTO accession	MFN exemptions	Current account convertibility (Article VIII Status, date of acceptance)	Transitional arrangements (Article XIX Status)
Macao SAR	GATS/SC/50		GATS/SC/50/Suppl.1				Not member
Malaysia	GATS/SC/52	GATS/SC/52/Suppl.1	GATS/SC/52/Suppl.3			November 11, 1968	
Malta	GATS/SC/54		GATS/SC/54/Suppl.1			November 30, 1994	
Mauritius			GATS/SC/55/Suppl.2		GATS/EL/55/Suppl.1	September 29, 1993	
Mexico	GATS/SC/56	GATS/SC/56/Suppl.1	GATS/SC/56/Suppl.3			November 12, 1946	
Mongolia				GATS/SC/123		February 1, 1996	
Morocco	GATS/SC/58	GATS/SC/57/Suppl.1/Rev.1				January 21, 1993	
New Zealand	GATS/SC/62		GATS/SC/62/Suppl.2			August 5, 1982	
Nicaragua	GATS/SC/63		GATS/SC/63/Suppl.1		GATS/EL/63	July 20, 1964	
Nigeria	GATS/SC/65		GATS/SC/65/Suppl.1				*
Norway	GATS/SC/66	GATS/SC/66/Suppl.1/Rev.1	GATS/SC/66/Suppl.4			May 11, 1967	
Oman				GATS/SC/132		June 19, 1974	
Pakistan	GATS/SC/67	GATS/SC/67/Suppl.1/Rev.1	GATS/SC/67/Suppl.3		GATS/EL/67/Suppl.2	July 1, 1994	
Panama				GATS/SC/124		November 26, 1946	
Papua New Guinea	GATS/SC/118					December 4, 1975	
Paraguay	GATS/SC/68					August 22, 1994	
Peru	GATS/SC/69		GATS/SC/69/Suppl.2		GATS/EL/69/Suppl.1	February 15, 1961	
Philippines	GATS/SC/70	GATS/SC/70/Suppl.1/Rev.1	GATS/SC/70/Suppl.3*		GATS/EL/70/Suppl.2	September 8, 1995	
Poland	GATS/SC/71	GATS/SC/71/Suppl.1	GATS/SC/71/Suppl.3 *			June 1, 1995	
Qatar	GATS/SC/120					June 4, 1973	
Romania	GATS/SC/72		GATS/SC/72/Suppl.2			March 25, 1998	
Saint Kitts and Nevis	GATS/SC/119					December 3, 1984	
Saint Lucia	GATS/SC/73					May 30, 1980	
Senegal			GATS/SC/75/Suppl.2		GATS/EL/75/Suppl.1	June 1, 1996	
Sierra Leone	GATS/SC/105					December 14, 1995	
Singapore	GATS/SC/76	GATS/SC/76/Suppl.1/Rev.1	GATS/SC/76/Suppl.3			November 9, 1968	
Slovak Republic	GATS/SC/77	GATS/SC/77/Suppl.1/Rev.1	GATS/SC/77/Suppl.3			October 1, 1995	
Slovenia	GATS/SC/99		GATS/SC/99/Suppl.1			September 1, 1995	
Solomon Islands	GATS/SC/117					July 24, 1979	
South Africa	GATS/SC/78	GATS/SC/78/Suppl.1	GATS/SC/78/Suppl.3			September 15, 1973	
Sri Lanka	GATS/SC/79		GATS/SC/79/Suppl.2			March 15, 1994	
St Vincent and the Grenadines	GATS/SC/74					August 24, 1981	
Sweden (EC member from 1995)	GATS/SC/82					February 15, 1961	
Switzerland	GATS/SC/83	GATS/SC/83/Suppl.1/Rev.1	GATS/SC/83/Suppl.4		GATS/EL/83/Suppl.2	May 29, 1992	
Thailand	GATS/SC/85	GATS/SC/85/Suppl.1/Rev.1	GATS/SC/85/Suppl.3		GATS/EL/85/Suppl.2	May 4, 1990	
The Netherlands with respect to Aruba	GATS/SC/5						Not member
The Netherlands with respect to the Netherlands Antilles	GATS/SC/3						Not member
Trinidad and Tobago	GATS/SC/86					December 13, 1993	
Tunisia	GATS/SC/87		GATS/SC/87/Suppl.2			January 6, 1993	
Turkey	GATS/SC/88	GATS/SC/88/Suppl.1	GATS/SC/88/Suppl.3		GATS/EL/88/Suppl.3	March 22, 1990	
United Arab Emirates	GATS/SC/121					February 13, 1974	
United States	GATS/SC/90	GATS/SC/90/Suppl.1	GATS/SC/90/Suppl.3		GATS/EL/90/Suppl.3	December 10, 1946	
Uruguay	GATS/SC/91		GATS/SC/91/Suppl.1*			May 2, 1980	
Venezuela	GATS/SC/92	GATS/SC/92/Suppl.1	GATS/SC/92/Suppl.3		GATS/EL/92/Suppl.2	July 1, 1976	
Zimbabwe	GATS/SC/94					February 3, 1995	
Total	82	31	56	14	16	88	11

