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The GATS Agreement on Financial Services— A Modest Start to Multilateral Liberalization

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Abstract

This paper analyzes the links between multilateral, and unilateral financial liberalization, the former represented by the General Agreements on Trade in Services (GATS). It provides an overview of the main features of the GATS and what the participants in banking and securities within its framework, and compares GATS liberalization with the actual state of liberalization of the participants' financial sectors. The results suggest that in many countries multilaterally liberalized financial sector policies are more restrictive than the actual state of openness or development of financial sectors. Many emerging markets liberalized little under the GATS despite often well-developed financial markets, while the opposite was true in some less developed developing countries.

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Contents

Page

Summary 4

I. Introduction 5

II. The WTO Agreement in Financial Services 6
A. The Rules and Their Limitations 7

III. What did Countries Bind in the GATS? 11

IV. GATS Liberalization, Applied Policies and Financial Sector Reform 18
A. Overview of the Literature on Financial Sector Reform 19
B. Link to GATS liberalization 21
C. Indicators of openness and financial sector development 22
D. Financial sector development among GATS participants 23
E. Financial development and GATS commitments 26

V. Conclusion 27

Tables:
1. Regression Results between GATS Commitments and Financial Sector Indicators 29

Charts:
1. Distribution of World Banking Assets 34
2. Shares of Commitments made by Mode of Supply 35
3. Openness in Banking in Industrial Countries and Emerging Markets 36
4. Stock Market Capitalization and Banking Assets/GDP in Industrial and Emerging Markets 37
5. Financial Depth (M2/GDP) in Emerging Markets and Developing Countries 38
6. Financial Depth (Private Credit/GDP) in Emerging Markets and Developing Countries 39
7. Real Interest Rates in Emerging Markets and Developing Countries 40
8. Share of Government in Total Credit in Emerging Markets and Developing Countries 41
9. Spreads in Emerging Market and Developing Countries 42
10. Profitability in Banking 43
11. Concentration in Banking in Emerging Markets and Developing Countries 44
12. Capital Adequacy Ratios in Industrial Countries and Emerging Markets 45

Annex Tables:

1. Restrictions on Payments Transfers 46
2. Summary of GATS Market Access Commitments by Country 49

References 56

SUMMARY

This paper analyzes the links between multilateral and unilateral financial sector liberalization. The rules in the General Agreement on Trade in Services (GATS) and related negotiations in financial services in 1995 were a first attempt at multilateral liberalization of the financial sector. The GATS is also the first multilateral framework to cover elements of investment rules and provisions on capital transfers.

But both the GATS framework and the actual multilateral liberalization undertaken were disappointing. The GATS allows for too much discretion in making liberalization commitments. Its main immediate importance is systemic and political, and it will form a basis for future liberalization in the sector. Multilateral liberalization (or GATS) has the potential to promote financial liberalization in a nondiscriminatory manner within internationally enforceable rules.

In most countries the actual level of liberalization of financial sectors differs from that undertaken in the GATS framework. Although GATS liberalization is difficult to measure, the data suggest that it has little correlation with the level of financial sector development or actual openness, especially in the developing country members of the GATS. Many countries with relatively developed financial sectors made narrow openings in the GATS framework, whereas some with less developed financial sectors made very liberal GATS openings, especially in cross–border trade. This suggests that mercantilistic bargaining, rather than economics, explains the bulk of the GATS liberalization commitments. In many emerging and developing countries, market contestability indicators suggest that competition is restricted in many of these markets. Further unilateral or multilateral liberalization could bring important efficiency gains. Some of this is happening unilaterally, as countries are realizing the importance of efficient financial sectors for growth and competitiveness. Whether these will be consolidated in the multilateral framework during the next round of negotiations in 1997 remains to be seen.

I. Introduction

The World Trade Organization (WTO) Agreement on Financial Services is of substantial interest to the Fund as it has the potential to consolidate financial sector reform, to promote investment and capital mobility, and efficient allocation of savings worldwide. It also creates an additional international institutional framework for services transactions dealing with investment rules, and capital and current account transactions. About two–thirds of WTO members[2] that participated in the Uruguay Round (UR) multilateral trade negotiations made some specific market access commitments in financial services. The participants represent the bulk of world banking assets (90 percent) and world stock market capitalization (90 percent) in 1994.

The relationship of multilateral, or GATS,[3] liberalization to unilateral liberalization of financial services is complex. GATS commitments can be an important complement to unilateral financial liberalization by consolidating policy reform in a binding multilateral framework. GATS negotiations can also advance financial sector reform in member countries, although multilateral negotiations may result in binding less than existing policies. It may also result in more liberalization than existing policies. The mercantilistic nature of multilateral liberalization negotiations may ignore some economic aspects of financial sector reform. This is important, as the hasty opening of unsound banking sectors to foreign competition can lead to costly systemic failures or hamper macroeconomic management.

This paper analyzes the links between multilateral or GATS and unilateral financial liberalization. It assesses whether the GATS consolidated past unilateral reforms or resulted in new liberalization, and where the potential for further multilateral liberalization might lie. This is done, first, by explaining what multilateral liberalization in services means. Part I provides an overview of the main features of the GATS and the policies bound by the participants in banking and securities. The second part, after reviewing some economics of financial sector reform and indicators of financial development, competition and openness, examines whether there is any correlation between the degree of restrictiveness in GATS commitments and the status of development or actual openness of the financial sectors.

The results suggest that multilaterally bound financial sector policies are more restrictive than the actual state of openness or development of financial sectors. Most bindings were made in commercial presence (right to establishment), although in practice many countries allow free cross–border movement of capital. GATS bindings by Asian developing

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[2]At the time of writing 76 countries (EU15 counting as one) have made commitments in financial services out of a total WTO membership of about 130, of which 64 had commitments in banking and securities—the remaining 12 only made commitments in insurance. Subsequently, five more countries made commitments.

[3]General Agreement on Trade in Services.

countries were relatively restrictive compared to the often advanced state of their financial sectors. Openness indicators suggest that in many Asian countries there is more scope for further liberalization of the sector (multilateral or unilateral). In Africa, many countries with undeveloped financial sectors made liberal commitments. In some of these, existing policies may be more restrictive, implying that GATS resulted in new liberalization. Overall, this suggests that the GATS only resulted in limited consolidation of existing policies. The agreement itself contains weak capital account provisions, and security of market access is limited by many exceptions and the temporary nature of the bound liberalization. Therefore, the impact of the agreement at this stage on increased capital mobility or more efficient allocation of world savings is limited.

II. The WTO Agreement in Financial Services

Multilateral liberalization of financial services was an innovation of the UR, although experiments with similar schemes had already been made in regional trade arrangements (the EU Single Market, NAFTA). The multilateral framework: (i) limits discrimination, as the most–favored–nation treatment (MFN) allows the most efficient suppliers to gain markets; (ii) allows concessions in one area to be traded against liberalization in other areas in partner markets; (iii) offers a neutral forum for dispute settlement and enforcement; (iv) increases security of market access by binding liberalization,[4] which helps attract foreign investment and acts as a shield against domestic lobbies for protection; and (v) provides for an automatic process to negotiate further liberalization.

The elements of a good multilateral agreement in financial services can be clear and strong rules that: (i) improve transparency of and reduce barriers to market access; (ii) guarantee security and predictability of market access; (iii) prevent discrimination; (iv) provide for rapid settlement of disputes; and (v) guarantee convertibility of capital and current account transactions. While the rules on merchandise trade served as a model, services negotiators had to break a lot of new ground. The "nontradable" nature of many services required much innovation from the crafters of the rules. To be meaningful, an agreement on trade in services needed to cover both cross–border trade (**external liberalization**) and establishment (**internal liberalization**). As a result, the scope of the agreement was extended beyond border trade to investment, and the GATS became one of the first multilateral frameworks to cover elements of investment rules. Furthermore, the agreement also contains provisions on capital transfers; this makes the GATS also one of the first multilateral set of rules on the capital account as well.

The first attempt at multilateral liberalization of financial services confronted many hurdles. The WTO framework for trade in financial services consists of: (i) general rules common to all service sectors (GATS); (ii) two special annexes concerning the financial

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[4]Bound policies cannot be made more restrictive without negotiations with trading partners.

sector; and (iii) national schedules of market access and national treatment commitments and lists of MFN exemptions. Some of the exact provisions are still subject to varying interpretations, which will be clarified once experience with implementation proceeds. The GATS framework with country–specific reservations and many exceptions fails to meet many of the above tests for a "good" agreement. Market access is very conditional and temporary at present. Only listed sectors are bound, and many countries made MFN exemptions that maintain reciprocity and discrimination in market access. Negotiations on initial market access offers were prolonged until July 1995, which only produced a temporary Interim Agreement[5] until end–1997. Then all commitments can be withdrawn and new negotiations will again take place. The rules on capital transfers are weak; nevertheless, the framework lays a basis for future liberalization in the sector. Commitments in other service subsectors were similarly modest. The following gives a brief description of the agreement as it relates to financial services.

A. The Rules and Their Limitations

Rules. The GATS rules set a general framework for the conduct of trade in services. Although they are based on basic disciplines familiar from trade in goods, the added limitations make them weaker than those in the GATT (General Agreement on Tariffs and Trade). Main GATS obligations are **transparency** and the **MFN principle** (all trading partners are to be treated equally). These apply to all sectors regardless of whether they are subject to specific liberalization commitments. The rules are weakened by the fact that national treatment (discrimination between foreign and national service providers) is not an automatic but negotiable right, and the other pillar of the GATT—the most–favored–nation principle—is subject to reservations. General exemptions for regional arrangements, balance of payments problems, public order and health, also apply. The Annex on Financial Services contains a prudential carve–out[6] and definitions of financial services in three main sectors: insurance, banking, and securities.

Market access. The GATS allows for very conditional or limited liberalization of market access. The so–called schedules list sectors to be bound in four different modes of

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[5]The 29 countries that signed the Interim Agreement and improved their schedules had until July 1996 to ratify the related Protocol, which entered into force on September 1, 1996. The Colombia, Mauritius, and the United States used the July 1995 deadline to modify their MFN exemptions. For nonsignatories of the Interim Agreement, their 1993 schedules will remain in force as of the entry into force of the WTO agreement (for most countries, January 1, 1995). All schedules can be withdrawn during a period of 60 days before the end of a negotiation period (now end–1997).

[6]Measures undertaken for prudential purposes (to safeguard the integrity of the financial system or protect consumers) are exempt from the basic rules.

supply[7] and under which conditions. For example, foreign ownership of banks can be limited to 20 percent of equity, or new banking licenses can be subject to an undefined economics needs test.[8] The rules only apply to these listings (the so–called positive list approach). This has the major drawback of leaving innovations/subsectors outside the scope of national commitments, and making future negotiations more difficult. For example, new financial instruments are not covered by the agreement (except in countries that adhere to the "Understanding,"[9] see below), which allows countries to impose discriminatory restrictions on their supply.

The scope of the agreement is also limited to supply of services. Whether GATS applies to a transaction depends very much where the service is supplied and consumed. For example, whether country A allows nonresident depositors (from country B) to make deposits in its banks or not is not covered by the GATS. In this case, GATS can only apply to country B (nonresident) to the extent that it may allow consumption abroad of deposits (Mode 2) for its residents.

During the UR, the negotiators tried to encourage broad–based liberalization by defining a basic package of commitments or formulae under the name of "Understanding." The aim was to provide a broad–based agreement, especially on establishment (Mode 3), and in some cross–border trade (Modes 1 and 2). Mode 1 was restricted, as countries were

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[7]**External liberalization: Mode 1**: Cross–border supply, whereby consumers or financial institutions in one country are allowed to take a loan or purchase securities from a foreign bank, or purchase insurance from a company located abroad supplying the service across the border. **Mode 2**: Consumption abroad, in which a country allows its consumers to purchase services abroad from a foreign supplier, for example, a German resident crosses the border to deposit money in a Swiss bank. **Internal liberalization: Mode 3**: Commercial presence, whereby a country allows, for example, the establishment of foreign banks in its territory (and offer banking services). **Mode 4**: Movement of persons, which applies to commitments made on personnel movement related to financial transactions. This mode contains very few new openings and is mostly linked to establishment, and is therefore not discussed in this paper.

[8]This can be for example number of banks vis–à–vis the size of the market.

[9]The aim of the Understanding on Commitments on Financial Services was to have a critical mass of countries adhere to a standard package of liberal measures. It includes liberal cross–border (Modes 1and 2) trade in **insurance** related to maritime shipping, commercial aviation and goods in international transit, in re–insurance services, and in provision of transfer of financial information. In **banking and securities,** participants are to allow their residents to purchase all categories of banking and securities services in the territory of the other member (Mode 2). In addition, the right to establishment and expansion is granted for all financial services and any new financial services. All this was to be implemented on an MFN basis.

relatively reluctant to allow foreign service providers to enter their markets to provide services without being able to monitor them on prudential grounds, e.g., in the absence of commonly acknowledged prudential standards, as the service provider would remain established abroad. Under Mode 2,[10] cross–border trade is the responsibility of the consumer (he consumes abroad). In addition, it does not require capital account convertibility (see below). Mostly industrial countries agreed to base their commitments on the Understanding—with some limitations. Others listed sectors and conditions. Some developing countries made phased commitments.

Transfers. The GATS also failed to provide full external convertibility for the liberalized transactions. While payments on **current account** transactions related to the supplied/consumed services are to be free of restrictions, those related to **capital account** transfers are more restricted. Only Mode 1 requires that capital movements related to the underlying transactions of the services supplied/consumed in the opened sectors should be free of restrictions. Mode 2 entails no obligations to free capital transactions related to the services supplied. Thus, in Mode 2 countries seem to be free to set restrictions on capital transfers related to services supplied under the market access commitments made. In Mode 3, only capital inflows related to the services to be supplied (e.g., initial share capital of a bank) in sectors with market access commitments are to be free of restrictions.

The vague language of Articles XI and XII and the footnote to Article XVI leaves the exact coverage of capital account convertibility in the GATS a bit open. Article XI seems to imply more general convertibility, but has been interpreted, as discussed above, as not implying any general obligations in this regard (see, for example, EU (1995)). The weak capital account provisions can serve to limit the meaning of the commitments, especially in financial services, where a capital movement is often an essential part of the provision of services. In Mode 1, GATS may lead to a partial opening of the capital account (unless balance of payments exemptions are invoked) in countries that maintain capital controls. Investments or capital transfers may be biased in favor of some sectors, or restrictions on other sectors may be intensified, making balance of payments management more difficult. The scope of GATS in liberalizing capital flows in financial services is also limited by the less than universal number of participants.

Exemptions. Security of market access may also be reduced by several exceptions to the rules. Restrictions can be introduced (maintained) under certain conditions such as

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[10]The difference between Modes 1 and 2 has not always been clear in the schedules. With modern technology, money can be transferred abroad electronically without the consumer making any cross–border movement. Some countries have wanted to differentiate between the two modes by not allowing any soliciting by foreign suppliers in their territory (by foreign service providers under Mode 2). Modern technology makes even this distinction difficult to enforce as, for example, many newspapers are distributed across countries or the Internet allows uncontrolled access to various services.

