

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**THE WTO NEGOTIATIONS ON
FINANCIAL SERVICES: CURRENT ISSUES
AND FUTURE DIRECTIONS**

Andrew Cornford

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DISCUSSION PAPERS

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* Fax: (4122) 9070274; E-mail: mdpb-ed.assistant@unctad.org.

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Andrew Cornford

(Research Fellow, Financial Markets Center)

Abstract

Trade in financial services is a major item on the agenda of the Doha Round of multilateral trade negotiations stalled since the ministerial meeting in Cancun in September. This paper reviews trends in such trade and major issues which have been raised in these negotiations so far.

The WTO agreement on financial services reached in December 1997 is generally regarded as having contributed more to transparent policy regimes in the organization's member countries than to the opening of markets to foreign suppliers. The paper reviews statistical data bearing on trends in the market access of foreign banks since 1997, and finds no increase in the presence of banks from developing countries in the markets of developed countries but a large rise in the presence of banks from the latter in the markets of the former. However, the latter increase is likely to reflect less the impact of the 1997 agreement in the WTO than a more general movement in the direction of financial opening which was taking place anyway and helped to shape the agreement.

Watchwords in the submissions of major developed countries to the new round of negotiations include expanded market access and the removal from countries' commitments of limitations affecting several different financial activities (horizontal limitations). Moreover attention has been drawn to the need for greater regulatory transparency in the treatment of foreign banks. Similar objectives were also pursued on the developed-country side in the negotiations which ended in 1997.

In the WTO – as in many policy fora – developing countries continue to express their concerns about vulnerability to destabilizing capital movements. Although the rules of the GATS were designed to decouple liberalization of trade in financial services from that of capital-account transactions, they have not succeeded in alleviating several developing countries' misgivings. Other matters to which developing countries have drawn attention are the need for greater harmonization of different limitations in countries' commitments at the levels of national and local Government, and greater participation of developing countries in the setting of international standards with a bearing on market access and national treatment.

Some subjects have been raised by both developed and developing countries but from divergent points of view. Thus both developed and developing countries have raised the need for clarification of the distinctions between the modes of delivery of financial services specified in the GATS where these have been blurred by recent technological change, though concerns on the two sides are motivated by differences of perspective. Moreover both have also focused on the connections between work on financial services in the WTO and that on different aspects of the international financial system elsewhere. But whereas the thrust of developed countries' interventions here favours managing these connections in a mutually reinforcing way, developing countries are more circumspect owing to apprehensions as to the multiplication of factors incorporated in IMF surveillance and conditionality and of consequent constraints on national policy autonomy. Similarly the question of the scope of the prudential carve-out of the Annex on Financial Services developed countries appear to favour a tighter definition of its permissible scope, while many developing countries prefer to keep the carve-out broad and unconstraining. Both developed and developing countries have expressed support for more uniform classification of financial services in countries' commitments but there has been less consensus as to problems linked to statistics for different modes of delivery.

A. THE POST-CANCUN CONTEXT

As part of the Doha Round of multilateral trade negotiations stalled since the ministerial meeting in Cancun in September an agreement on trade in financial services is inevitably bound up with the fate of the Round as a whole. Trade in financial services was included in the WTO as part of the extension of the remit of its predecessor, GATT, during the Uruguay Round of multilateral trade negotiations (1986–1994), delayed agreement on the subject finally being reached at the end of 1997. The breakdown of negotiations at Cancun followed disagreements, mainly between industrialized and developing countries, over protectionism in agriculture and over the inclusion in the agenda of the Doha Round of the so-called Singapore issues, namely the relationship between trade and investment, the interaction between trade and investment, transparency in government procurement, and trade facilitation (customs procedures), and did not involve financial services as such. The difficulties at Cancun nonetheless reflect factors which help to explain the more general wariness of many developing countries towards several of the negotiating initiatives coming from the major developed countries as well as the increased frequency of flashpoints during ministerial negotiations. These factors include placing the major burden of structural adjustments required for liberalization on developing countries and exerting negotiating pressure on such countries regarding what for them are politically sensitive or controversial subjects, while keeping off the table subjects which could be a source of domestic political problems within developed countries. In the context of negotiations on financial services in the WTO these features of the negotiating stance of major developed countries are evident with respect to the issue of liberalization of capital-account transactions and certain other limitations on national policy autonomy towards the financial sector. Thus, greater unwillingness of developing countries to accept negotiating agendas over whose formulation they have little influence may also eventually involve financial services as well as the subjects which have proved most publicly contentious so far.

B. PREVIOUS AND CURRENT WTO NEGOTIATIONS ON FINANCIAL SERVICES

The WTO agreement on financial services reached in December 1997 (as part of negotiations which were a continuation of the Uruguay Round agreed to avoid the widespread exemptions from MFN likely, had the negotiations been terminated earlier) is generally regarded as having contributed to more transparent policy regimes in the organization's member countries. But its contribution to the opening of markets to foreign suppliers varied greatly among the different parties to the agreement. Success under the first heading was virtually assured by the exhaustive examination of issues related to market access and national treatment in financial services during the negotiation of the framework

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