Table A.3. WTO Financial Liberalization Commitments:
Average Scores by Mode of Supply

	Mode 1				Mode 2				Mode 3				Mode 1	Mode 2	Mode 3	Total
	A	B	C	D	A	B	C	D	A	B	C	D				
Angola	0.000	0.313	0.000	0.017	0.000	0.125	0.000	0.017	0.000	0.263	0.000	0.117	0.082	0.035	0.095	0.071
Antigua and Barbuda	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.188	0.000	0.000	0.000	0.063	0.063	0.047	0.057
Argentina	0.275	0.050	0.050	0.367	0.275	1.000	1.000	1.000	0.075	1.000	1.000	1.000	0.185	0.819	0.769	0.591
Aruba	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Australia	0.275	0.000	0.000	0.333	0.350	1.000	1.000	1.000	0.750	0.750	0.750	0.833	0.152	0.838	0.771	0.587
Bahrain	1.000	0.588	0.350	0.350	1.000	0.838	0.350	0.467	1.000	0.400	0.200	0.400	0.572	0.664	0.500	0.578
Barbados	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.063	0.063	0.063	0.063
Benin	0.000	0.313	0.000	0.017	0.000	0.313	0.000	0.017	0.000	0.138	0.000	0.100	0.082	0.082	0.059	0.075
Bolivia	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Brazil	0.038	0.050	0.050	0.050	0.050	0.050	0.025	0.050	0.363	0.100	0.050	0.100	0.047	0.044	0.153	0.081
Brunei Darussalam	0.050	0.000	0.000	0.017	0.515	0.000	0.000	0.017	0.463	0.000	0.000	0.100	0.017	0.133	0.141	0.097
Bulgaria	0.275	0.000	0.000	0.250	0.125	0.038	0.025	0.283	0.500	0.563	0.375	0.500	0.131	0.118	0.484	0.244
Canada	0.275	0.000	0.000	0.333	0.438	1.000	1.000	1.000	0.650	0.350	0.750	0.833	0.152	0.859	0.646	0.552
Chile	0.088	0.025	0.050	0.033	0.038	0.025	0.050	0.033	0.250	0.150	0.500	0.417	0.049	0.036	0.329	0.138
Macao SAR	0.350	0.288	0.525	0.367	0.875	1.000	1.000	1.000	0.625	0.500	0.750	0.833	0.382	0.969	0.677	0.676
China	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Hong Kong SAR	0.525	0.038	0.025	0.367	0.875	0.750	0.500	1.000	0.813	0.563	0.500	1.000	0.239	0.781	0.719	0.580
Colombia	0.175	0.050	0.050	0.017	0.275	0.050	0.050	0.017	0.250	0.250	0.250	0.083	0.073	0.098	0.208	0.126
Costa Rica	0.000	0.025	0.000	0.333	0.000	0.025	0.000	0.333	0.000	0.375	0.000	0.333	0.090	0.090	0.177	0.119
Cote d'Ivoire	0.338	0.263	0.000	0.017	0.050	0.075	0.000	0.017	0.213	0.150	0.000	0.167	0.154	0.035	0.132	0.107
Cyprus	0.375	0.138	0.000	0.083	0.588	0.188	0.000	0.083	0.188	0.188	0.000	0.083	0.149	0.215	0.115	0.159
Czech Republic	0.275	0.000	0.000	0.333	0.590	0.200	0.125	0.517	0.438	0.500	0.275	0.833	0.152	0.358	0.511	0.340
Dominica	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.063	0.063	0.063	0.063
Dominican Republic	0.050	0.075	0.025	0.033	0.050	0.025	0.050	0.017	0.400	0.163	1.000	0.333	0.046	0.035	0.474	0.185
Ecuador	0.050	0.750	0.500	1.000	0.050	0.750	0.000	1.000	0.500	0.500	0.000	1.000	0.575	0.450	0.500	0.508
Egypt	0.600	0.125	0.050	0.033	0.838	0.125	0.050	0.033	0.200	0.275	0.250	0.167	0.202	0.261	0.223	0.229
El Salvador	0.000	0.038	0.050	0.000	0.000	0.038	0.050	0.000	0.000	0.300	0.500	0.000	0.022	0.022	0.200	0.081
