

# WORLD TRADE ORGANIZATION

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## **COMMUNICATION FROM AUSTRALIA, BAHRAIN, CANADA, THE EUROPEAN COMMUNITIES, JAPAN, NORWAY, OMAN, PANAMA, SINGAPORE, SWITZERLAND, THE SEPARATE CUSTOMS TERRITORY OF TAIWAN, PENGHU, KINMEN AND MATSU, AND THE UNITED STATES**

### Liberalization of Financial Services

The following communication, dated 6 June 2005, from the delegations of Australia, Bahrain, Canada, the European Communities, Japan, Norway, Oman, Panama, Singapore, Switzerland, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, and the United States is being circulated to the Members of the Council for Trade in Services and the Committee on Trade in Financial Services.

#### **I. IMPORTANCE OF FINANCIAL SERVICES LIBERALIZATION FOR ECONOMIC GROWTH, STABILITY AND DEVELOPMENT**

1. "Financial services" includes banking, securities, insurance, asset management, pension funds, financial advisory and information and other financial services. Financial services companies provide essential finance, risk transfer and investment management tools to a wide range of consumers, including other companies, to help economies grow and diversify and become more competitive exporters of goods and services.

2. Opening the financial sector to foreign participation and competition not only introduces innovation and technology, but can help to bring down the cost of financial services. It thus improves the competitiveness of domestic companies, who are important users of financial services, on the world market. In its latest World Investment Report, UNCTAD concludes that in today's global economy, an internationally competitive services, including financial services, sector is essential for development. And in many countries – including developing countries and emerging markets – the share of financial services in GDP is significant.

3. Opening the financial sector to foreign participation, coupled with strengthened regulation and supervision, helps accelerate such positive trends. There is now a large body of economic research, including the World Bank's "Finance for Growth", which has found that an efficient financial sector, including foreign participation, is important for growth and stability. Policies that impede competition, such as entry restrictions and restrictions on foreign banks, have been shown to raise the cost of financial services and hurt economic performance.<sup>1</sup> Studies from the WTO and elsewhere found that increased competition through foreign supply contributes to financial sector

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<sup>1</sup> World Development Report 2005, World Bank.

stability and efficiency and helps improve transparency of regulatory regimes.<sup>2</sup> One report indicates that countries with fully open financial services sectors grow on average one percentage point faster than other countries.<sup>3</sup>

4. Therefore, a vibrant financial sector is particularly important for emerging economies and developing countries. Indeed, many emerging markets themselves are becoming exporters of financial services, often to other developing countries, including as regional hubs, and/or to service their expatriate communities around the world.

## **II. LIBERALIZATION TARGETS FOR DOHA NEGOTIATIONS**

5. The GATS provides a framework under which countries can undertake financial services liberalization while enabling regulators to protect the stability and integrity of the financial system.

6. The financial services negotiations should continue to build upon trends that have been taking place in many emerging markets. For supply through commercial presence, almost 50 Members<sup>4</sup> have made significant GATS commitments and many economies already have liberalized beyond the level of "bound" commitments. Improved GATS commitments, including and building upon any liberalizations as appropriate, will help signal openness to foreign investment and spur economic growth.

7. The following benchmarks should help WTO Members consider the scheduling of meaningful GATS commitments:

- Use the agreed definitions in the GATS Annex on Financial Services for scheduling commitments.
- For all sectors, commercial presence (mode 3) commitments are important, including the right to establish new and acquire existing companies, and in the form of wholly-owned subsidiaries, joint ventures or branches. For cross-border (modes 1 and 2), appropriate commitments should be provided depending on the particular sub-sector.
- For the above mentioned modes, remove discrimination between domestic and foreign suppliers regarding application of laws and regulations ("national treatment"). Remove non-discriminatory limitations such as monopolies, numerical quotas or economic needs tests and mandatory sessions.
- Transparency in development and application of laws and regulations, transparent and speedy licensing procedures, and other regulatory issues also should be considered.

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<sup>2</sup> Kono, Masamichi, Patrick Low, Mukela Luanga, Aaditya Mattoo, Maika Oshikawa and Ludger Schuknecht (1997) "Opening Markets in Financial Services and the Role of the GATS," WTO Special Study, Geneva: World Trade Organization.

<sup>3</sup> Mattoo, Aaditya, Randeep Rathindran and Arvind Subramanian, "Measuring Services Trade Liberalization and Its Impact on Economic Growth: An Illustration," August 2001, World Bank Policy Research Working Paper No. 2655.

<sup>4</sup> The total includes EU Member States.

### **III. CONCLUSION**

8. We, the co-sponsors of this statement, are convinced that further liberalization of financial services will help promote economic growth and improved standards of living for all WTO Members and are an essential element of the Doha Development round. We urge all WTO Members to provide meaningful financial services offers with a view to achieving substantial liberalization in this key sector.

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