(i) balance of payments (BOP) difficulties (Article XII);[11] and (ii) prudential reasons (Annex on Financial Services). Restrictions on payments for **current account transactions,** or other restrictions on trade in financial services (such as limitations to commercial presence or licensing) related to BOP problems require prompt consultations with the WTO Committee on Balance of Payments Restrictions. Whether this has to take place despite the fact that the Fund independently approves restrictions on current account payments that fall under its jurisdiction is subject to interpretation, and there are no precedents. In practice, however, if the restriction on payments and transfers is either maintained or approved by the Fund, the BOP Committee's role may be limited to approving what the Fund has already done under its mandate, or to approving other types of restrictions.

As the agreement requires unrestricted capital flows for Mode 1, or inflows for Mode 3 for the opened sectors, countries are free to introduce or maintain restrictions on flows related to other modes of supply. Restrictions can be introduced **either** at the request of the Fund because of outflows,[12] **or** for balance of payments reasons (Article XII) if consultations are held with the WTO BOP Committee. This can give the WTO BOP Committee an independent and potentially important role in approving capital account restrictions. For example, if a country that made commitments under cross–border trade (Mode 1) faced large capital inflows and was concerned about their immediate or potential impact on its balance of payments (exchange rate appreciation or sudden reversals) and wished to restrict inflows (or outflows) that affect the commitments, the country would have to consult (*ex post*) with the WTO BOP Committee to have the restrictions approved. The Fund would provide to the Committee an assessment of the country's balance of payments and external financial situation. However, as at present relatively few countries (mostly some developing countries) have made commitments under Mode 1, the likelihood of these consultations happening in the near future is small.

Countries can also justify restrictions on payments on capital and current accounts, or other restrictions, on **prudential grounds,** although there is no definition of prudential rules. In general, prudential regulations are meant to increase transparency, market information and

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[11]Restrictions on payments and transfers related to current account transactions consistent with the Fund's Articles are exempt. The Fund definition of the current account (Fund Article XXX) is slightly broader than that of BOP statistics and covers some short term financial flows apart from payments for services rendered—"payments which are not for the purpose of transferring capital," and includes "normal short term banking and credit facilities, payments due as interest on loans and as net income from other investments, payments of moderate amounts for amortization of loans or for depreciation of direct investments." This implies convertibility for some capital account items as well, unless they are subject to Fund–approved restrictions.

[12]See Article VI, Section 1. The clause has never been invoked and is unlikely to be used in the future. This provision relates to outflows only.

fair competition. However, the broad prudential carve–out in the GATS can imply very broad departures from the basic principles of the agreement. The measures can allow discrimination among countries on the basis of capital–adequacy ratios or discretion in approving banking licenses, which can both go against the MFN principle or national treatment. While prudential regulations are often read to mean enterprise–specific laws, such as licenses for the establishment of banks or minimum reserve or capital requirements, the GATS text seems to suggest much latitude in this respect. Controls can also be imposed "to ensure the integrity and stability of [a country's] financial system." Furthermore, the use of the GATS prudential carve–out can go unchallenged, as it does not require consultations in the WTO, nor the existence of a balance of payments problem. To prevent abuse, it is important that prudential rules at the country level be set in a clear and transparent way. Their use can be challenged under the WTO dispute settlement procedures. The Annex on Financial Services also states that such measures shall not be used as a means of avoiding commitments under GATS.

An interesting question is what will be the relationship between the GATS and the Multilateral Agreement on Investment (MAI), currently being negotiated among OECD members, which will also cover financial services? Although the scope of the agreement is narrower, as it only includes investment and not cross–border supply, its actual coverage of establishment is likely to be broader than that of the GATS. This is because it would allow for fewer exceptions, would aim at a broad definition of investment, and liberalization would take place with a negative list, e.g., all sectors are liberalized except for a few reservations. Its capital account provisions are also likely to be more liberal and cover all investment–related financial transfers. The MFN clause of the GATS may require countries to extend any negotiated MAI benefits to all GATS participants. If many non–OECD members become signatories of the MAI, the scope of the agreement is likely to approach that of the GATS in financial services. As the timing of the completion of MAI negotiations (spring 1997) is before that of GATS financial services (end–1997), the OECD agreement may result in more substantial actual liberalization and marginalize the GATS negotiations. The reverse may also happen if OECD negotiations are delayed.

III. What did Countries[13] Bind in the GATS?

While the 64 participants in banking and securities cover countries that represent most of the world's banking assets[14] (an estimated US$40 trillion in 1994) or world stock market

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[13]The use of the terms country does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

[14]The main financial markets outside the agreement are China (US$550 billion), Cayman (continued...)

capitalization (over US$17 trillion in 1994), access to many of these markets remains limited due to many restrictions maintained. Most participants bound the status quo—existing policies or even less—in the multilateral framework. This suggests that the main impact of GATS is increased predictability of a number of existing policies.

An economic assessment of liberalization commitments is difficult because of a number of factors related to the GATS framework, in addition to statistical problems that hamper a clear–cut measurement of financial services and, in turn, the effect of liberalization. The agreement gave rise to complex schedules, as many reservations were attached to the opened sectors. There is no information on the nonlisted sectors. Furthermore, not all countries strictly followed the classification of financial sectors into the agreed twelve subsectors. As financial services are traditionally regulated by many prudential rules, the distinction between protection and prudential supervision is blurred. Some countries listed all applicable rules in the sector in their schedule, while others left purely prudential rules out. In many cases there is no clear distinction between market access and national treatment restrictions. All this makes analysis of commitments subject to much discretion and judgment. In addition, as in goods, the bindings may not always correspond to applied restrictions, making their economic assessment dependent on knowledge of existing policies in the sectors concerned. The commitments bound in the WTO only serve as a lower limit to liberalization—the applied level of liberalization can be higher.

The following uses a simple **methodology** for assessing the nature of the commitments made in terms of **sectoral coverage** and their **conditionality**. Commitments in the five banking and five securities sectors (the two remaining sectors, data transfer and advisory services, are left out for their smaller economic impact on financial liberalization) are classified according to the market access restrictions made. These are either unconditional or conditional, according to six possible restrictions listed in GATS Article XVI:

- A=limits on the number of service suppliers (e.g., numerical quotas or an economics needs test for a banking license);
- B=limits on the value of transactions or assets;
- C=limits on the number of operations or quantity of service output (e.g., limits on number of offices, automatic banking machines);
- D=limits on the number of natural persons to be employed in the sector (e.g., numerical quotas or economics needs test);

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[14](...continued)
Islands (US$500 billion), Taiwan Province of China (US$450 billion), and the Bahamas (about US$170 billion). (1994 data from the *IFS*, and *The Banker*).

- E=restrictions or requirements regarding type of legal entity or joint venture (e.g., commercial presence in the form of subsidiaries required, only banks can participate in joint ventures);
- F=limits on the participation of foreign capital (e.g., foreigners can own only 10 percent of capital).

Conditional and unconditional commitments were added by sector and by country for each group (see below) to calculate unweighted group averages. The commitments are based on the latest schedules submitted for each country, including those made within the Interim Agreement. The method has many drawbacks, but it is a first attempt to derive a broad picture of the nature and scope of commitments made in financial services. It excludes the impact of the MFN exemptions, limitations to national treatment, and takes no account of the importance of the restrictions as such in limiting market access.

The participants were divided into three groups according to the importance of their financial markets and participation in the GATS negotiations: industrial countries, emerging markets, and other developing countries (see below). Commitments by the industrial countries weigh heavily in the total, as they account for about 80 percent of world banking assets, 76 percent of international bond issues in 1994 (BIS 1995), or most of world stock market capitalization. This is high compared to their share in world GDP (55 percent) or in world trade (70 percent). Among the participating developing countries, Asia (12 countries) was most important in terms of world banking assets (6 percent), followed by Latin America (17 countries) with 3 percent. The share of the 16 participating African countries was less than 1 percent of world banking assets (Chart 1).

In both banking and securities, in all three groups most commitments were made in internal liberalization (Mode 3—establishment), but subject to many conditions (Chart 2). Cross–border trade remains limited in all but industrial countries in Mode 2, although some developing countries made relatively liberal commitments in both Modes 1 and 2. In general, the two developing country groups made more commitments in banking than in securities. The following is a more detailed description of the commitments in the three groups.

Industrial countries. For industrial countries, the agreement mostly consolidated their relatively open policies in the multilateral framework. As they represent most of the world's financial services business, it could be said that the agreement consolidates most of world trade in financial services. Most of the industrial countries' [15] relatively liberal commitments

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[15]The group includes industrial countries and their dependent territories with important financial sectors that made separate commitments in the GATS: Aruba, Australia, Canada, the EU, Japan, the Netherlands Antilles, New Zealand, Norway, Switzerland, and the United States. Iceland and Liechtenstein also submitted schedules, but are excluded from the sample (continued...)

cover all subsectors (Chart 2) in Modes 2 and 3, and were made according to the "Understanding." However, some countries added reservations to their schedules in both market access and national treatment. These, coupled with MFN exemptions, reduced the economic value of the commitments. As mentioned above, most schedules reflect the status quo or even less, as Mode 1 was not fully bound. Most industrial countries have already liberalized capital movements and financial transactions either unilaterally, for example within the single market in the EU, or in the context of various OECD codes on capital movements. All countries in the group have no restrictions on current account payments. Aruba, Greece (EU member), the Netherlands Antilles, and Norway maintain minor restrictions on the capital account (Annex Table 1).

Only Switzerland (and Liechtenstein) agreed to unconditional binding of **cross–border trade** under Mode 1. Commitments in Mode 2 were made by all industrial country participants and were mostly without conditions in banking, and securities (Chart 2). This means that most industrial countries allow their consumers to purchase financial services in other countries. The limitations made concern the issue of national currency–nominated securities abroad. For example, deutsche mark–nominated securities can be lead managed only by banks established in Germany. This reflects more monetary policy concerns than trade restrictions.

Commitments in **commercial presence** were made in nearly all sectors, but with many restrictions (Mode 3). Only about 20 percent of entries were without conditions. In banking, the restrictions were equally divided between conditions on establishment, which work like quantitative restrictions (QRs) on the number of service providers; limits to the range of services to be offered, which work like supply quotas; limits on legal form, which work like import or other quotas; and on foreign participation, which work like local content requirements. Several countries also maintain nationality or residency requirements for board members. The EU commitments, and especially those by several Canadian provinces, contain restrictions at member country or provincial level as well as the Union or federal level. Some of these rules are basically prudential regulations, and their restrictiveness in practice can be small. However, like many quotas, they can preserve existing rents and maintain inefficiencies.

The most serious limitation in this group is the broad MFN exemption taken by the United States. All new market access is subject to reciprocity, which was said to have been made to encourage market openings, especially in emerging markets. However, few of the latter are likely to be competitive in financial services and establish themselves in the United States. Minor MFN exemptions are also maintained by Canada (preferences for establishment

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[15](...continued)
owing to the small size of their financial markets. All but Aruba, New Zealand, the Netherlands Antilles and the United States became parties to the Interim Agreement with revised offers.

in Quebec for loan and investment companies from the United Kingdom), and Switzerland (clearing arrangement with Liechtenstein).

The somewhat cautious liberalization by industrial countries in the GATS compared to their more liberal commitments in other fora such as the EU, NAFTA or the OECD, probably reflects a reluctance to open up markets to financial institutions from countries with diverse prudential or supervisory systems. This may be due to a desire to limit potential systemic risks from the introduction of unsound foreign financial institutions into one's own market.

Emerging Markets. The emerging markets group comprises 26 developing and transition countries,[16] and accounts for 11 percent of banking assets and 12 percent of stock market capitalization among the participants. In many of these countries financial sectors are relatively closed or undiversified, although some are developing rapidly. In two–thirds of them, the share of foreign assets in total banking assets was below 10 percent, compared, for example, to 20–30 percent in many European countries (Chart 3). Local bond markets are often underdeveloped and stock market capitalization as a share of GDP in many countries is low (Chart 4). Increased foreign participation can bring an important impetus to the diversification and modernization of their financial markets.

This group bound fewer subsectors than the industrial country group, and mostly with reservations. **Cross–border trade,** especially in Mode 1, had the fewest commitments—only one–fifth of entries in banking or securities. Furthermore, only about half were made without limitations. The only liberal offer on cross–border trade was made by Indonesia in banking, while the Dominican Republic, Morocco, Romania, and Singapore liberalized between one to three of the five banking activities. Some others linked free cross–border movement subject to commercial presence (Malaysia, the Philippines), or put limitations on the number of services that can be supplied (Chile, Hungary, Malaysia, Morocco). In securities, only Egypt and Israel made liberal offers. In some of the above countries the commitments imply capital account opening for listed sectors.[17]

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[16]This group includes developing countries with important financial sectors that adopted the Understanding, participated in the Interim Agreement, or were otherwise active participants in the negotiations. The Czech and Slovak Republics, and Turkey made their commitments according to the "Understanding." They, along with Brazil, Chile, the Dominican Republic, Egypt, Hong Kong, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Pakistan, the Philippines, Poland, Singapore, South Africa, Thailand, and Venezuela were parties to the Interim Agreement. The group also includes other emerging markets such as Argentina, Israel, and Romania, which did not revise their original offers during the negotiations, and Colombia, which revised its offer downwards.

[17]Chile, the Dominican Republic, Hungary, Morocco, Philippines, and Romania opened cross–border trade in Mode 1 in some subsectors, although they maintain capital controls. In

(continued...)

In Mode 2 the commitments are also relatively few (40 percent of banking and 30 percent of securities entries) and mostly subject to limitations. Argentina, Indonesia, the Philippines, Singapore, Romania, and Turkey allow their consumers to purchase some or all banking services abroad without limitations. The same countries as well as Egypt made liberal offers in securities trade.

Most commitments (about 90 percent of entries in banking and 70 percent in securities) were in **commercial presence**, but subject to conditions. In banking, only Hong Kong and Hungary fully opened access to foreign banks in some services. The most frequent conditions are on legal form, the number of banks and on services provided. Initially, Brazil did not allow the establishment of new banks, but later offered to make an exemption in the context of privatization programs. In terms of the number of types of restrictions (all six), the most restrictive offers were made by India, Korea, and the Philippines. In securities, only the Dominican Republic, Hong Kong, Hungary, Israel, and Morocco made relatively liberal offers. Most restrictions are again in India, Korea, and the Philippines. Public monopolies in financial services are still frequent in many of these countries, which can limit further commitments until privatization programs progress.

Despite the Interim Agreement, a number of emerging market countries also maintain MFN restrictions. For example, Colombia, the Philippines, and Venezuela want some reciprocity in granting banking licenses. Minor restrictions are related to preferential clearing arrangements—Singapore has a preferential currency interchangeability arrangement with Brunei.

Commitments can also be constrained by current account restrictions (which may be maintained in accordance with the Fund's Articles of Agreement). The impact of these on cross–border transactions depends on their actual restrictiveness. Thirteen of the countries maintain them (see Annex Table), including large markets such as Brazil and Colombia. In these countries, for example, repatriation of profits may be subject to restrictions and can hinder both cross–border and establishment trade.

Most commitments in this group reflect existing policies, although some new liberalization was undertaken by some Asian countries. For example, Thailand increased the number of foreign banks allowed. However, the many remaining limitations to establishment suggest that the agreement will bring little new competition to these markets. External liberalization may also remain relatively limited, although some countries with capital controls may need to review their controls should they affect sectors opened under Mode 1.