Estonia	1.000	0.625	1.000	0.667	1.000	0.750	1.000	0.667	1.000	1.000	1.000	1.000	0.823	0.854	1.000	0.892
European Community	0.275	0.000	0.000	0.333	0.363	0.875	0.750	0.750	0.750	0.750	0.750	0.750	0.152	0.684	0.750	0.529
Gabon	1.000	0.250	0.500	0.667	1.000	0.250	0.500	0.667	0.250	0.063	0.125	0.167	0.604	0.604	0.151	0.453
Gambia	0.500	1.000	1.000	0.667	0.500	1.000	1.000	0.667	0.500	0.050	0.050	0.033	0.792	0.792	0.158	0.581
Ghana	0.200	0.750	0.000	0.333	0.038	0.750	0.000	0.333	0.563	0.750	0.000	0.333	0.321	0.280	0.411	0.338
Grenada	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.125	0.000	0.000	0.000	0.063	0.063	0.031	0.052
Guatemala	0.250	0.000	0.000	0.333	0.250	0.000	0.000	0.333	0.013	0.000	0.000	0.250	0.146	0.146	0.066	0.119
Guyana	0.750	0.500	0.000	0.000	0.750	0.500	0.000	0.000	0.750	0.500	0.000	0.000	0.313	0.313	0.313	0.313
Haiti	0.250	0.588	0.000	0.333	0.013	0.588	0.000	0.333	0.013	0.588	0.000	0.333	0.293	0.233	0.233	0.253
Honduras	0.038	0.025	0.000	0.017	0.038	0.025	0.000	0.017	0.188	0.125	0.000	0.333	0.020	0.020	0.161	0.067
Hungary	0.275	0.000	0.000	0.333	0.363	0.750	0.750	0.750	0.750	0.750	0.750	0.750	0.152	0.653	0.750	0.518
Iceland	0.275	0.000	0.000	0.333	0.363	1.000	1.000	1.000	0.500	0.750	0.750	0.750	0.152	0.841	0.688	0.560
India	0.263	0.050	0.025	0.050	0.188	0.050	0.025	0.050	0.188	0.250	0.125	0.300	0.097	0.078	0.216	0.130
Indonesia	0.213	0.513	0.525	0.367	0.238	0.750	1.000	1.000	0.438	0.750	0.750	0.750	0.404	0.747	0.672	0.608
Israel	0.275	0.225	0.050	0.367	0.400	0.150	0.050	0.367	0.750	0.563	0.750	0.833	0.229	0.242	0.724	0.398
Jamaica	0.750	0.000	0.000	0.000	0.750	0.000	0.000	0.000	0.563	0.000	0.000	0.000	0.188	0.188	0.141	0.172
Japan	0.275	0.000	0.000	0.333	0.300	0.575	0.750	0.833	0.763	1.000	1.000	0.917	0.152	0.615	0.920	0.562
Kenya	0.038	0.025	0.000	0.000	0.038	0.025	0.000	0.000	0.563	0.500	0.000	0.000	0.016	0.016	0.266	0.099
Korea RP	0.163	0.050	0.050	0.050	0.150	0.050	0.050	0.050	0.350	0.325	0.250	0.250	0.078	0.075	0.294	0.149
Kuwait	0.000	0.125	0.050	0.367	0.000	1.000	1.000	1.000	0.000	0.325	0.325	0.300	0.135	0.750	0.238	0.374
Kyrgyz Republic	0.538	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.400	1.000	1.000	1.000	0.884	1.000	0.850	0.911
Latvia	0.288	0.050	0.875	0.367	1.000	1.000	1.000	1.000	0.750	1.000	0.875	0.917	0.395	1.000	0.885	0.760
Lesotho	0.038	0.050	0.000	0.017	0.750	0.050	0.000	0.017	0.225	0.500	0.000	0.133	0.026	0.204	0.215	0.148
Malawi	0.000	1.000	1.000	1.000	0.500	1.000	1.000	1.000	0.500	1.000	1.000	1.000	0.750	0.875	0.875	0.833
Malaysia	0.250	0.265	0.155	0.237	0.250	0.428	0.150	0.567	0.225	0.288	0.350	0.333	0.227	0.349	0.299	0.291
Malta	0.300	0.150	0.000	0.117	0.750	0.375	0.000	0.117	0.250	0.125	0.000	0.017	0.142	0.310	0.098	0.183
Mauritius	0.225	0.513	0.675	0.583	0.813	0.750	1.000	0.333	0.250	0.250	0.425	0.333	0.499	0.724	0.315	0.513
Mexico	0.090	0.050	0.025	0.033	0.038	0.050	0.050	0.033	0.300	0.400	0.200	0.267	0.050	0.043	0.292	0.128

