

Financial Services Liberalization: 1997 to the Present

Juan A. Marchetti
WTO

**WORKSHOP TO MARK THE TENTH ANNIVERSARY OF
THE FIFTH PROTOCOL TO THE GATS
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The Results of the 1997 Negotiations

Results of Successive Negotiations

Members with Commitments at end UR		66
Second Protocol	29	
Commitments unchanged in 1995	37	
Schedules submitted in 95-97 (e.g. LDCs, Accessions)	16	
Members with Commitments by mid-1997		82
Fifth Protocol	56	
"2 nd Protocol" Commitments unchanged	1	
Other Previous Commitments unchanged	32	
Members with Commitments at end 1997		89

Note: EC15 as one

Commitments at the end of 1997

- 89 Schedules of Commitments (Note: EC15 as one)
 - 77 on Insurance and Insurance-related Services
 - 81 on Banking and Other Financial Services
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Improvements in Insurance

	End 94	End 97
Total N° of Subsectors Committed	238	305
Avg. N° of Subsectors per Member (Fifth Protocol only)	3.17 (3.61)	3.97 (4.54)
Members with Commitments on		
Life Insurance	52	62
Non-life Insurance	54	64
Reinsurance and Retrocession	59	76
Insurance Intermediation	38	54
Services Auxiliary to Insurance	35	49

Improvements in Banking and Other Financial Services

	End 94	End 97
Total N° of Subsectors Committed	605	735
Avg. N° of Subsectors per Member (Fifth Protocol only)	7.56 (7.85)	9.07 (9.68)
Members with Commitments on		
Acceptance of Deposits	66	78
Lending	66	78
Financial Leasing	51	62
Payment & Money Transmission	58	69
Guarantees & Commitments	53	64

Improvements in Banking and Other Financial Services

	End 94	End 97
Members with Commitments on		
Trading in Securities	56	65
Underwriting of Securities	46	58
Money Broking	36	44
Asset Management	48	58
Settlement & Clearing	35	43
Advise & Other Auxiliary Services	50	59
Provision of Financial Information	40	57

Fifth Protocol Members: Level of Commitments (in % of schedules)

	Cross-border			Commercial Presence		
	Full	Partial	No	Full	Partial	No
Deposit	39	19	43	42	58	0
Lending	42	26	32	43	57	0
Leasing	41	24	35	43	57	0
Payment Services	40	22	38	42	58	0
Guar&Com	45	28	28	43	57	0
Trading	36	27	36	42	58	0
Underwriting	32	32	37	39	61	0
Money broke	44	24	32	44	56	0
Asset Managem	33	28	40	41	59	0
Settle & Clearing	49	19	32	41	59	0
Advise & others	40	33	28	42	58	0
Financial Info	61	32	8	39	59	2

Fifth Protocol Members: Level of Commitments (in % of schedules)

	Cross-border			Commercial Presence		
	Full	Partial	No	Full	Partial	No
Reinsurance	53	31	16	45	51	4
Intermediation	39	39	21	46	51	2
Direct Insurance (MAT insurance)	38 (48)	32 (32)	30 (20)	44	54	2
Aux Services	36	38	26	44	54	2