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[17](...continued)
principle, capital transactions should now be free vis–à–vis GATS–covered transactions. Only five countries (Argentina, Hong Kong, Indonesia, Malaysia, and Singapore) in the group have no restrictions on the capital account (see Annex table).

The potential for future liberalization in these rapidly growing emerging markets is large. In many countries with high economic growth rates, capital needs for infrastructure and other investments will increase rapidly and may call for more sophisticated forms of finance than traditional banking. The high savings rates in many of these countries make the development of new financial instruments attractive. Globalization and greater openness also put market pressures to reform financial sectors and allow countries to benefit from global financial markets. Efficient financial sectors are also increasingly a component in countries' overall competitiveness. The role of the GATS in this can be one of a catalyst and consolidator. However, from a mercantilistic point of view, if the negotiations are not linked to those of other sectors, there may be less incentive to bind financial opening unless market openings in other sectors present themselves. In the near future, many of these countries are unlikely to bargain for access in the industrial countries for their own financial service providers. This naturally does not prevent them from unilaterally pursuing financial sector liberalization, which many of them are currently doing.

Other developing countries. The third group comprises 26[18] mostly lower–income developing countries, but also some higher–income Latin American and Middle Eastern countries that did not participate in the Interim Agreement. The size of their financial sector is relatively small, and the nature of the commitments is very diverse. Some offers are quite liberal—especially compared to the previous group—and were made without major MFN exemptions, while most countries in the group made token commitments in one or two sectors.

In **cross–border trade,** 40 percent of entries provide mostly unconditional free trade in both banking and securities. For example, the Gambia, Ghana, Mozambique, Qatar, Papua New Guinea, Sierra Leone, United Arab Emirates, Uruguay, and Zimbabwe offer unrestricted cross–border trade in both Modes 1 and 2 in all banking services and in most securities. As among these countries only the Gambia, Qatar and United Arab Emirates have no capital controls,[19] the commitments in the other countries in principle imply opening of their capital accounts vis–à–vis the committed sectors.

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[18]The last group includes WTO members that were less active in the negotiations and have in general smaller financial sectors: Angola, Benin, Brunei, Cuba, El Salvador, Gambia, Gabon, Ghana, Guatemala, Guyana, Honduras, Kenya, Kuwait, Lesotho, Mozambique, Nicaragua, Nigeria, Papua New Guinea, Paraguay, Qatar, Sierra Leone, Slovenia, Tunisia, United Arab Emirates, Uruguay, and Zimbabwe, although some of these (e.g., Slovenia) have rapidly developing financial sectors. Cuba is left out of the analysis as it is not a member of the Fund and because of the lack of relevant data.

[19]All but Gambia, Honduras, Kuwait, Qatar, and the United Arab Emirates maintain capital account restrictions.

Commitments in the group on **commercial presence** covered about two–thirds of entries in banking and one–fourth in securities, most of which were subjected to restrictions. Ghana, Guyana, Kenya, Mozambique, Nicaragua, and Paraguay offer free establishment for foreign banks in many banking services. Most other offers were conditional, subject to limitation on foreign participation, legal form, or number of establishments. In some cases, the seemingly liberal offers may, however, be limited by existing restrictions on the current account transaction. Depending on the exact nature of the restrictions, this can limit activities such as repatriation of profits and payments for foreign services.

The commitments were a result of mercantilistic–type negotiations. Industrial countries, as main providers of financial services, pressed developing countries to open up their markets mostly for commercial presence. The pressure to open up was harder on the higher income and larger developing countries, most of which made commitments but subjected them to many restrictions in Mode 3. Despite ongoing unilateral reform, many of them, as mainly importers of financial services, had little incentive to bind further reforms in the sector, as they could see limited trade–offs with liberalization in other sectors. The highly technical negotiations may also have cautioned some developing countries from making commitments that were too liberal. In contrast, some of the lower–income countries may have put forward very liberal offers without fully understanding their implications. As present commitments can be withdrawn towards end–1997, their temporary nature is also likely to reduce their economic value.

IV. GATS Liberalization, Applied Policies, and Financial Sector Reform

The contribution of the GATS negotiations to actual liberalization of financial services in member countries has been subject to some debate, but there is no agreed view. Many observers to the GATS negotiations noted that the multilaterally bound financial sector policies do not correspond to applied policies, or, at the most, only consolidated existing policies. Proof of this would require detailed knowledge of existing regulations in the approximately 80 participating countries. In addition, the degree of actual openness or the nature of trade barriers in services—and especially in financial services—is subject to many measurement problems.

To assess the nature of GATS commitments—or the gap between them and actual policies— this paper compares the degree of liberalization in GATS commitments to proxies of degree of liberalization of financial sectors in the participating countries. These are indicators of openness, degree of competition, and development of financial sectors. The analysis can also be used to assess whether participants have potential for making further multilateral (or unilateral) commitments than they actually made. The analysis is confined to the banking sector; securities trade data are more difficult to obtain.

The links of multilateral to unilateral financial liberalization is also of interest from the economic point of view, as GATS liberalization may not always pay attention to the economics of financial liberalization. The speed and sequencing of financial sector reform needs careful consideration, because of the important links between the financial sector with macroeconomic policy management and the potentially high systemic costs of banking crises. The correlation analysis can also be used to assess whether some countries have made multilateral bindings that may not be sustained by the present status of their financial sector policies.

This part will first discuss policy issues related to financial sector reform. It will then test the extent to which GATS commitments correlate with status of development or openness of the financial sector of the participating developing countries.

A. Overview of the Literature on Financial Sector Reform

Policymakers need to balance the continued costs of inefficient banks with the potential costs of rapid opening of the sector. Slow reform prevents producers and consumer from benefitting from lower prices, the spreading of risk and increased variety of financial instruments. Apart from increasing costs to market participants, slow financial reform can slow down overall growth by reducing the efficiency of intermediation. While the benefits of open and market–based financial markets are widely recognized, the transition process may bear some adjustment costs. Imprudent opening can lead to financial crises affecting confidence in the system, which can bear long term costs to the economy and lead to policy reversals. Public bailouts raise moral hazard issues and can lead to excessive risk taking. The impact of liberalization on macroeconomic management can also be of concern. Rapid liberalization can result in the excessive growth of bank assets, over–indebtedness, and asset price bubbles. Financial sector reform can also lead to some reduction in national savings. The effectiveness of monetary policy may be constrained if banks do not respond to price signals (interest rates) that can occur if their balance sheets are fraught with nonperforming assets. Liberalized interest rates, and potential costs of bank failures may also put a strain on the government budget. External opening can increase the volatility of exchange rates and hamper macroeconomic management.

Many policymakers recommend a pragmatic case–by–case approach to financial opening (see, for example, Galbis, 1994; and Johnston, Lindgren, Garcia, and Saal, 1996[20]). The exact sequencing depends on the state of development of the economy and of its financial

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[20]The big–bang approach would be economically optimal if no distortions or externalities existed—Choksi and Papageorgiou (1986), Edwards (1986), and Mussa (1982). Recent literature on transition economies also pointed to the merits of big—bang approaches in situations where distortions are overwhelmingly large and in which opposition to change has not yet formed.

sector. The rules of thumb are that financial sector reforms tend to succeed better if they are preceded by **macroeconomic stabilization** and supported by **evolving prudential measures**. The literature has also identified specific policies that facilitate financial opening. Among the most important identified are **positive real interest rates** (Gelb, 1989; and Fry, 1988). These studies have documented a positive association between real interest rates and the growth of savings deposits and broad money aggregates. Savings and financial sector development are also influenced by the stability of financial institutions. Savings mobilization may also be promoted by the diversification of financial markets from banking to the development of bond and equities markets. (For an empirical discussion of these issues see World Bank, 1993 and 1994.)

In general, **internal financial sector reform** tends to have four elements (Galbis, 1994):

- liberalization of interest rates and credit regulations;
- development of measures to develop financial markets (money markets, treasury bills, payments system and shift from direct to indirect monetary policy instruments);
- measures to strengthen the prudential framework and the supervisory system (recapitalization and liquidation of banks, deposit insurance scheme); and
- measures to strengthen competition in financial markets (among banks, privatization, licensing of new domestic or foreign banks).

In countries with undeveloped financial sectors that suffer from credit controls or negative interest rates, opening the financial sector to foreign participation may not produce the desired effects in terms of promoting financial deepening or better savings allocation. Restrictions on interest rates often make financial intermediation unprofitable and result in poor portfolios, and weak capital bases in banks. In these circumstances, few foreign banks may be interested in establishing themselves in the economy. Opening of the capital account with restrictions on financial transactions can lead to capital flight, which would tighten liquidity and repress demand. If banks are forced to call in credits, poor portfolios could expose unsound banks and lead to a systemic crisis (Lindgren, Garcia, and Saal, 1996). Should capital inflows increase, the increase in liquidity may lead to imprudent lending and further worsen the quality of existing portfolios. Any (external) shock to the system could again expose the poor portfolios and lead to a crisis.

Opening a weak banking sector to sounder foreign banks and capital, easing of controls on credit or interest rates, or replacing them by indirect monetary instruments (such as open market operations of central banks) may rapidly lead to bank failures unless some restructuring takes place previously as unsound banks with nonperforming portfolios will become more exposed. It is also often recommended that unsound banks be recapitalized and

restructured before new prudential regulations are introduced to avoid large systemic risks. With opening to foreign competition, unsound banks may also fail, as high operating costs from large, poorly performing portfolios can hinder competition with sounder banks. In many countries, however, governments are reluctant to let banks restructure their portfolios for social or political reasons. Gradual opening to foreign banks or capital can speed the process and force domestic policymakers to domestic financial reform.

External opening may also require sequencing of policies. Recent experience tends to support the view that the freeing of capital account transactions should be undertaken subsequent to, or at least broadly simultaneously to other reforms (Quirk and Evans, 1995), such as financial sector reform and capacity to adapt fiscal policy. A well–functioning financial sector can better allocate foreign capital inflows to productive uses. Policies should ensure that interest rates are internationally competitive, which reduces pressure on the balance of payments and the exchange rate. The Southern Cone experience, for example, in the 1980s in capital account opening cautions against a too rapid opening of the capital account in the absence of relevant domestic reforms. Measures to limit short term foreign–currency–denominated borrowing by banks might be justified on prudential grounds, and broader measures to discourage excessive short–term debt creating or portfolio inflows might prove useful in some circumstances. It has, however, been stressed that capital flow restrictions should be viewed as temporary, and that openness can foster domestic policy discipline, as good economic management is likely to prevent volatility of the flows.

B. Link to GATS Liberalization

The above would suggest that commitments in the various modes of supply in the GATS could be linked to the state of development of a country's financial sector. Binding financial sector reform in GATS Mode 3 (commercial presence) would make sense during the later stages of internal financial sector reform, and Mode 1 (cross–border) liberalization in the context of capital account opening. Commitments under Mode 2 (consumption abroad) can be a way of increasing competition in local financial markets in the context of gradual opening of the capital account. While allowing for some external opening, commitments under this mode provide policymakers with more liberty with capital controls. As previously mentioned, the agreement does not require capital account convertibility for these flows. The most demanding or liberal is Mode 1 commitment, which requires full capital account opening by the binding country for the liberalized activities and allows foreign providers to supply cross–border services to domestic residents. Restrictions on these flows can, however, be introduced on BOP grounds.

In summary, this means that those WTO members with less developed financial sectors should first see that basic policies on internal reform are in place. Once this is the case, Mode 3 commitments are advisable. Mode 1 and 2 commitments seem more appropriate when some external opening has taken place and appropriate prudential regulations and monetary

conditions are fulfilled. This should, however, not be used as an excuse in either delaying reform or not making commitments in the multilateral negotiations.

C. Indicators of Openness and Financial Sector Development

Indicators on the level of development of a country's financial sector (for examples, see Pill and Pradhan, 1995; Galbis, 1995; and World Bank, 1993) can be structural and related to key policy variables. The **financial depth** of an economy is used to indicate the extent to which an economy relies on a formal banking sector in financial intermediation. The measures used are aggregate of total financial assets in GDP such as narrow money (reserve money or M1), and broad money (demand and time deposits of deposit money banks or M2). A broader measure (financial liabilities or M3) is sometimes used (see, for example, World Bank 1993). Another measure of financial depth is the **share of private credit in total economic activity**.

The usefulness of these indicators depends on how representative the banking system is of total financial intermediation. At one extreme, if there is no banking system, broad money and bank lending are zero. If an informal sector is large or consumers hold assets outside the banking sector, the credit measure is naturally biased. Similarly, the GDP estimate is subject to valuation problems and the size of the informal sector.

Policy–related indicators on the development and policy framework of the financial sector can be the **share of net claims on government in total credit, inflation, the level of real interest rates, or spreads in financial intermediation**. Liberalization of interest rates and elimination of credit rationing are often first steps in financial sector reform. Therefore, positive real interest rates can be an indicator of development of the financial sector, as they are often a precondition to successful financial intermediation and incentives to save. If the government intervenes heavily in the credit markets, the share of government credit in total credit can be a good indicator of the existence of credit controls in the economy.

Openness in services has been discussed in recent literature under the heading of **contestability of markets**. Markets are considered contestable, i.e., open to foreign competition, when barriers to entry are low (Graham and Lawrence, 1996). This can cover barriers in both factor and product markets. Attempts have also been made to measure contestability despite the many practical difficulties involved. The indicators used have been related to either outcomes (market shares, prices, profitability) or comparing outcomes to benchmarks of competitive behavior.

Contestability or openness in banking and securities can be measured by a number of performance indicators. In open markets, **return on assets and equity** can measure the efficiency of resource allocation (Bossard, Wirth and Blattner, 1992). **Interest margins** can give an indication of the cost of traditional banking. Other outcome indicators can be **foreign share in total banking assets or liabilities, relative shares of banking activities in the**

economy, concentration ratios, profit or intermediation margins. The nature of restrictions on transfer on payments and transfer on the current and capital accounts can also give some indication of the external openness of financial sectors. This study measures openness by the share of foreign liabilities in total banking sector balance sheets. Profits are measured by gross return to assets of banks. Concentration is measured by the share of the assets of the three largest banks in total banking sector assets. The benchmarks can be obtained from the banking sectors of OECD countries.

A note of caution, however, is in order in interpreting the contestability indicators, especially in the financial sector. Performance indicators can vary across countries for reasons such as perception of risk and size of market, with little relation to competition or openness as such. Prices can vary according to quality or differentiation of products. Profits in some markets can be high because risk premiums are high, or concentration ratios of banks can depend on the economic size of the market or the firm. These problems can be more obvious in developing countries, because of more distorted markets in general. Their markets tend to be more regulated and closed to international competition and suffer from structural rigidities, such as lack of certain infrastructure or policy frameworks. In these circumstances, high returns on assets or equity, or high interest margins, can be a sign of lack of competition and inefficient allocation of resources, while in a more open framework they can measure profitability.

Apart from conceptual limitations, the analysis is also subject to many practical problems. The data are not always compatible across countries, as regulations and banking systems differ. For example, in some countries banking and securities business is strictly separated for prudential reasons; in some others, so–called universal banks deal in all types of financial transactions.

D. Financial Sector Development among GATS Participants

This section analyses the efficiency of financial intermediation in developing countries by comparing indicators of the level of financial development and competition to those of industrial countries. The latter can serve as benchmark for efficiency. Nearly all of them have current and capital account convertibility and relatively competitive and liberal financial sectors. The results in general confirm that emerging markets have more developed financial sectors than the other developing country group, and that efficiency of intermediation in both has the potential to improve.