APPENDIX TABLE

	Mode 1				Mode 2				Mode 3				Mode 1	Mode 2	Mode 3	Total
	A	B	C	D	A	B	C	D	A	B	C	D				
Mongolia	0.750	1.000	1.000	1.000	0.750	1.000	1.000	1.000	0.750	1.000	1.000	1.000	0.938	0.938	0.938	0.938
Morocco	0.150	0.163	0.025	0.017	0.150	0.038	0.025	0.017	0.500	0.375	0.375	0.500	0.089	0.057	0.438	0.194
Mozambique	0.000	1.000	1.000	1.000	0.000	1.000	1.000	1.000	0.000	1.000	1.000	1.000	0.750	0.750	0.750	0.750
Neth Antilles	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
New Zealand	0.275	0.000	0.000	0.333	0.363	1.000	1.000	1.000	0.875	1.000	1.000	0.667	0.152	0.841	0.885	0.626
Nicaragua	0.050	0.038	0.000	0.017	0.050	0.038	0.000	0.000	0.500	0.463	0.000	0.250	0.026	0.022	0.303	0.117
Nigeria	0.438	0.750	0.500	1.000	0.025	0.038	0.025	0.050	0.575	0.750	0.500	1.000	0.672	0.034	0.706	0.471
Norway	0.275	0.000	0.000	0.333	0.363	1.000	1.000	1.000	0.750	0.750	0.750	0.750	0.152	0.841	0.750	0.581
Pakistan	0.275	0.038	0.050	0.167	0.038	0.038	0.050	0.050	0.300	0.263	0.400	0.217	0.132	0.044	0.295	0.157
Panama	0.125	1.000	1.000	1.000	0.275	1.000	1.000	1.000	0.750	1.000	1.000	1.000	0.781	0.819	0.938	0.846
Papua New Guinea	0.000	0.750	0.000	0.000	0.000	0.750	0.000	0.000	0.000	0.750	0.000	0.000	0.188	0.188	0.188	0.188
Paraguay	0.275	0.025	0.000	0.000	0.275	0.025	0.000	0.333	0.750	0.750	0.000	0.000	0.075	0.158	0.375	0.203
Peru	0.038	0.050	0.050	0.283	0.163	0.050	0.050	0.050	0.688	0.938	1.000	0.667	0.105	0.078	0.823	0.335
Philippines	0.225	0.030	0.010	0.340	0.225	1.000	1.000	1.000	0.413	0.313	0.325	0.250	0.151	0.806	0.325	0.428
Poland	0.125	0.038	0.025	0.135	0.138	0.275	0.025	0.150	0.300	0.375	0.250	0.433	0.081	0.147	0.340	0.189
Qatar	0.750	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.563	0.750	0.750	0.750	0.938	1.000	0.703	0.880
Romania	0.225	0.763	0.050	0.917	0.225	0.625	0.050	0.750	0.500	0.813	0.875	0.917	0.489	0.413	0.776	0.559
Senegal	0.150	0.025	0.000	0.017	0.050	0.025	0.000	0.017	0.438	0.313	0.000	0.100	0.048	0.023	0.213	0.094
Sierra Leone	0.050	1.000	1.000	0.667	0.050	1.000	1.000	0.667	0.750	0.750	0.750	0.500	0.679	0.679	0.688	0.682
Singapore	0.288	0.050	0.050	0.150	0.775	1.000	1.000	0.783	0.413	0.213	0.100	0.533	0.134	0.890	0.315	0.446
Slovak Republic	0.275	0.000	0.000	0.333	0.363	0.300	0.350	0.467	0.688	0.375	0.750	0.717	0.152	0.370	0.632	0.385
Slovenia	0.125	0.163	0.275	0.367	0.538	0.163	0.050	0.367	0.625	0.375	0.250	0.467	0.232	0.279	0.429	0.314
Solomon Islands	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
South Africa	0.050	0.050	0.050	0.050	1.000	0.050	0.050	0.367	0.500	0.750	0.750	0.917	0.050	0.367	0.729	0.382
