

10th Anniversary of the Fifth Protocol to the General Agreement on Trade in Services

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**Impact of Financial Crisis on Malaysian
Approach to Negotiating Financial Services
Commitments under GATS**

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COVERAGE

- 1. Negotiation stance in early days of discussions;**
- 2. GATS commitments during the Asian crisis;**
- 3. Post-crisis developments;**
- 4. Impact of current crisis and lessons learnt for GATS' role in new global landscape.**

NEGOTIATING THE GATS FINANCIAL SERVICES ANNEX: MID-1985-1994

Generally, a defensive stance

- Practical concerns because negotiators were trade experts with no experience in finance— policy nor operations;
- Stability concerns and significant role of prudential regulations not understood by trade negotiators;
- Fear loss of control over domestic policies;
- Importance of flexibility for access to finance measures in social-economic reform agenda;
- Managing pressures for liberalization when foreign content was already very high—>30% in banks and >70% in insurance.

POSITION DURING PERIOD 1994 TO PRE-ASIAN CRISIS

Committed to be part of GATS, but not at any cost

- Finance Services Annex as drafted by SEA Group countries was non-negotiable;
- Bindings in commitments reflect standstill position;
- Commitment not to rollback;
- Ensure optimize prudential carve-out to build stability and resilience in financial sector;
- Importance of other policies to expand market access—regulations on capital flows;
- Safeguards on national treatment

ASIAN CRISIS: 1997-2000

Crisis did not create pressures to relax Mode 1 under GATS

- Focus on restoring stability—exchange rates, institutional support, flow of funds
- New entries in market not critical to crisis resolutions;
- Focus on more sustainable measures to strengthen financial institutions;
- 3-prong restructure of corporations and banks—did not require new market access liberalization;
- Important role of domestic banks versus less support by foreign banks.

IMPACT OF NON-TRADE CRISIS MEASURES ON MARKET ACCESS

Unusual developments require unusual measures

Temporary foreign exchange rules had significant impact on market access in foreign exchange markets → deliberate trade-off in market access for financial stability, consumer confidence and removing constraints to success of reforms in financial sector.

POST ASIAN CRISIS: 2000-2004

Concerted program to build resilience in financial sector → liberalization under GATS to be managed, without need to give in to pressures from developed countries. Program objectives were targeted at:

- Diversification of risks away from banking sector;
- Liberalization targeted at facilitating flow of funds;
- New access to borrowings and investment through development of capital market and new instruments;
- Reforms in financial sector moved away from crisis resolutions to longer-term market strengthening and development.

POST CRISIS: CHANGING ATTITUDES DEFENSIVE → PRO-ACTIVE

Pro-active policy approach enabled greater control on future liberalization—determination that liberalization in market access and entry of personnel must meet domestic policy objectives:

- Capital account liberalization;
- Financial Sector Master Plan;
- Capital Market Master Plan;
- Preferential treatment to priority areas—
Islamic finance, venture capital, access to
special groups;
- Regional and bilateral focus for trade
agreements.

LIBERALIZE CAPITAL ACCOUNT : PRO-ACTIVE, PRIORITY TO MEET GROWTH OBJECTIVES

Target capital account objectives of supporting market development → meet needs of investors and savers → positive for new access by foreign entities

- Progressive unwinding of measures imposed during crisis;
- New markets created by liberalization measures:
 - Open Malaysian market to foreign issuers of Ringgit bonds;
 - Ringgit borrowings by foreigners for productive investments;
 - Retained selected measures specifically to prevent currency speculation