The **broad money indicator** (M2/GDP, Chart 5) shows that in several emerging market countries the broad money indicator is well above the OECD country average (50–60 percent). Brazil, the Czech Republic, Egypt, Hong Kong, Israel, Malaysia, Morocco, Singapore, Slovakia, and Thailand have rates above 60 percent. In the developing country group, only one exceeds this level (Kuwait). The high level may also indicate heavy reliance

on the banking system compared to other forms of financial intermediation such as bonds or securities.

A similar pattern can be observed in the other indicator of financial depth—**private credit to GDP**. Hong Kong, Korea, Malaysia, Singapore, and Thailand in Asia, Brazil in Latin America, the Czech Republic in Europe, and Israel in the Middle East have high private credit to GDP ratios, indicating more developed financial sectors. In the developing country group, financial depth in general is lower. Some countries show a large discrepancy between the two indicators of financial depth—broad money and private credit in GDP. One explanation for this can be a high share of government in total credit (see below). The discrepancy is even more pronounced in the developing country group.

In the emerging market group, most countries now have **positive real interest rates** (Chart 7)[21]. Only eight of the emerging market countries maintained negative interest rates in 1994. In the developing country group, nearly one–half of the countries for which data are available maintained negative real interest rates, suggesting that controls on interest rates or credit are still prevalent in many of these countries. This is supported by the data on **government share (claims on government) in total credit** (Chart 8), which in many of the countries is relatively high in general, or in comparison with the first group. Hungary, India, Morocco, Pakistan, and Poland show high shares of government (more than one–fifth) in total credit. In the developing country group, seven had a high share of lending going to the private sector.

Data on **spreads** (lending less deposit rates) (Chart 9) also indicate that they are in general higher in the developing country group compared to the emerging market one. In the former, spreads in many countries are in double digits. The comparable numbers in industrial countries are in general much lower—in the 3 to 5 percentage point range. This suggests the potential for improved efficiency of financial intermediation in many of the participating countries.

Openness in the emerging—markets group, measured by the share of foreign assets in total financial sector assets, was very high in some countries—Hong Kong, Singapore, and Turkey have shares above 20 percent. This is still well below the rates in industrial countries (Chart 3). Data are available for the developing country group. Many of the emerging market group countries maintain restrictions on the current and capital account transactions, which reduces openness (Annex Table). If the openness indicators of industrial countries are of any guidance, there should be much potential for internationalization of banking activities in these emerging markets. Gradual opening to cross–border flows and to foreign presence in the WTO context can promote this process.

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[21]Measurement of real interest rates (defined as deposit rate less inflation), in high inflation countries and across countries due to differing definitions can at times be difficult. Similar problems apply to measurement of spreads.

Profitability (Chart 10) indicators are higher in many emerging markets than in the OECD countries. In 1994 the data indicate that Malaysia, Pakistan, and Thailand had the most profitable banking sectors among the emerging markets. This could reflect limited competition, as many of these markets are relatively closed to foreign participation, either in establishment or in maintaining restrictions on cross–border flows (see Annex Table). Consumers in emerging markets would benefit from more competition in financial services. High profits can also indicate that banks could meet the challenge of liberalization. In this sense, U.S. insistence during the WTO negotiations on more rapid opening up of banking sectors in many Asian countries is understandable.

Inefficiency can also lead to losses in countries closed markets for foreign banks and whose banks are making losses. In such cases, the establishment of the health of the domestic financial system may be a precondition for opening. Allowing access to foreign providers or for cross–border flows can improve competition, but may not have any direct impact on the regulatory framework of the financial sector and could lead to widespread banking problems.

Concentration ratios[22] (Chart 11) are slightly higher in emerging markets than in industrial countries. Among the emerging markets, Hong Kong has the lowest concentration ratio, while some transition countries have high ones, along with India, Israel, and Morocco. In some of these countries high concentration is likely to reflect lack of competition (India). In a number of transition countries, domestic banks struggle with large non–performing portfolios, which can create resistance to opening up to foreign competition.

Capital adequacy ratios[23] are sometimes used to measure the soundness of banking in various countries (Chart 12). As seen in Chart 12, these are higher in developing countries than in the OECD countries. In general, this reflects regulatory frameworks and judgements by authorities on the riskiness of banking. High required ratios can also increase the cost of banking and affect the competitiveness of a country's banks. However, cross–country comparisons are difficult, owing to significant differences in definitions of these ratios in different countries.

Despite their deficiencies, the above indicators of the level of financial sector development and contestability, when taken together, tend to confirm a picture that banking sectors in the emerging market group are more developed than those in the other developing countries, which is no surprise. The contestability indicators also suggest that in many emerging markets more foreign participation could bring benefits of higher competition and reduce the high margins and provide a broader range of services. Many of these sectors also have relatively sound capital adequacy ratios, which also speaks for more opening. In the

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[22]The share of the largest bank in total banking assets.

[23]The share of capital in total assets.

developing country group, basic financial sector reforms might be called for in many countries to improve savings mobilization and more efficient financial intermediation.

While the indicators provide some broad pictures of the nature of competition in banking in different countries, one should be cautious in using them for policy purposes. However, one should be even more cautious in using these indicators as specific targets of negotiations to liberalize the sectors. There is no correct ratio of openness or profits in which one can pin down negotiations.

E. Financial Development and GATS Commitments

In comparing the above financial sector data to the GATS bindings, it seems that the emerging market group was relatively cautious in binding their policies compared to the actual level of development of their financial sectors. This applies especially to cross–border trade, but bound access to their domestic financial markets also remains relatively limited. Industrial countries also bound less than the state of development of their financial sectors suggests. Nearly all have free cross–border trade, while few made commitments in Mode 1. The data suggest that financial sectors in many emerging markets are quite developed and generate high profits. This would mean that they also have plenty of room for additional unilateral or multilateral liberalization (bound or unbound). In the other developing country group, some commitments may be very liberal in view of the state of development of their financial sectors. The high spreads indicate that efficiency of intermediation could improve.

The above hypotheses were tested for developing countries with regression analysis. The dependent variable is an "indicator" of restrictiveness of the GATS commitments in each mode of supply (1,2,3). These were regressed on indicators of financial sector development, such as private credit/GDP ratio, M2/GDP, level of real interest rates or share of government in credit, and indicators of degree of competition, such as pre–tax profits and concentration ratios in banking. No correlation between GATS bindings and indicators of financial development or openness means that actual liberalization is very different from the bindings. Correlation of openness indicators with those of financial sector development would support this as well.[24]

The regressions run on the key variables show that there is little correlation between the binding and the development or competition indicators. The variables of financial sector

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[24]Measurement of restrictiveness by a numeric indicator can be subject to specification and measurement problems with OLS (ordinary least squares) regressions. Another possible technique can be a Probit model. However, the subjective or poor nature of the data on the dependent variable limits the usefulness of more sophisticated estimation methods and makes any estimation indicative only.

development or openness do not explain the variations in restrictions in the emerging market group. The t–statistics are not significant for any of the variables, and most signs are wrong (Table 2).

When actual openness is regressed on indicators of level of financial sector development, the results are better for the emerging market group. This would give support to the hypothesis that in reality actual openness tends to be larger in countries with more developed financial sectors. Openness is best explained by the ratio of private credit to GDP (positive and significant) and the share of government in total credit (negative and significant). The government share in total credit seems to explain the openness of countries' financial sectors. Both are indicators of financial sector development and low involvement of the government in credit decisions of banks.

The above would suggest that countries did not make very rational bindings in the financial sector negotiations. In this sense, the multilateral liberalization only amounted to partial consolidation of existing financial sector policies. The bindings reflect more mercantilistic bargaining than economics. The high profit indicators in many emerging markets compared to industrial countries would also suggest that further unilateral liberalization would benefit efficiency. Also, industrial countries seem to have been keener to push for commercial presence in many of the emerging markets than in liberalizing cross–border flows into those countries. Many banking services by nature also require local presence. The latter would increase competition for existing and new banks in the sectors.

V. Conclusions

The GATS agreement in financial services and the submitted schedules—temporary and conditional bindings—are a start for multilateral liberalization in the sector. Actual liberalization was small and the bindings are likely to have only or locked in policies/practices in some sectors and countries. The agreement fails to meet many tests for a good multilateral agreement in services, because the many exemptions allowed and conditions attached imply some discrimination and reduce security of market access. Capital account provisions are weak, implying limited capital account opening from GATS. Security of market access is also reduced by the temporary nature of the bindings in market access.

The main immediate importance of the financial services agreement is systemic and political. It reinforces the multilateral system and will form a basis for further and continued multilateral liberalization in the sector. Multilateral binding of financial sector liberalization should ensure that countries will not backtrack on commitments without due consultation with their trading partners. The multilateral dispute settlement system is also available for participants to resolve their differences. At present, it is the only multilateral agreement that deals with barriers to investment and to capital mobility. In the near future, some competition to the GATS agreement may come from the MAI of the OECD.

Most commitments were in commercial presence and subject to many conditions. In cross–border trade, apart from industrial countries and some developing countries, actual commitments were relatively limited. The literature on financial sector reform suggests some caution with opening strategies, because of its links to macroeconomic management and the high systemic costs of banking crises.

The actual level of liberalization differs from the bindings made. The bindings have little correlation with the level of financial sector development or actual openness, especially in the developing country members. Many countries with relatively developed financial sectors made restrictive bindings, while some with less developed financial sectors made very liberal commitments, especially in cross–border trade. This suggests that mercantilistic bargaining rather than economics explains the outcome of the negotiation. In many emerging and developing countries contestability indicators suggest that competition is restricted. Further unilateral or multilateral liberalization could bring additional efficiency gains, especially in many of the emerging markets. This is already happening unilaterally, as some countries have realized that efficient financial sectors are an important element of overall competitiveness and growth performance. Whether these reforms will be bound multilaterally in the next rounds of negotiations remains to be seen. This may depend on the results of the OECD MAI negotiations and the number of participants it attracts, or whether countries see some trade–offs in the WTO in other sectors in market access.

Table 1. Regression Results between GATS Commitments and Financial Sector Indicators

Dependent Variable	Independent Variables - Coefficients and t-statistics (in brackets)						Statistical tests			
Emerging Markets	M2/GDP	Openness	Pr. Credit	Profits	Interest rate	Government Share	C	R2	DW(1)	F
Mode 1 Index										
1.		-0.04 (0.23)					21.2 (8.2)	0.00	2.3	0.05
2.	0.03 (0.6)						19.0 (5.9)	0.01	2.2	0.35
3.			0.006 (0.24)				20.3 (9.5)	0.00	2.2	0.06
4.				-0.11 (1.7)			23.3 (10.9)	0.12	2.0	2.8
5.					0.09 (0.97)		20.8 (13.4)	0.04	2.1	0.9
6.						11.1 (0.8)	19.0 (7.2)	0.03	2.3	0.7
7.		-0.02 (0.08)	0.02 (0.5)		0.06 (0.61)	14.9 (0.9)	17.6 (3.9)	0.09	2.1	0.4
8.		-0.07 (0.4)	0.03 (0.8)			17.4 (4.0)	17.4 4.0	0.07	2.2	0.4

Table 1. Regression Results between GATS Commitments and Financial Sector Indicators (Cont'd)

Dependent Variable	Independent Variables - Coefficients and t-statistics (in brackets)						Statistical tests			
Emerging Markets	M2/GDP	Openness	Pr. Credit	Profits	Interest rate	Government Share	C	R2	DW(1)	F
Mode 2										
1.		-0.52 (2.3)					21.8 (6.6)	0.21	2.4	5.3
2.	0.07 (1.0)						11.7 (2.6)	0.05	2.0	1.0
3.			-0.02 (0.5)				16.8 (5.5)	0.01	2.3	0.30
4.				-0.09 (0.2)			17.8 (5.6)	0.04	2.1	0.8
5.					0.16 (1.3)		16.0 (7.3)	0.08	2.0	1.7
6.						27.8 (1.5)	11.5 (3.1)	0.09	2.5	2.1

Table 1. Regression Results between GATS Commitments and Financial Sector Indicators (Cont'd)

Dependent Variable	**Independent Variables - Coefficients and t-statistics (in brackets)**						**Statistical tests**			
Emerging Markets	M2/GDP	Openness	Pr. Credit	Profits	Interest rate	Government Share	C	R2	DW(1)	F
Mode 3										
1.		-0.15 (0.85)					21.3 (7.9)	0.03	1.5	0.7
2.	0.04 (0.9)						16.9 (5.0)	0.03	1.7	0.7
3.	-0.02 (0.7)						20.5 (9.2)	0.02	1.5	0.5
4.				-0.05 (0.7)			20.7 (8.7)	0.02	1.9	0.5
5.					0.07 (0.7)		19.5 (11.9)	0.03	1.8	0.6
6.						-17.6 (1.2)	22.2 (8.1)	0.07	1.8	1.5
7.		-0.22 (1.2)				-22.0 (1.5)	25.4 (6.7)	0.14	1.4	2.7
8.		-0.3 (0.13)	-0.05 (1.6)		0.11 (1.23)	-34.9 (2.1)	28.4 (6.6)	0.26	1.3	1.5

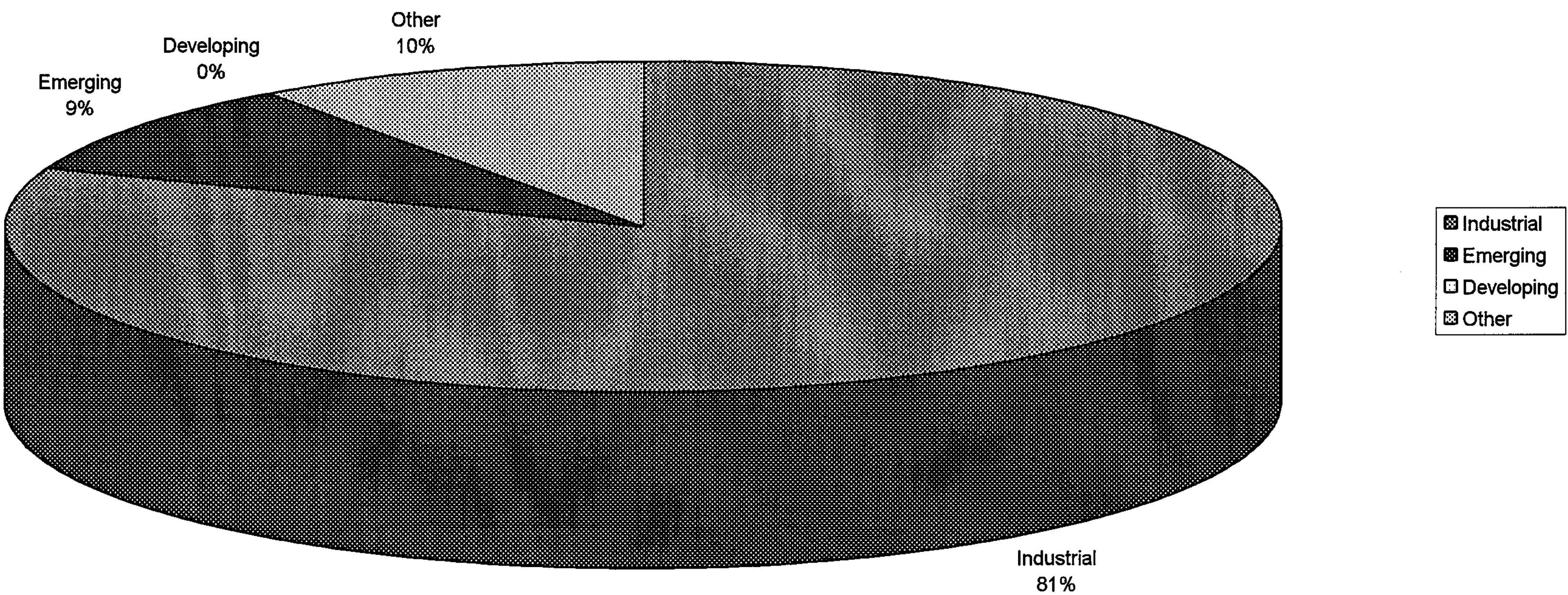
Table 1. Regression Results between GATS Commitments and Financial Sector Indicators (Cont'd)

Dependent Variable	**Independent Variables - Coefficients and t-statistics (in brackets)**						**Statistical tests**			
Emerging Markets	M2/GDP	Openness	Pr. Credit	Profits	Interest rate	Government Share	C	R2	DW(1)	F
Openness										
1.			0.06 (2.2)				8.0 (3.2)	0.20	2.6	4.9
2.	-0.04 (0.6)						14.0 (3.4)	0.02	2.4	0.4
3.				0.07 (0.8)			10.0 (3.5)	0.03	2.6	0.60
4.					-0.16 (1.4)		11.5 (6.0)	0.09	2.6	2.0
5.			0.07 (2.6)		-0.18 (1.9)		7.5 (3.2)	0.32	2.8	4.5
6.						18.5 (1.0)	14.6 (4.3)	0.06	2.6	1.2

Table 1. Regression Results between GATS Commitments and Financial Sector Indicators (Concluded).