Sri Lanka	0.288	0.050	0.050	0.367	0.213	0.050	0.050	0.367	0.163	0.250	0.250	0.250	0.189	0.170	0.228	0.195
Santa Lucia	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.125	0.000	0.000	0.000	0.063	0.063	0.031	0.052
Saint Vinc. & Gren.	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.188	0.000	0.000	0.000	0.063	0.063	0.047	0.057
Switzerland	0.275	0.000	0.000	0.333	0.225	0.875	0.875	0.917	0.750	0.750	0.750	0.750	0.152	0.723	0.750	0.542
Thailand	0.350	0.050	0.050	0.367	0.288	0.050	0.050	0.367	0.300	0.288	0.550	0.250	0.204	0.189	0.347	0.247
Trinidad & Tobago	0.250	0.000	0.000	0.000	0.250	0.000	0.000	0.000	0.188	0.000	0.000	0.000	0.063	0.063	0.047	0.057
Tunisia	0.213	0.438	0.200	0.450	0.750	0.450	0.400	0.350	0.450	0.438	0.750	0.583	0.325	0.488	0.555	0.456
Turkey	0.275	0.025	0.000	0.333	0.375	1.000	1.000	1.000	0.300	0.300	0.200	0.683	0.158	0.844	0.371	0.458
United Arab Emirates	0.000	1.000	0.505	1.000	0.000	1.000	0.505	1.000	0.000	0.100	0.100	0.100	0.626	0.626	0.075	0.443
USA	0.275	0.000	0.000	0.333	0.000	1.000	1.000	1.000	0.750	0.750	0.750	0.750	0.152	0.750	0.750	0.551
Uruguay	0.000	0.250	0.000	0.333	0.000	0.250	0.000	0.333	0.000	0.088	0.000	0.117	0.146	0.146	0.051	0.114
Venezuela	0.088	0.038	0.025	0.333	0.088	0.038	0.025	0.350	0.188	0.188	0.250	0.417	0.121	0.125	0.260	0.169
Zimbabwe	0.000	0.500	0.500	0.667	0.000	0.500	0.500	0.667	0.000	0.375	0.350	0.233	0.417	0.417	0.240	0.358

Source: Calculated based on Valckx (2001).

Liberlization commitments in:
A-insurance services (direct life and nonlife insurance, reinsurance, intermediation);
B-banking services (deposits, lending, money broking, trading);
C-securities services (underwriting, settlement, asset management);
D-other financil services (supply of financil information, payments and settlements).

Numerical Values	Score
No mention in the schedule	0.00
Unbound against relevant mode	0.05
No new entry – unbound for new entry	0.10
Discretionary licensing – Economic needs test	0.25
Licensing/Authorization Requirements; acquisition approval -not mentioning terms, conditions, or procedures	0.30
Voting/Ownership <50%	0.35
Limited commitments	0.40
License/Authorization by supervisor (central bank, association); acquisition approval–with indications or guiding principles	0.50
Minor limitations (grandfathering clause, legal form, No.of operations, ownership>50%, types of operations, value of transactions/assets, reciprocity and registration requirements)	0.75
No limitations	1.00