FINANCIAL SECTOR MASTER PLAN

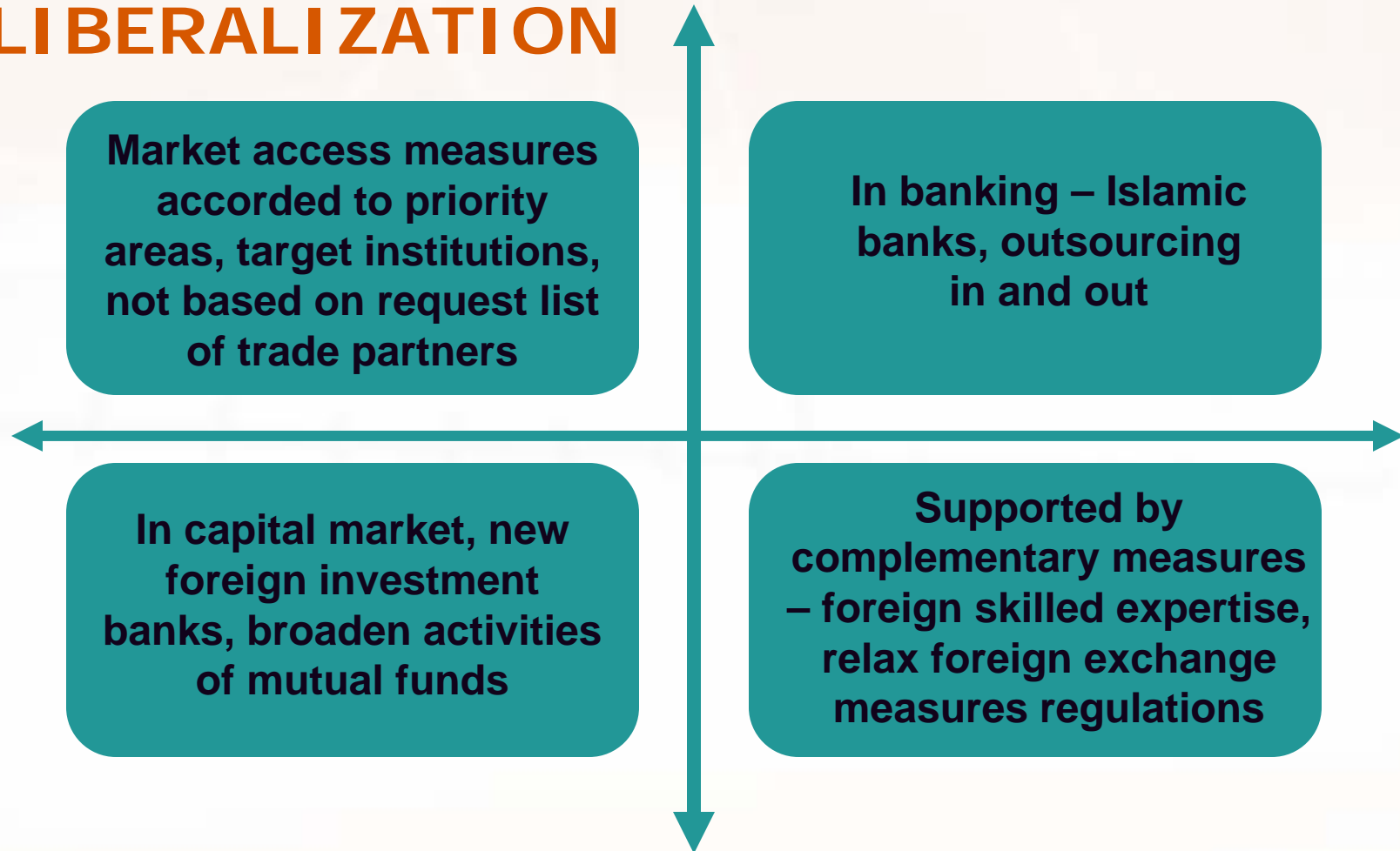
Convergence of reforms to build resilience, develop markets and promote market opening outcomes



CAPITAL MARKET MASTER PLAN

- **Major target: market development across equity and bond markets, institutional development across banks and non-bank institutions, broad spectrum of market players.**
- **Main challenge: managing trade-offs of policies for stability and bringing liquidity to markets.**
- **Undertake major unilateral liberalization—entry of 4 foreign investment banks to promote competition and innovation, and liquidity to the market.**

PREFERENTIAL TREATMENT AND EARLY LIBERALIZATION



REGIONAL AND BILATERAL FOCUS

Growing preference for bilateral and regional trade agreements

- Broad coverage, including financial services;
- Within Asia and across to Latin America;
- Regional agreements complement other cooperation initiatives, catalyst to liberalization of cross-border market access to financial services, support to liberalization of regional trade in goods, provide leverage to regional investments.

POLICY EMPHASIS IS ON REGIONAL/BILATERAL FTAS

	East Asia	Pacific	Others
Regional	ASEAN-China ASEAN-Korea ASEAN-Japan	ASEAN-Aust, NZ	ASEAN-India ASEAN-EU
Bilateral	Malaysia-Japan Malaysia-Pakistan	Malaysia-Australia Malaysia-NZ Malaysia-USA Malaysia-Chile	OIC countries

CURRENT FINANCIAL CRISIS AND GATS

Going forward, current global crisis gives further momentum to regional and bilateral initiatives. But essential to avoid protectionism and rollback of concessions

Issues for debates

- Revisit findings that foreign banks do not create instability, but globalization will deepen → greater global perspectives in financial policy formulation;
- Trade expansion and cross-border investments will continue → financial services remain global;
- Prudential carve-out in GATS more relevant, but to be managed against abuse for protectionist policies;
- Is re-engineering of role of GATS required for greater impact?

Thank You

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