1997 Negotiations: Other salient features

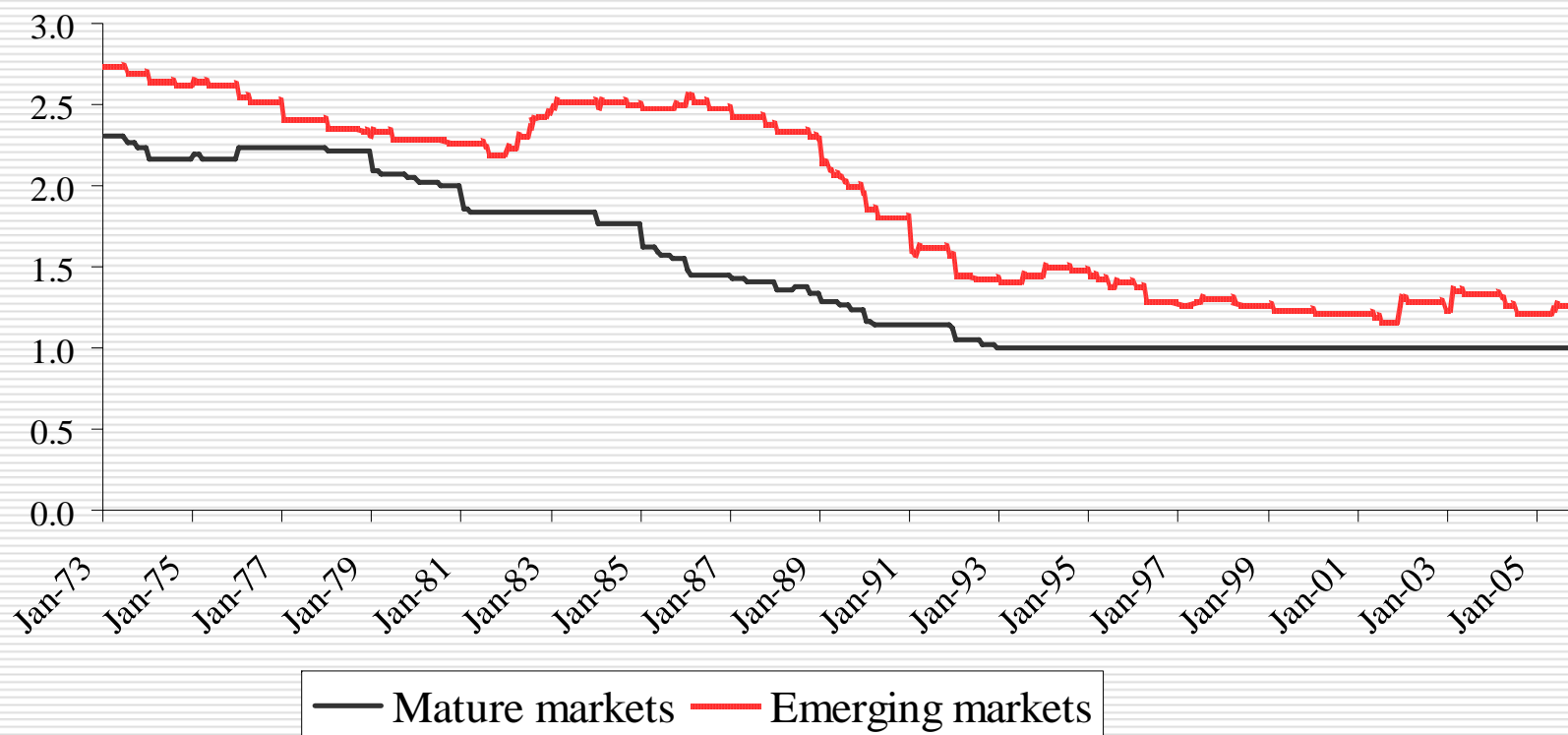
- ❑ 5 Members made commitments on FS for the first time
 - ❑ 8 withdrew or reduced the scope of MFN exemptions based on reciprocity
 - ❑ 2 acceding Members improved their commitments
 - ❑ 5 Members adopted the "Understanding"
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1997 Negotiations: Other salient features