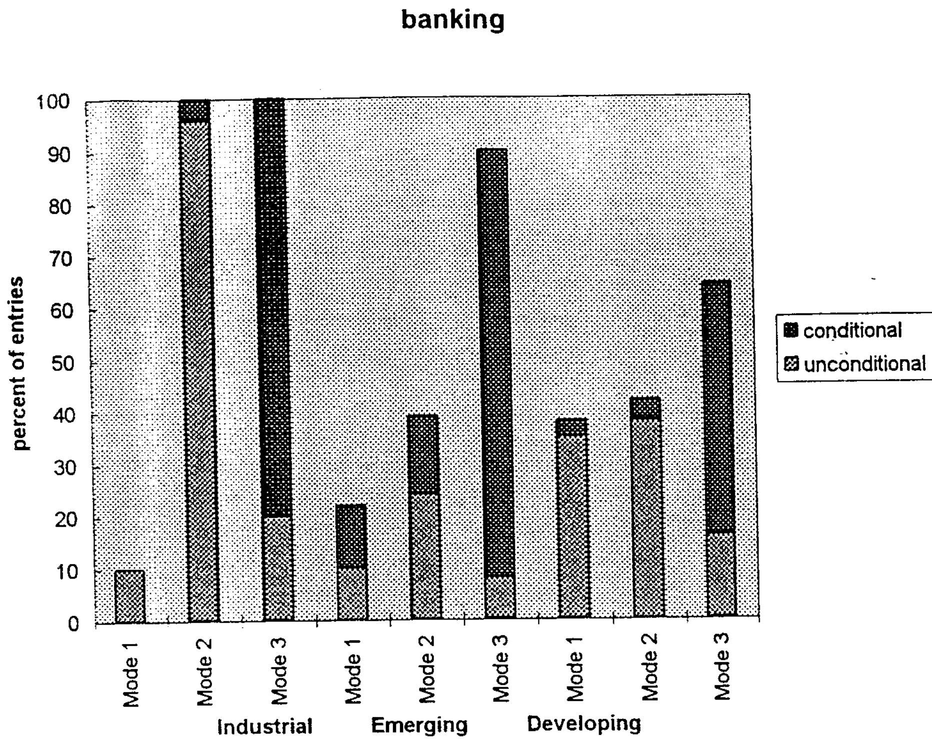
Dependent Variable	Independent Variables - Coefficients and t-statistics (in brackets)						Statistical tests			
Developing Countries	M2/GDP	Openness	Pr. Credit	Profits	Interest Rate	Government Share	C	R2	DW(1)	F
Mode 1										
1.						0.06 (0.4)	13.3 (3.9)	0.00	2.3	0.15
2.			0.10 (0.70)				11.8 (2.7)	0.02	2.1	0.5
3.		-0.3 (1.5)					19.2 (4.9)	0.11	1.8	2.4
Mode 2										
1.						-0.15 (1.0)	15.3 (4.6)	0.05	1.7	0.9
2.			0.11 (0.8)				10.3 (2.4)	0.03	1.9	0.6
3.		-0.3 (1.5)					18.9 (5.2)	0.13	2.2	2.9
Mode 3										
1.			0.20 (2.0)				9.9 (3.3)	0.17	0.52	4.1
2.						0.11 (1.0)	13.1 (5.3)	0.04		
3.		0.02 (0.2)					15.9 (5.9)	0.00	0.4	0.00
Openness **1.**			-0.03 (0.2)			-0.03 (0.2)	18.6 (2.9)	0.0	2.1	0.0

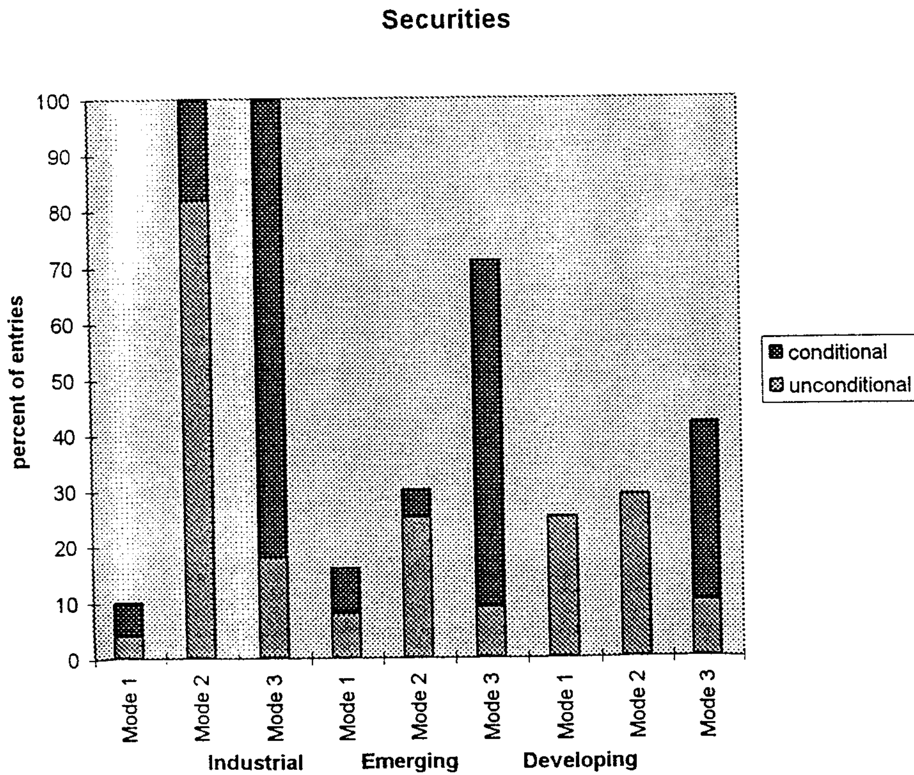
Chart 1. Distribution of World Banking Assets



Source: IFS and The Banker

Chart 2. Shares of Commitments Made by Mode of Supply

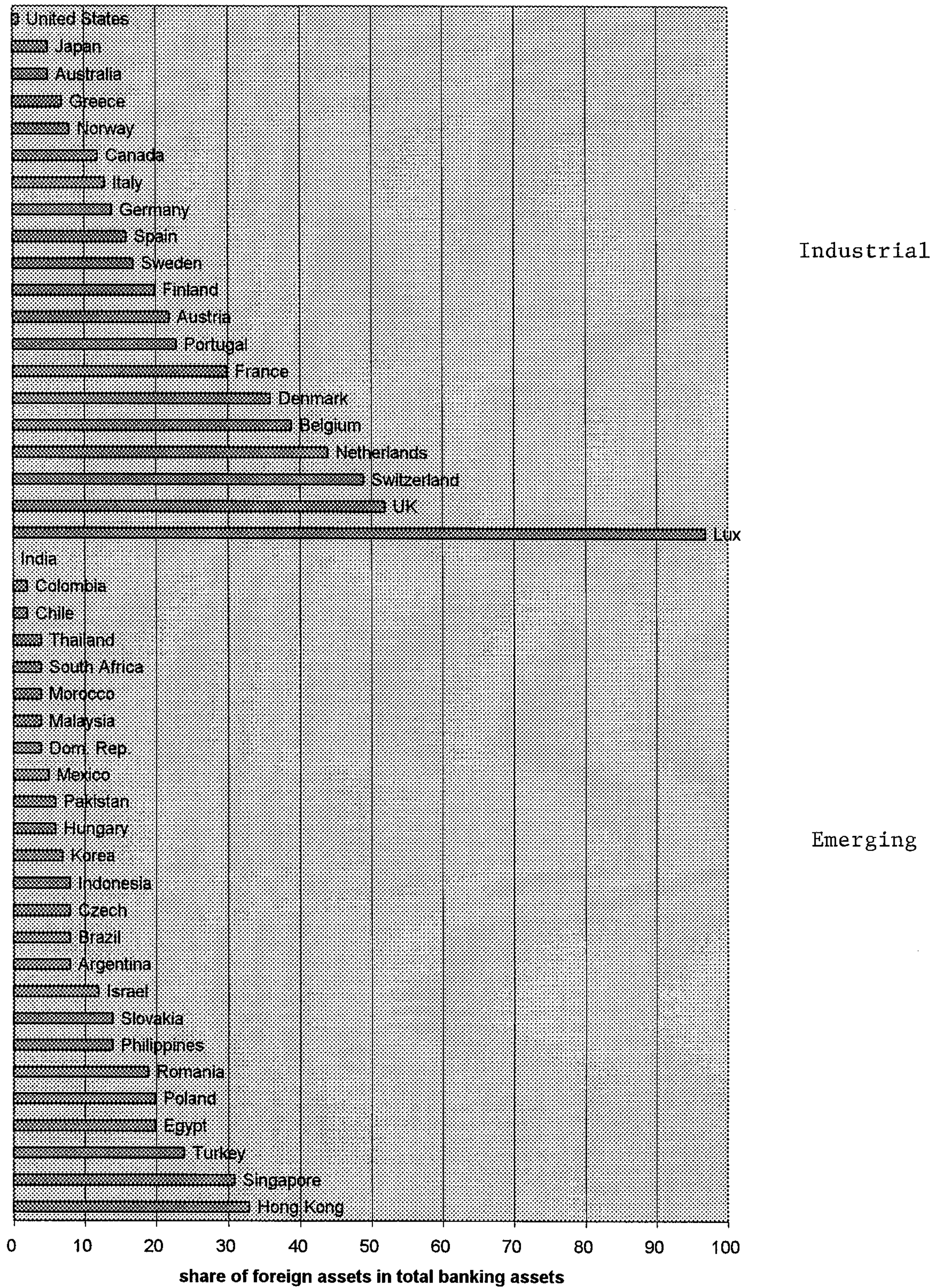




Source: WTO

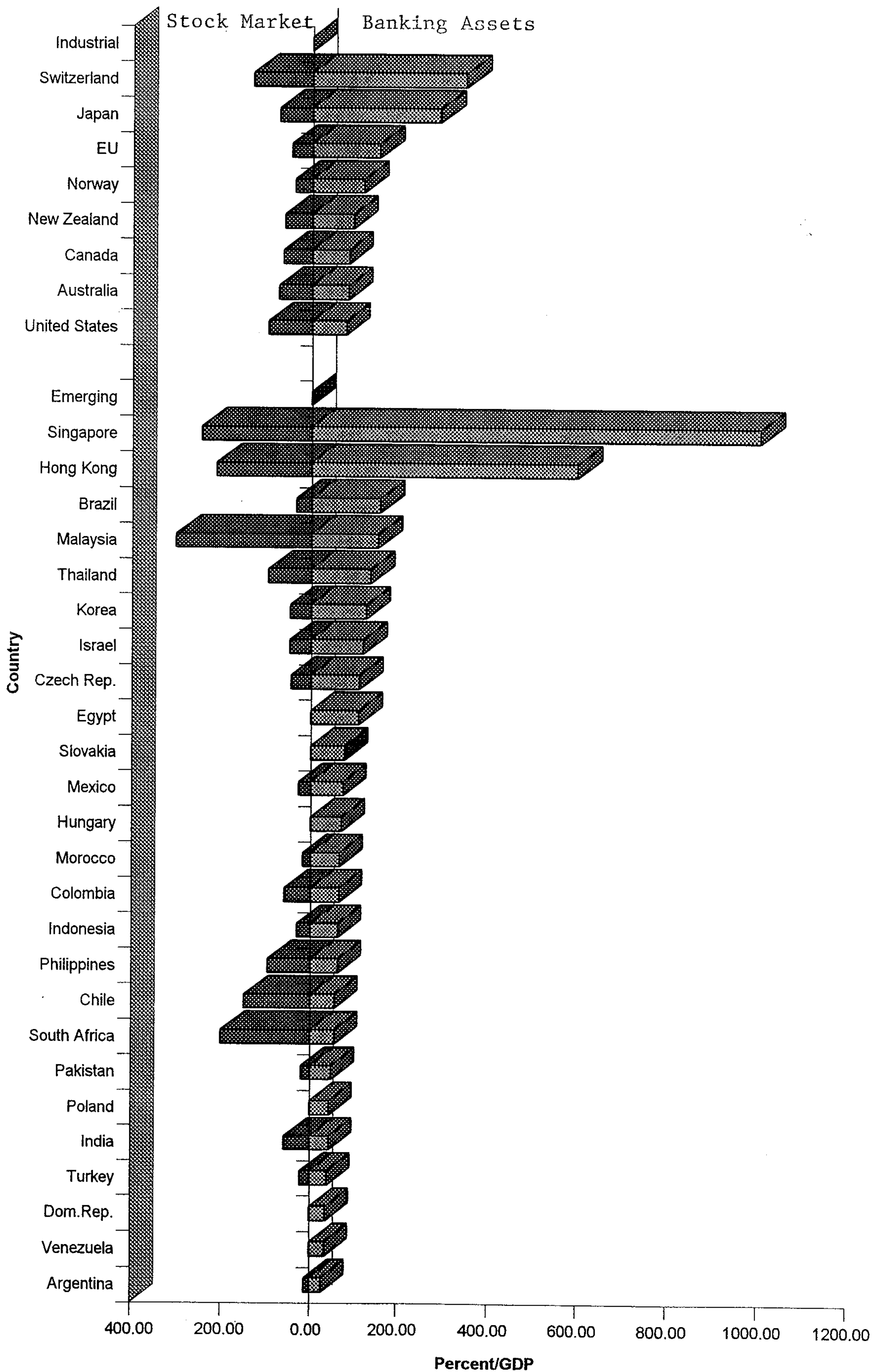
Entry = financial services subsector in which conditional or unconditional commitments were made (unweighted).

