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The Role of the General Agreement on Trade in Services (GATS)-Financial Services Agreement (FSA) in the Financial Liberalization Efforts of APEC Economies

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Abstract

The study evaluated the commitments made by a major sample of APEC member countries in the Financial Services Agreement (FSA) negotiated under the General Agreement on Trade in Services (GATS). The study also distinctly analyzed the actual practices in the financial services sector across the same major sample of APEC member countries placing emphasis on the level and extent of foreign participation in the domestic financial services sector. The evaluation of the commitments and the actual practices involved the estimation of the frequency-based index as an indicative measure of the extent of market openness in actual practices and binded commitments across a major sample of APEC member countries. Drawing on crucial issues pertaining to the deregulation and progressive liberalization of financial services trade, the study listed possible areas of negotiation strategies and proposals which Philippine negotiators can pursue in the next round of services negotiations, particularly in the financial services sector.

Executive Summary

Trade in financial services is managed primarily through restrictions on entry and operations of foreign providers (commercial presence) and on cross-border exports and imports of financial services trade. Based on an analysis of the commitments for the three main sub-sectors of financial services (banking, insurance, securities). We observed that very few APEC member economies, made commitments in mode I (cross border trade). Almost all of the APEC economies considered in the analysis have made commitments under mode III (commercial presence). However, no APEC member country made full bindings in both modes of supply (cross border trade and commercial presence). In banking and insurance, more than half of the APEC economies made commitments in mode three (commercial presence). On the other hand, more commitments were made in cross border trade under the securities sub-sector.

The paper also quantified distinctly and separately the actual regulatory financial services trade and the committed and bound schedules of APEC economies in the financial services agreement of 1997 through a frequency-based index. It was found out that it was in the insurance sector where a lot of APEC member countries made commitments greater than their actual practice both in the life and non-life sector. However, on the whole most APEC member countries have tended to be less forthcoming in their commitments in banking and securities by opting to bind current and existing policy regimes rather than committing to new market opening measures in a multilateral framework.

In addition, most of the larger and higher income countries in APEC that are expected to be open and liberal in their commitments and actual practices are confirmed by the estimated indexes. On the other hand, most of the smaller economies of APEC have generally tended to be less forthcoming in liberal commitments compared to the larger ones.

The removal of restrictions on international capital movements and the opening of the domestic financial services markets to foreign competition are two interrelated, yet distinct, components of the internationalization of financial services. A country may allow foreign firms into its market yet restrict capital inflows and outflows from abroad. Moreover, the extent to which trade in a financial service is linked to the underlying capital movements generally depends on the type of the financial service and the way it is supplied, i.e., across borders or through commercial presence. It appears that the relationship between trade in financial services and capital flows is particularly close under Mode 1 (cross-border supply). On the other hand, trade in services via commercial presence requires foreign direct investment to establish such presence.

In light of the severe financial turmoil over the last few years, one should appropriately ask whether on what form and how fast should countries liberalized their financial services trade. Rather than dismantling barriers to trade in financial services across the board, it might have been preferable for them to maintain restrictions under

Mode 1. This is important to countries with weak and inadequate financial systems. Thus, developing countries are advised to limit their commitments to the commercial presence of foreign institutions, which require only a limited liberalization of capital flows.

Thus, this points to the important prerequisites for yielding the full benefits and minimizing or controlling the risks from liberalizing financial services trade. Financial services trade and financial sector stability are complementary if they are accompanied by consistent macroeconomic policies and an adequate prudential regulation and supervision, in particular, with respect to liberalizing commercial presence.

However, cross-country experience and theory show that there is a tradeoff between enhancing competition through increase market access measures and guaranteeing financial stability. Because services are often not tradeable and intangible, frequently market access barriers are enforced "behind the border" and are embodied in regulations.

We could identify two possible ways to proceed that could minimize the tradeoffs between financial regulation and competition. First, through market based measures that are currently being considered with regards to the development of international standards and codes of good practice in the areas of financial services and accounting of financial transactions and institutions. Such efforts are expected to reduce the possibility that domestic standards and codes are perceived by other countries as burdensome or effectively constitute barriers to trade. The efforts of the Basel Committee's Core Principles for developing effective banking supervision with minimum requirements in this regard are extensive and well documented. The IOSCO (International Organization of Securities Commissions), and IAIS (International Association of Insurance Supervisors) conduct similar work in the areas of securities and insurance. Among numerous other codes and standards, IOSCO has produced the Statement of Objectives and Principles of Securities Regulation and International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers. IAIS has produced the Supervisory Standard on Licensing, as well as other standards. In this regard, improvements in communications and dialogue between regulators *across* countries are necessary preconditions for achieving progress in this area. Second, differences in prudential regulation between countries can be reduced if not eliminated if countries recognize the prudential measures of other countries with high standards of prudential regulation and supervision. Such recognition may be based on an agreement or arrangement with the countries concerned, or may be accorded unilaterally. This has the implication that as Mattoo (2000) points out, there are limitations which can be achieved at the multilateral level, and that the regulatory aspects can be handled at the national or bilateral level.