- ❑ 4 Members made additional commitments (incl. the EU, Japan, and the US)
 - ❑ 21 Members relaxed/eliminated foreign equity limitations or limitations on acquisition of domestic institutions, sometimes in several subsectors
 - ❑ 7 Members committed to allow direct branching in different subsectors
 - ❑ 6 Members eliminated ENTs
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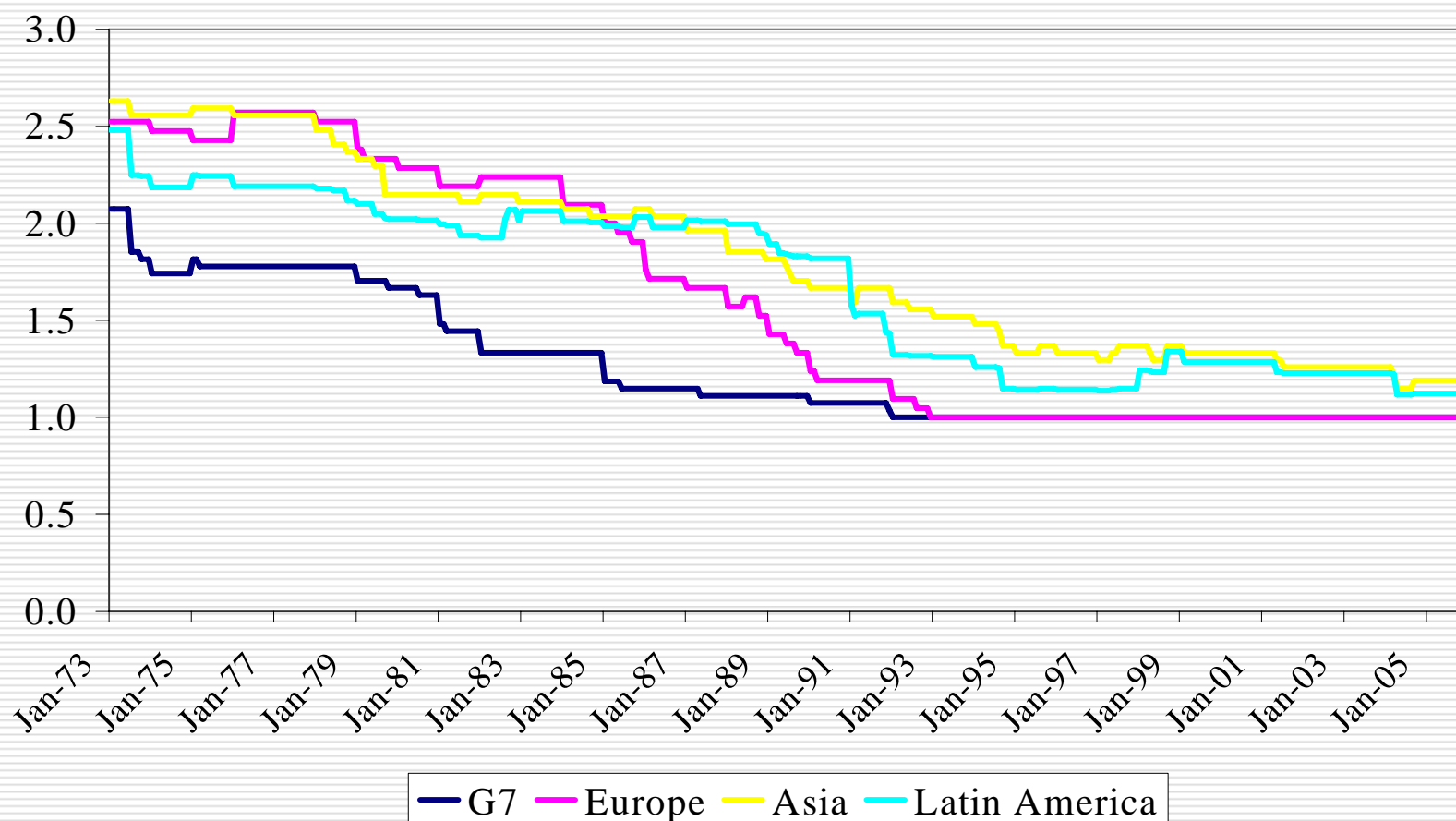
Trade Policy in Financial Services since 1997

Financial liberalization 1973-2005



Source: Marchetti, J. (2009), Financial Services Liberalization in WTO and PTAs, in Marchetti and Roy (eds.) Opening Markets for Trade in Services (CUP). Indexes available from Sergio Schmukler (World Bank)
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Financial liberalization 1973-2005



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Do Members' Commitments Reflect Actual Practice?