Chart 3. Openness in Banking in Industrial Countries and Emerging Markets, 1994



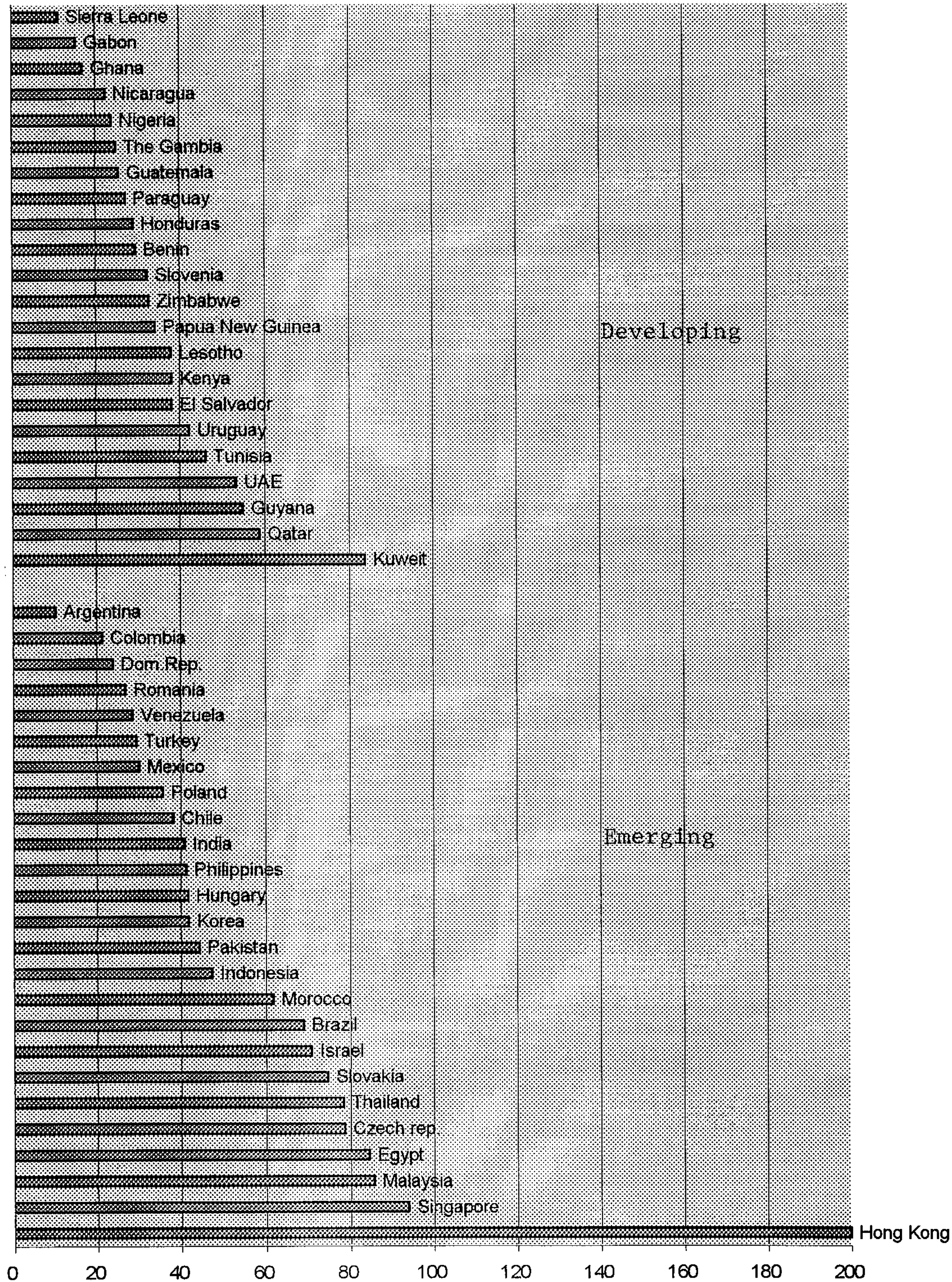
Source: IFS

Chart 4. Stock Market Capitalization and Banking Assets/GDP in Industrial and Emerging Markets, 1994



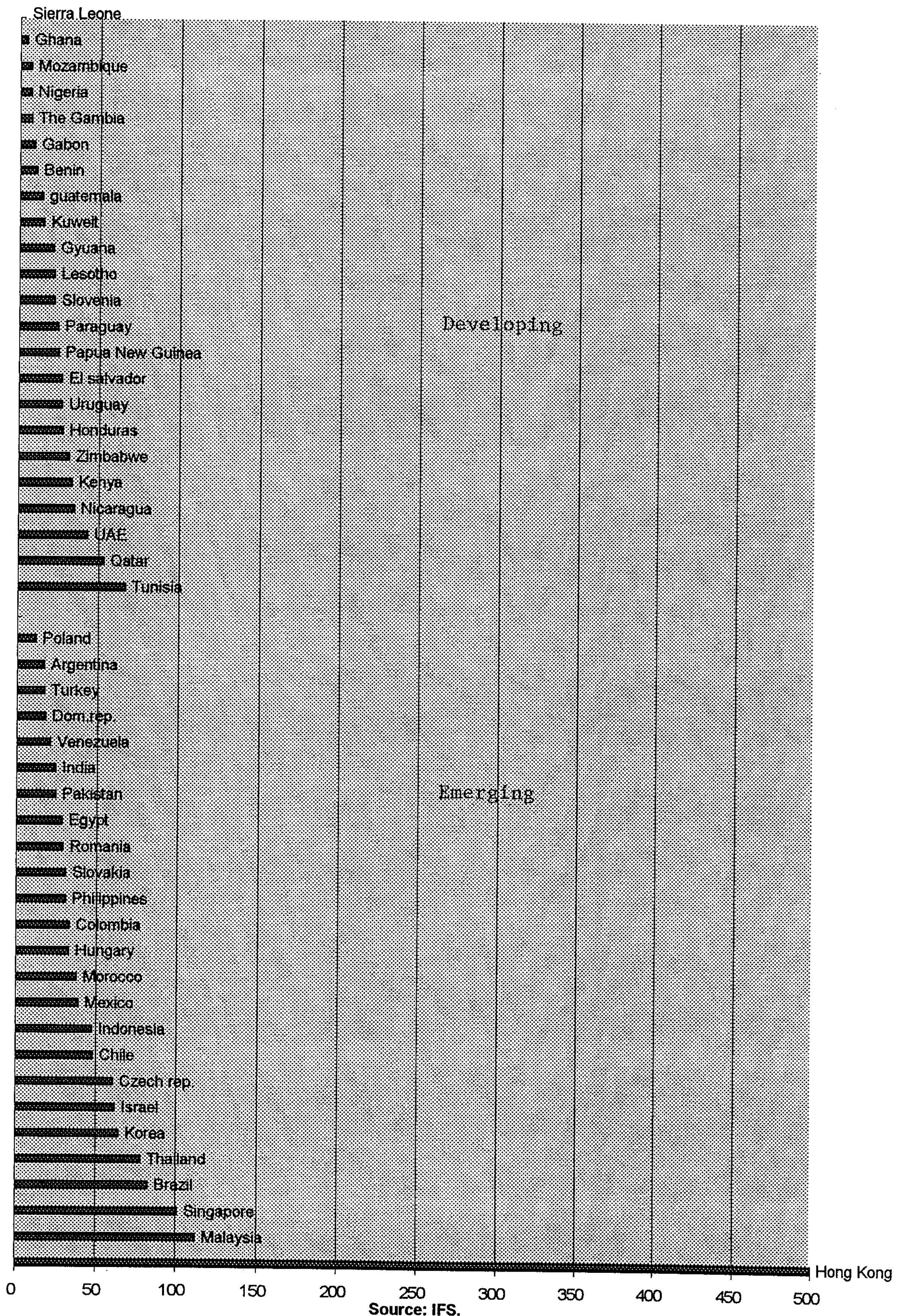
Source: IFS and Baring Securities

Chart 5. Financial Depth (M2/GDP) in Emerging Markets and Developing Countries, 1994 or latest



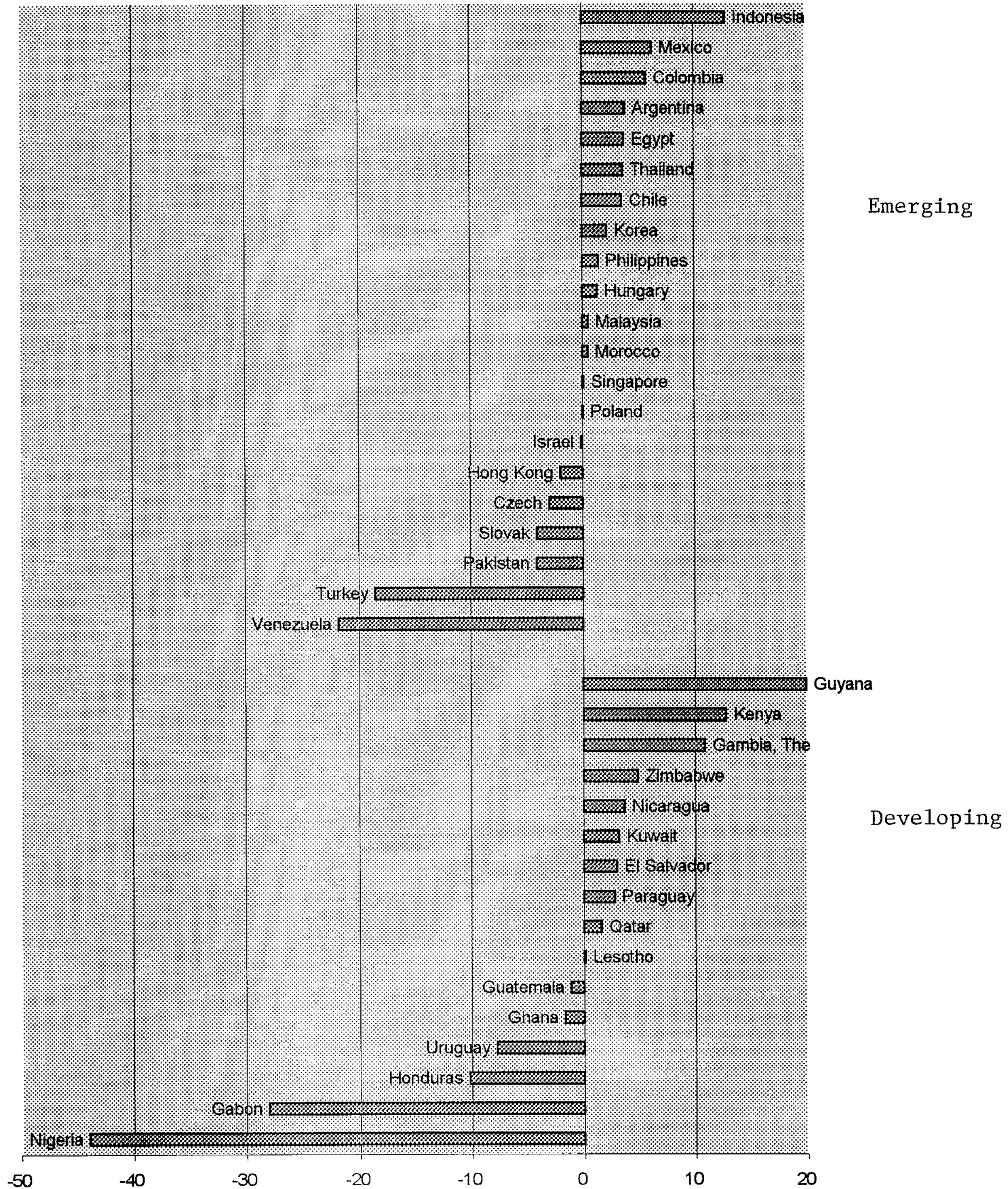
Source: IFS

Chart 6. Financial Depth (private credit/GDP) in Emerging Markets and Developing Countries, percent, 1994 (or latest)



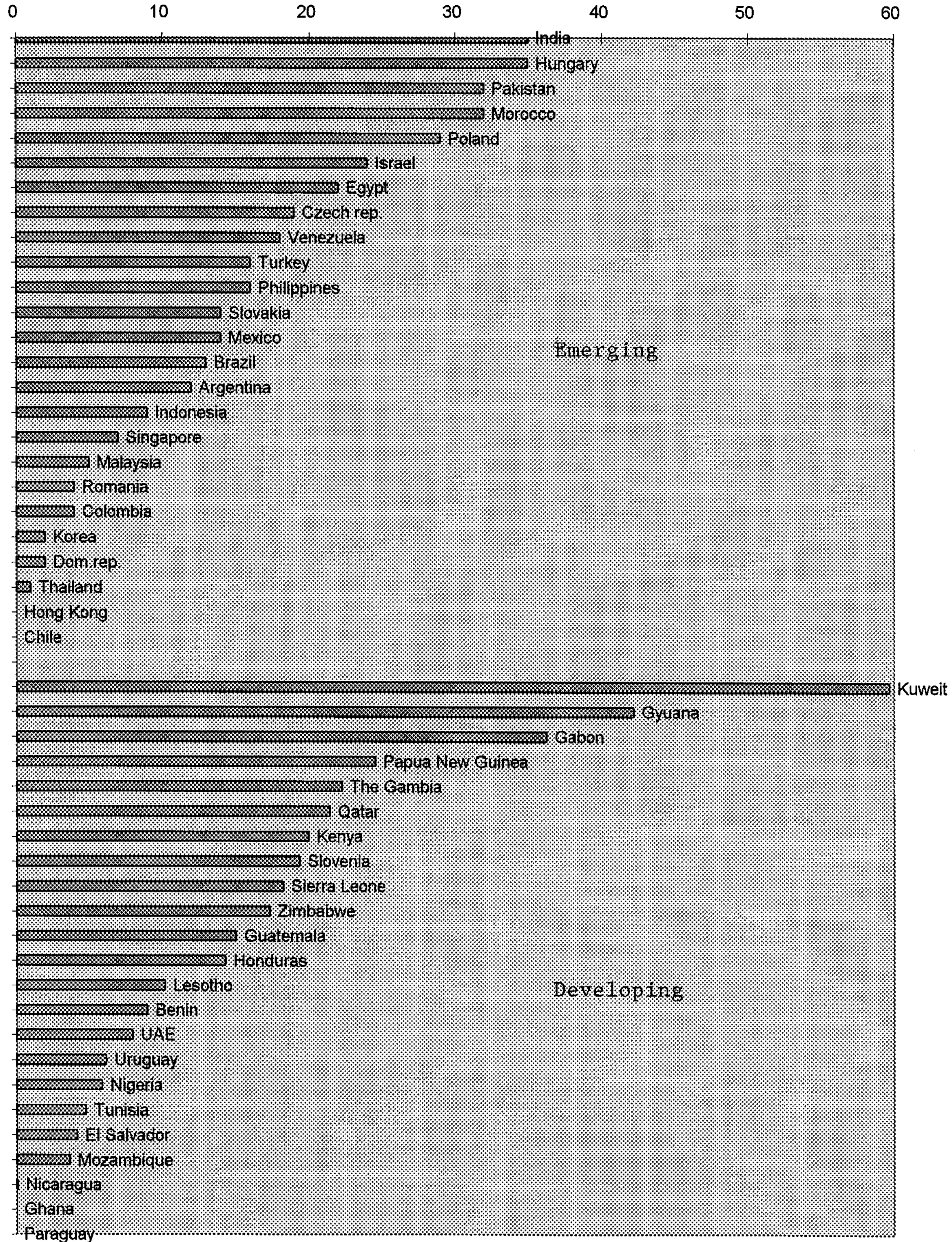
Source: IFS.