Table A.4. GATS Commitments of Operational Importance for the Fund
(An Observance Matrix)

Commitment	Key Compliance Aspects	Reference
General commitments	Apply to all trade in financial services in all sectors and all modes	
1. Most-favored nation (MFN) treatment	A general obligation, which ensures non-discrimination between foreign services and service suppliers. Members of the GATS must accord to financial services and their suppliers of a member treatment not less favorable that it accords to like services and service suppliers of any other country. Exemptions for individual traded financial service are possible under certain conditions.	GATS, Art. II
2. Transparency	Members must publish domestic regulations and international agreements if they affect trade in financial services. Members have to notify the Council for Trade in Services of major changes to regulations, but there is no need to supply certain types of confidential information.	GATS, Art. III
3. Economic integration	Benefits in trade in financial services received by countries as members in regional trade arrangements do not have to be extend to other countries on an MFN basis	GATS, Art. V
4. Domestic regulation	All general domestic regulations affecting trade in financial services should be administered in a reasonable, objective, and impartial manner.	GATS, Art. VI
5. Prudential carve-out	Members can take measures for prudential reasons, including for the protection of investors, depositors, policy holders, or to ensure the integrity and stability of the financial system	Annex on Financial Services, Art. 2 (a)
6. Recognition of credentials	If qualifications, experience, and licenses obtained by a supplier of financial services are recognized by another member, it should not be done in a manner which would constitute a restriction on trade in financial services with other members.	GATS, Art. VII
7. Current payments and transfers	Members may not apply restrictions on international transfers and payments for current transactions in sectors where they have made a commitment, except for restrictions to safeguard the balance of payments.	GATS, Art. XI:1
8. Capital account restrictions	Members are free to use exchange actions, which are in conformity with the Fund Articles of Agreement, provided that a member shall not impose restrictions on any capital transactions inconsistently with its specific commitments, except to safeguard the balance of payments or at the request of the Fund.	GATS, Art. XI : 2

Commitment	Key Compliance Aspects	Reference
9. Restrictions to safeguard the balance of payments	In the event of serious balance of payments and external financial difficulties members may adopt or maintain restrictions on trade in financial services on which it has undertaken specific commitments, including on payments and transfers for transactions related to such commitments. Such restrictions should be consistent with the IMF Article of Agreement.	GATS, Art. XII
10. Exemption for government procurement	The GATS MFN, market access, and national treatment provisions do not apply to purchases made by governments	GATS, Art. XIII
11. Exemption for government services	Activities conducted by a central bank, a monetary authority or by any other public entity in pursuit of monetary and exchange rate policies; activities forming part of a statutory system of social security or public retirement plans; and other activities conducted by a public entity for the account or with the guarantee or using the financial resource of the Government are excluded from GATS	Annex on Financial Services, Art.1 (b)
Specific commitments	Apply only to financial services listed in a country's schedules of commitments	
12. Market access (General commitments)	GATS members must not maintain or adopt quota limitations, other value or numerical limitations on financial service transactions, economic needs tests and shareholding limitations. Exceptions are permitted if listed in the schedule of specific commitments	GATS, Art. XVI
13. Market access (Specific commitments by developed countries)	For signing members: MFN and national treatment should be accorded to foreign suppliers of financial services in acquisition of financial services by public entities; cross-border supply and purchase of insurance services, commercial presence of foreign financial service supplier and the provision of new financial service by them, and temporary entry of personnel are permitted; unrestricted transfer and processing of financial information; removal of non-discriminatory measures that limit trade in financial services.	Understanding on commitments in Financial Services, Art. B
14. National treatment	A country should accord to financial services and their suppliers of other countries treatment, no less favorable than that accorded to its own services and suppliers. Domestic and foreign suppliers have to be treated equally. Laws and regulations must not be used to make foreign services providers less competitive in the domestic market.	GATS, Art. XVII
15. National treatment (Specific commitments by developed countries)	Foreign financial services suppliers should be granted access to payment and clearing systems operated by public entities, and to official funding and refinancing facilities, but not the access to lender-of-last-resort facilities.	Understanding on commitments in Financial Services, Art. C

Source: The Results of the Uruguay Round of Multilateral Trade Negotiations. Legal Texts. WTO, Cambridge University Press, 1999.

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