- Two successive studies:
 - “Foreign Banking: Do Countries’ WTO Commitments Match Actual Practices?” (Barth, Marchetti, Nolle, and Sawangngoenyuan), WTO Staff Working Paper ERSD-2006-11 (October 2006)
 - “WTO Commitments vs. Reported Practices on Foreign Bank Entry and Regulation: A Cross-Country Analysis” (Barth, Marchetti, Nolle, and Sawangngoenyuan), in A. Berger, P. Molyneux, J. Wilson (eds.) *The Oxford Handbook of Banking* (forthcoming, July 2009, Oxford University Press)
 - Compare “WTO Commitments” vs. WB “Reported Practices” for 123 jurisdictions across 9 dimensions of openness to bank entry and operation.
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Information on Commitments and Actual Practice

- 123 countries total in each “half” of our data.
 - Dimension-by-dimension, country-by-country info provided.

 - Also possible to construct overall index of openness: assign values to particular responses for each component, then weight each of the 9 components.
 - Index values range from 0 (very open) to 100 (very closed).
 - 65 countries: 16 High Income, 49 Lower Income.
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Information on commitments and actual practice

- Licensing of banks
- Foreign equity limitations
- Forms of entry
- Limitations on the foreign share of total banks' assets
- Allowable bank activities
- Capital requirements
- Expansion of operations

These variables are used for making comparisons and calculating indices

Some of the Findings for Market Access and National Treatment

Entry Requirements and Permissible Banking Activities: Common Coverage in WTO and WB Databases	WTO and WB (“Reported Practices”) Responses				Where WTO and WB data are Different, Are Reported Practices More Restrictive or Less Restrictive than WTO Commitments?			
	Number of “Yes” Countries		Number of “No” Countries		Reported Practices MORE Restrictive (WTO = “Yes” BUT WB = “No”)		Reported Practices LESS Restrictive (WTO = “No” BUT WB = “Yes”)	
	WTO	WB	WTO	WB	N° of Countries	Percent More Restrictive	N° of Countries	Percent Less Restrictive
Entry Requirements:								
Foreign banks can enter via acquisition	90	123	33	0	0	0.0	33	100.0
Foreign banks can enter via establishment of subsidiary	79	122	44	1	1	1.3	44	100.0
Foreign banks can enter via branching	81	112	42	11	5	6.2	36	85.7
Minimum capital entry requirement <u>similar</u> for domestic and foreign banks	86	87	37	36	25	29.1	26	70.3

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	WTO	WB	WTO	WB	N° of Countries	Percent More Restrictive	N° of Countries	Percent Less Restrictive
Permissible Banking Activities								
Securities Activities: Underwriting	50	111	73	12	1	2.0	62	84.9
Securities Activities: Dealing and Brokering	53	99	70	24	3	5.7	49	70.0
Securities Activities: Mutual Funds Activities	42	89	81	34	12	28.6	59	72.8
Insurance: Underwriting and/or selling	13	37	110	86	3	23.1	35	31.8

Information from WTO Commitments

- Country-by-country attributes and index values.

 - Mean value of WTO Commitments index:
 - High Income Countries: 15.8
 - Lower Income Countries: 38.8

 - Lower income countries are more restrictive under WTO than higher income countries (means are statistically significantly different).
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How do countries' WTO Commitments compare to actual practices they report to the WB?

- ❑ Mean WB data index values for groups:
 - ❑ High Income countries: 23.7
 - ❑ Lower Income countries: 27.2
 - ❑ Not statistically significantly different.
 - ❑ "Degree of Discrepancy" between the two indexes (WB index value minus WTO index value):
 - ❑ Mean for High income countries: 7.8 (statistically significant).
 - ❑ Mean for Lower Income countries: -11.6 (statistically significant)
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