Chart 7. Real Interest Rates in Emerging Markets and Developing Countries, 1994 or latest



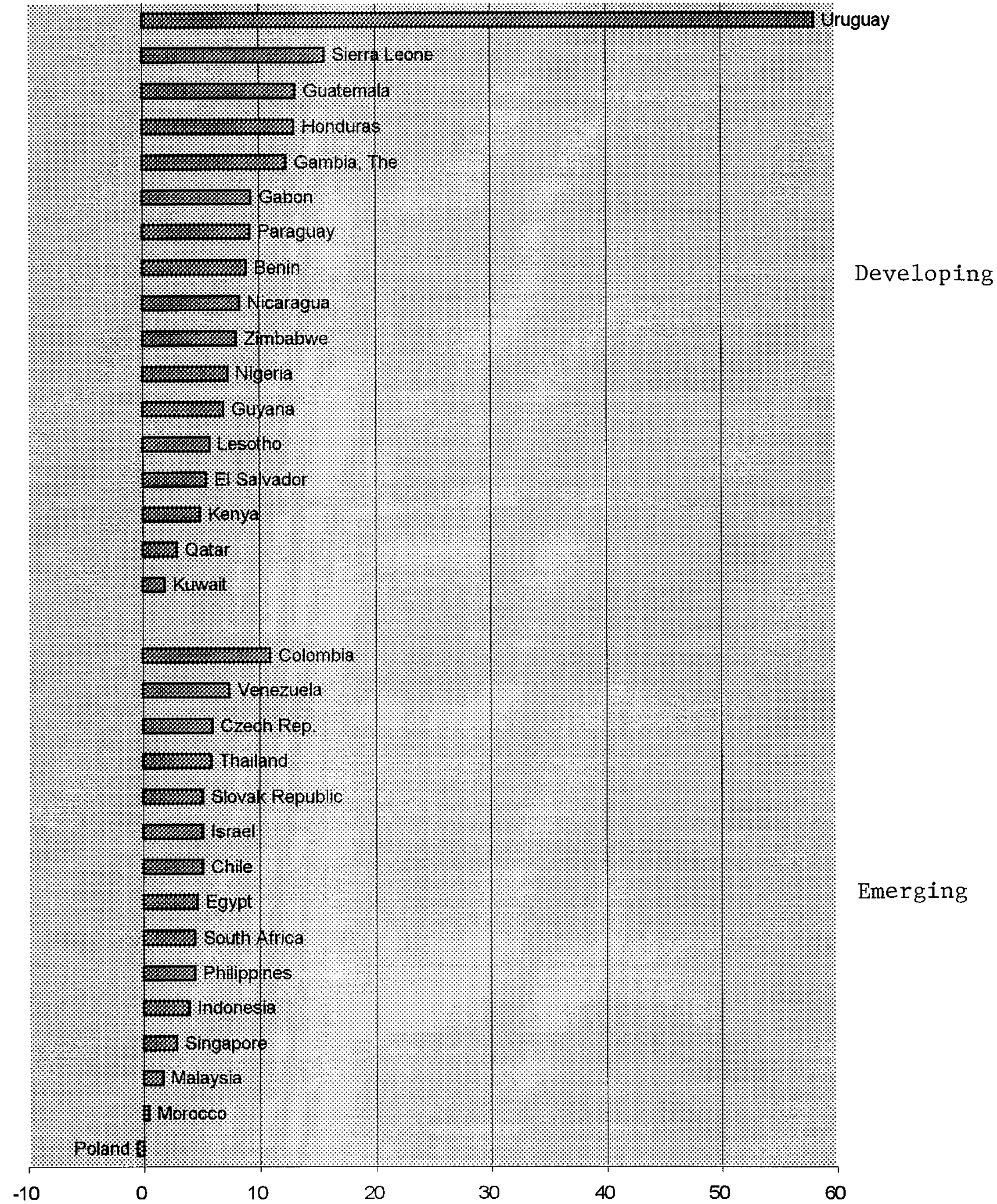
Source: IFS. Real interest rate = deposit rate - inflation.

Chart 8. Share of Government in Total Credit in Emerging Markets and Developing Countries, 1994, percent



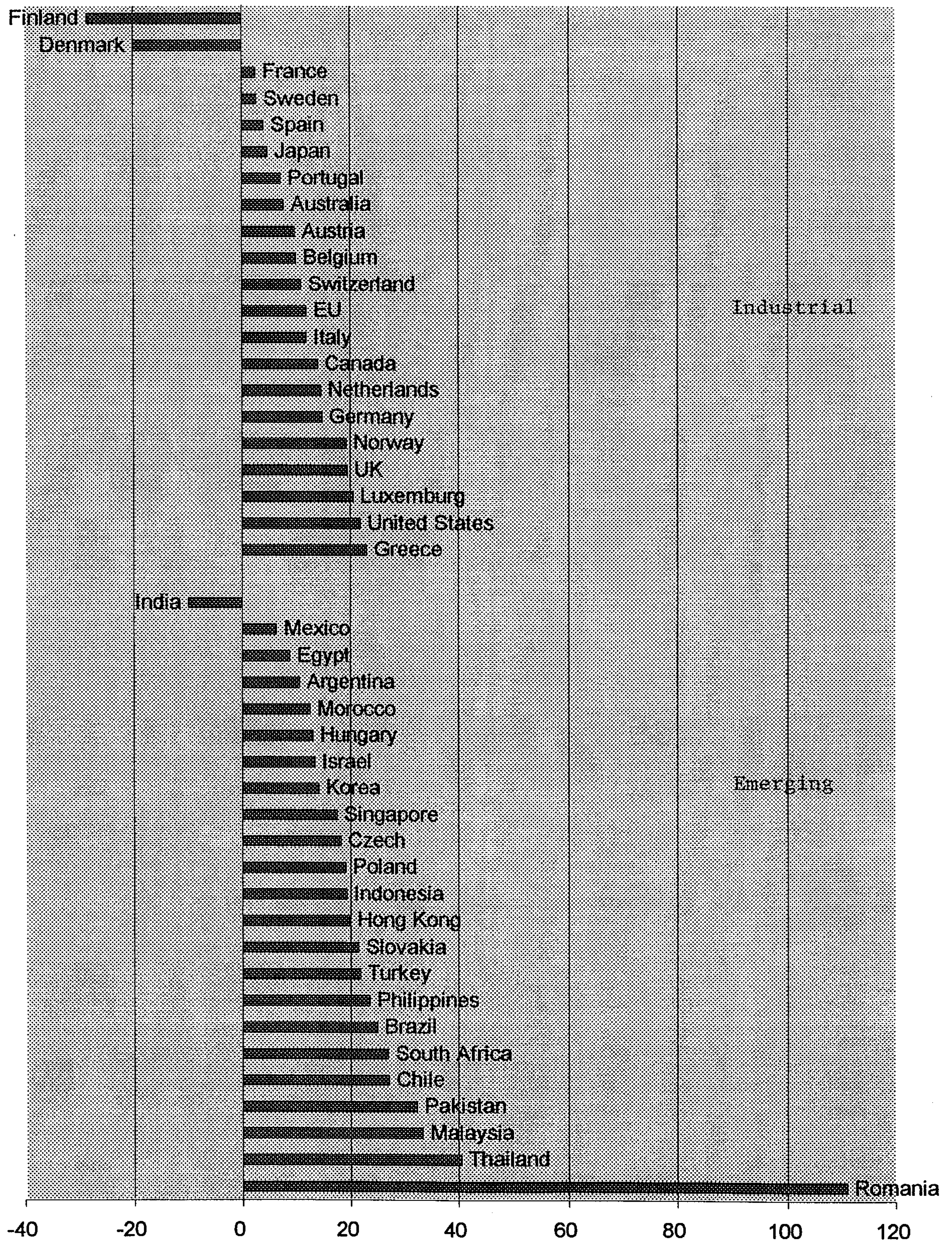
Source: IFS

Chart 9. Spreads in Emerging Market and Developing Countries, percentage points, 1994 or latest



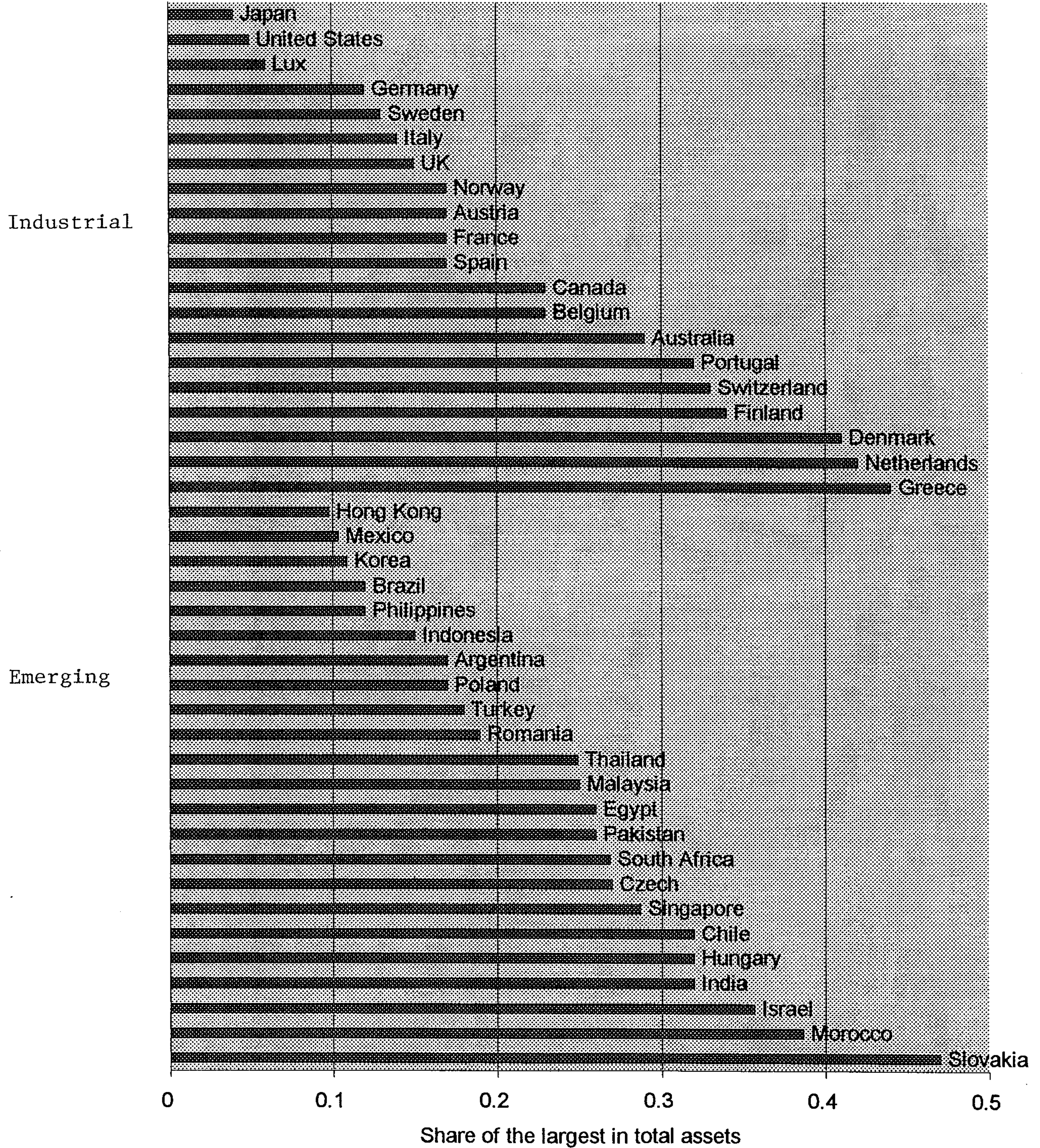
Source: IFS. Spread = lending - deposit rate. Comparisons across countries are subject to measurement problems due to differing definitions.

Chart 10. Profitability in Banking (1994 or 1993)



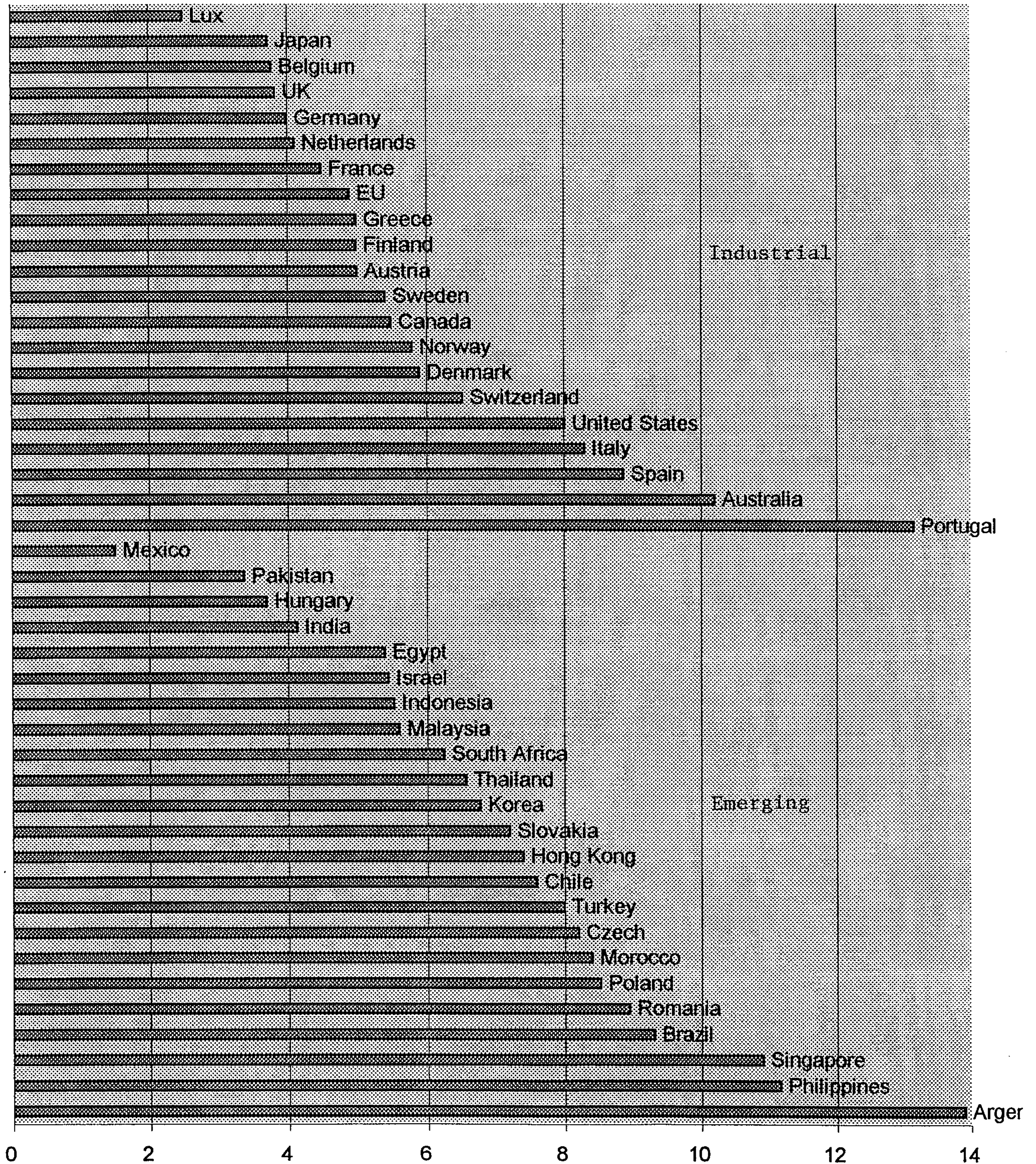
Return on capital. Sample includes banks that are among the 1000 world largest in terms of capital. * = non-offshore only.

Chart 11. Concentration in Banking in Emerging Markets and in Developing Countries, 1994



Source: The Banker and IFS.

Chart 12. Capital Adequacy Ratios in Industrial Countries and Emerging Markets (1994 or 1993)



Source: The Banker and IFS. Capital adequacy = capital/total assets. Data from a sample including banks that are among the 1000 world largest in terms of capital.

Annex Table 1. Restrictions on Payments Transfers

	Current Account Restrictions	Capital Account Restrictions	Acceptance of Article VIII
Industrial			
Aruba	-	x	x
Australia	-	-	x
Canada	-	-	x
EU Members	-	x	x
Iceland	-	x	x
Japan	-	-	x
Liechtenstein	-	-	x
New Zealand	-	-	x
Netherlands Antilles	-	x	x
Norway	-	-	x
Switzerland	-	-	x
United States	-	-	x
Emerging Markets			
Argentina	-	-	x
Brazil	x	x	-
Chile	-	x	x
Colombia	x	x	-
Czech Republic	-	x	x
Dominican Republic	-	x	x
Egypt	x	x	-
Hungary	x	x	x
India	x	x	x
Indonesia	-	-	x

Annex Table 1. Restrictions on Payments Transfers (Cont'd)

	Current Account Restrictions	Capital Account Restrictions	Acceptance of Article VIII
Israel	-	x	x
Korea	-	x	x
Malaysia	-	-	x
Mexico	-	x	x
Morocco	-	x	x
Pakistan	-	x	x
Philippines	-	x	x
Poland	-	x	x
Romania	x	x	-
Singapore	-	-	x
Slovakia	-	x	x
South Africa	-	x	x
Thailand	-	x	x
Turkey	-	x	x
Venezuela	x	x	x
Other Developing			
Angola	x	x	-
Benin	-	x	x
Brunei	-	-	x
Cuba	n.a.	n.a.	n.a.
El Salvador	-	x	x
Gabon	-	x	x
Gambia	-	-	x

Annex Table 1. Restrictions on Payments Transfers (Concluded)

	Current Account Restrictions	Capital Account Restrictions	Acceptance of Article VIII
Ghana	-	x	x
Guatemala	-	-	x
Guyana	-	x	x
Honduras	-	-	x
Kenya	-	x	x
Kuweit	-	-	x
Lesotho	-	x	-
Mozambique	x	x	-
Nicaragua	-	-	x
Nigeria	x	x	-
Papua New Guinea	-	x	x
Paraguay	-	x	x
Qatar	-	-	x
Sierra Leone	-	x	x
Slovenia	-	x	x
Tunisia	-	x	x
UAE	-	-	x
Uruguay	-	x	x
Zimbabwe	x	x	x

Source: IMF Annual Report on Exchange Arrangements and Exchange Restrictions, 1996

Annex Table 2. Summary of GATS Market Access Commitments by Country

Industrial Country Group						
			MODE 1			
	Banking		Securities		Other	
	n	o	n	o	n	o
Aruba	-	-	-	-	2,00	-
Australia	-	-	-	-	-	2,00
Canada	-	-	-	-	1,00	1,00
EU	-	-	-	-	-	2,00
Japan	-	-	-	-	2,00	-
N.Antilles	-	-	-	-	2,00	-
New Zealand	-	-	-	-	2,00	-
Norway	-	-	-	-	-	2,00
Switzerland	5,00	-	2,00	3,00	-	2,00
United States	-	-	-	-	-	2A
			MODE 2			
	Banking		Securities		Other	
	n	o	n	o	n	o
Aruba	5,00	-	-	5B	2,00	-
Australia	5,00	-	5,00	-	2,00	-
Canada	5,00	-	4,00	1,00	2,00	-
EU	4,00	1,00	2,00	3EC	-	2,00
Japan	4	1C	3,00	2,00	2,00	-
N.Antilles	5,00	-	5,00	-	2,00	-
New Zealand	5,00	-	5,00	-	2,00	-
Norway	5,00	-	4,00	1C	2,00	-
Switzerland	5,00	-	4,00	1,00	2,00	-
United States	4,00	1C	3,00	2C	2,00	-
			MODE 3			
	Banking		Securities		Other	
	n	o	n	o	n	o
Aruba	-	5ACD	-	5ACD	-	2AC
Australia	-	5ACDEF	-	5ACDEF	2,00	-
Canada	-	5CDEF	-	5CDE	1,00	1,00
EU	-	5ACDEF	-	5ACDE	2,00	-

Annex Table 2. Summary of GATS Market Access Commitments by Country (Cont'd)

Japan	5,00	-	4,00	1,00	2,00	-
N.Antilles	-	5ACDE	-	5ACDE	-	2AEC
New Zealand	5,00	-	5,00	-	2,00	-
Norway	-	5DEF	-	5DE	-	2,00
Switzerland	-	5AC	-	5AC	-	2AC
United States	-	5ACDEF	-	5AC	-	2a
Emerging Markets Group						
			MODE 1			
	Banking		Securities		Other	
	n	o	n	o	n	o
Argentina	-	-	-	-	2,00	-
Brazil	-	-	-	-	-	-
Chile	-	1 CE	-	-	-	-
Colombia	-	-	-	-	-	-
Czech rep.	-	-	-	-	-	2CE
Dom.Rep.	1,00	-	-	-	-	-
Egypt	-	-	4,00	-	-	-
Hong Kong	-	-	-	-	1,00	-
Hungary	-	2AC	-	-	2,00	-
India	-	-	-	-	-	-
Indonesia	4,00	1A	-	-	-	-
Israel	-	-	5,00	-	2,00	-
Korea	-	-	-	-	-	-
Malaysia	-	5BCE	-	4ACE	-	1,00
Mexico	-	-	-	-	-	-
Morocco	1,00	1C	-	1C	n	-
Pakistan	-	-	-	-	-	-
Philippines	-	5,00	-	4,00	1,00	1,00
Poland	-	-	-	-	-	1C
Romania	3,00	-	1,00	-	1,00	-
Singapore	2,00	-	-	2,00	-	2AE
Slovakia	-	-	-	-	-	-
South Africa	-	-	-	-	-	-
Thailand	-	-	-	-	-	-

Annex Table 2. Summary of GATS Market Access Commitments by Country (Cont'd)

Turkey	-	-	-	-	2,00	-
Venezuela	-	-	-	-	1,00	-
			MODE 2			
	Banking		Securities		Other	
	n	o	n	o	n	o
Argentina	5,00	-	5,00	-	2,00	-
Brazil	-	-	-	-	-	-
Chile	-	-	-	-	-	-
Colombia	-	-	-	-	-	-
Czech rep.	-	5CE	-	4 CE	-	2CE
Dom.Rep	-	-	-	-	-	-
Egypt	-	-	4,00	-	-	-
Hong Kong	3,00	-	3,00	-	2,00	-
Hungary	1,00	1C	-	-	2,00	-
India	-	-	-	-	-	-
Indonesia	5,00	-	3,00	-	1,00	-
Israel	-	-	-	-	-	-
Korea	-	-	-	-	-	-
Malaysia	-	5BCE	2,00	2ACE	-	1,00
Mexico	-	-	-	-	-	-
Morocco	-	-	-	-	1,00	-
Pakistan	-	-	-	-	-	-
Philippines	5,00	-	4,00	-	2,00	-
Poland	-	-	-	-	-	1C
Romania	2,00	2A	1,00	-	1,00	-
Singapore	5,00	-	5,00	-	1,00	-
Slovakia	-	5CE	2,00	1CE	2,00	-
South Africa	-	-	-	-	-	-
Thailand	-	-	-	-	-	-
Turkey	3,00	2AE	4,00	-	2,00	-
Venezuela	-	-	2	-	2	-

Annex Table 2. Summary of GATS Market Access Commitments by Country (Cont'd)

			MODE 3			
	Banking		Securities		Other	
	n	o	n	o	n	o
Argentina	-	5C	-	5CE	-	2C
Brazil	-	5ADF	-	4ADF	-	1AF
Chile	-	3ACEF	-	3ACE	1,00	1AEF
Colombia	-	5ACE	-	5ACE	-	2ACE
Czech Rep.	-	5ACEF	-	5 ACE	-	2,00
Dom.Rep.	-	3AEF	2,00	-	-	-
Egypt	-	5ABCDE	-	4ACDE	1,00	1AE
Hong Kong	2,00	3ACDE	1,00	2DE	2,00	-
Hungary	2,00	3EF	2,00	3EF	2,00	-
India	-	5ABCDEF	-	4ABCDEF	-	1ABEF
Indonesia	-	5ACDEF	-	3ACDEF	-	1EF
Israel	5,00	-	5,00	-	2,00	-
Korea	-	4ABCDEF	-	4ABCDEF	-	1BEF
Malaysia	1,00	4ACDEF	-	4ACDEF	-	1ACEF
Mexico	-	3DEF	-	4CDEF	-	1EF
Morocco	-	5EF	1,00	1EF	1,00	-
Pakistan	-	5CDEF	-	5BCDEF	-	1,00
Philippines	-	5ABCDEF	-	4ABCDEF	1,00	1ABCEF
Poland	-	4ADE	-	2DE	-	2EC
Romania	-	4AC	-	1AE	1,00	-
Singapore	-	5ACEF	-	4ACEF	-	2ACE
Slovakia	-	5ACDE	-	3AECD	-	2AC
South Africa	-	5,00	-	4ADE	-	2AE
Thailand	-	5ACDEF	-	3ACDEF	-	2ACEF
Turkey	-	5ABCE	-	4ACDE	1,00	1AE
Venezuela	-	5ACDE	-	1ACDE	-	1ACE
Developing Country Group						
			MODE 1			
	Banking		Securities		Other	
	n	o	n	o	n	o
Angola	1,00	1A	-	-	-	-

Annex Table 2. Summary of GATS Market Access Commitments by Country (Cont'd)

Benin	1,00	1A	-	-	-	-
Brunei	-	-	-	-	-	-
Cuba	n.a.	-	-	-	-	-
El Salvador	-	-	-	-	-	-
Gambia	5,00	-	5,00	-	2,00	-
Gabon	1,00	-	3,00	-	2,00	-
Ghana	5,00	-	5,00	-	2,00	-
Guatemala	-	-	-	-	2,00	-
Guyana	2,00	-	-	-	-	-
Honduras	-	-	-	-	-	-
Kenya	-	-	-	-	-	-
Lesotho	-	-	-	-	-	-
Mozambique	5,00	-	5,00	-	2	-
Nicaragua	-	-	-	-	-	-
Nigeria	-	-	-	-	-	-
PNG	4,00	-	1,00	-	-	-
Paraguay	-	-	-	-	1,00	-
Sierra Leone	5,00	-	5,00	-	2,00	-
Slovenia	-	2CE	-	-	2,00	-
Tunisia	-	-	-	-	1,00	-
Uruguay	2,00	-	-	-	1,00	-
Zimbabwe	5,00	-	-	-	-	-
Kuwait	-	-	-	-	-	-
Qatar	5,00	-	5,00	-	2,00	-
UAE	5,00	-	4,00	-	2,00	-
			MODE 2			
	Banking		Securities		Other	
	n	o	n	o	n	o
Angola	-	1A	-	-	-	-
Benin	1,00	1A	-	-	-	-
Brunei	-	-	-	-	-	-
Cuba	n.a.					
El Salvador	-	-	-	-	-	-

Annex Table 2. Summary of GATS Market Access Commitments by Country (Cont'd)

Gambia	5,00	-	5,00	-	2,00	-
Gabon	1,00	-	3,00	-	2,00	-
Ghana	5,00	-	5,00	-	2,00	-
Guatemala	-	-	-	-	2,00	-
Guyana	2,00	-	-	-	-	-
Honduras	-	-	-	-	-	-
Kenya	-	-	-	-	-	-
Lesotho	-	-	-	-	-	-
Mozambique	5,00	-	5,00	-	2,00	-
Nicaragua	-	-	-	-	-	-
Nigeria	-	-	-	-	-	-
PNG	4,00	-	1,00	-	-	-
Paraguay	-	-	-	-	1,00	-
Sierra Leone	5,00	-	5,00	-	2,00	-
Slovenia	-	2CE	-	-	2,00	-
Tunisia	-	1A	-	-	1,00	-
Uruguay	2,00	-	-	-	1,00	-
Zimbabwe	5,00	-	-	-	-	-
Kuwait	5,00	-	5,00	-	2,00	-
Qatar	5,00	-	5,00	-	2,00	-
UAE	5,00	-	4,00	-	2,00	-
			MODE 3			
	Banking		Securities		Other	
	n	o	n	o	n	o
Angola	-	2ADE	-	-	-	-
Benin	-	3ADE	-	-	-	-
Brunei	-	-	-	-	-	1A
Cuba	n.a.					
El Salvador	-	2AE	-	2AE	-	1AE
Gambia	-	5,00	-	5,00	-	2,00
Gabon	-	1A	-	3A	-	2A
Ghana	5,00	-	5,00	-	2,00	-
Guatemala	-	-	-	-	-	2,00

Annex Table 2. Summary of GATS Market Access Commitments by Country (Concluded).

Guyana	2,00	-	-	-	-	-
Honduras	-	2ACDE	-	-	-	-
Kenya	2,00	-	-	-	-	-
Lesotho	-	4EF	-	2EF	-	-
Mozambique	5,00	-	5,00	-	2,00	-
Nicaragua	5,00	-	2,00	-	-	-
Nigeria	-	5DE	-	3DE	-	1,00
PNG	-	4A	-	1A	-	-
Paraguay	2,00	-	-	-	1,00	-
Sierra Leone	-	5EF	-	5EF	-	2EF
Slovenia	-	5ACDEF	-	5ACDEF	2,00	-
Tunisia	-	3ABDE	-	2CDE	1,00	-
Uruguay	-	2AC	-	-	-	2AC
Zimbabwe	-	5CEF	-	-	-	-
Kuwait	-	5AEF	-	5ACEF	-	2ACEF
Qatar	-	5AEF	-	5AEF	-	2AEF
UAE	-	5ADEF	-	4ADEF	-	2AEF

Explanations: n=commitment with no conditions; o=conditional commitment.

A, B, C, D, E, F represent the different types of restrictions allowed in market access commitments as explained in the text. The numbers 1 to 5 refer to the number of banking and securities sectors opened.

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