Most of the limitations made on commercial presence by most APEC economies were to restrict new entry and introduce new competition in the local market while allowing increased foreign equity participation in local financial institutions. This may well be attributed to the pressing need of most developing countries within APEC to have well-capitalized and well-diversified foreign financial firms to help in the strengthening and recapitalization of troubled and weak domestic financial institutions which were badly burned by the recent financial contagion in East Asia and in some parts of the Southern Cone. In addition, increasing foreign equity participation in the local financial market is the preferred option rather than having foreign financial institutions coming as new competitive and efficient players in the market, which will drive their domestic rivals out of the market.

Moreover, standstill bindings have merit. They provide the market participants with the assurance that the conditions on which their decisions are based will not be overturned by sudden policy changes or reversals. Nevertheless, for countries that were not forthcoming in their commitments and those countries that have maintained the status quo or have committed existing regimes in place, it should be borne in mind that opening and precommitting to future liberalization is in the self-interest of all countries not only large and developed countries, but also including the small developing countries, particularly in APEC.

However, given the recent experience with the East Asian financial turmoil and consequently, the need to enhance soundness of domestic financial markets through improved quality of prudential regulation and supervision, developing countries are not likely to be aggressive in the next round of financial services negotiations. Therefore, it remains a matter of convincing developing countries on how the GATS-FSA will lead to maximizing the gains from financial services liberalization through sustained improvements in growth and development prospects while the risks and costs involved in liberalization are reduced or eliminated.

This can be done through a higher level of recognition of the special needs and interests of developing member countries. In this regard, there is a need for developed countries to show patience and sincerity in the next round of negotiations. As such, facilitating greater liberalization among developing countries should allow them to phase in commitments over a specified period. Although a method for phasing in commitments will have to be agreed upon, a favorable development on this matter for developing countries will be of crucial importance to the success of the next round of negotiations. Moreover, alleviating and mitigating fears of developing countries with potentially adverse effects arising from liberalization, for instance, through specific safeguard measures probably patterned after the safeguards-based opening of the Mexican financial market with respect to NAFTA can be used as a model.

In this view, the United States and Canada, both being important APEC members, which along with Mexico (another APEC member) forms the triumvirate of the NAFTA grouping, can strongly push and support the above-mentioned proposals, while at the same time can provide the stimulus and motivation for other APEC members to undertake liberal commitments in the next round. Moreover, there are clear signs in APEC member countries that advances in market opening will come from a combination of different factors. First, member countries of APEC that are in IMF program due to the Asian crisis have included relaxation in foreign entry as one facet of domestic reforms in said program. This is considered extensive and faster than what were negotiated earlier in

FSA. Second, the overarching goal of advancing a sense of community and promote the goal of multilateral liberalization should spur liberal commitments in APEC. Finally, most international financial centers are located in member countries of APEC (Japan, Singapore, Hong Kong), and have unilaterally proceeded with allowing further foreign entry for fear of being left behind by other financial centers. Thus, the combination of processes outside of WTO and market forces becomes the device for APEC member countries to engage and lock-in market opening measures in the WTO.

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Victor Pontines[2]

I. Introduction

When negotiations on services was included in the Uruguay Round of trade negotiations, negotiators had finally recognized the growing importance of trade in services in the growth and development of the world economy, in particular financial services trade. The result of the separate track of negotiations on services in the Uruguay Round gave birth to the General Agreement on Trade in Services, or simply GATS. Although GATS covers all trade in services, the negotiations could not be completed by December 1993 in four areas, namely, maritime services, basic telecommunications services, movements of natural persons, and financial services.

For financial services, the member countries decided to hold the next round of negotiations during the first half of 1995. The conclusion of the negotiations in July 1995 was only an 'interim' agreement, because the United States, taking the lead role in the negotiations decided that the interim agreement was unsatisfactory. Negotiations officially resumed again in April 1997, and finally concluded on December 1997. The conclusion of the 1997 financial services negotiations is now known as the Financial Services Agreement of 1997, and individual country commitments were attached to the *Fifth Protocol to the General Agreement on Trade in Services*. A total of 70 WTO members made commitments in the *Fifth Protocol,* in which 15 of the 70 member countries are full-pledged members of APEC.[3]

The sole general objective of the paper is to determine the role of the Financial Services Agreement (FSA), negotiated under the GATS in helping shape further future liberalization among APEC member economies through improving and relaxing restrictions on financial services. The paper is divided as follows: the following section presents a brief discussion of the framework agreement, and highlights the perceived shortcomings of the agreement. Section III presents initial trends and data on financial services across a sample of countries, in particular Asian countries. Section IV analyzes the commitments made by APEC member countries by estimating a numerical equivalent of the commitments as well as numerical estimates of the actual practices of APEC economies based on a certain frequency index. Section V discusses some crucial policy issues relevant to the liberalization of financial services trade. Section VI presents a

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[2] Research Fellow, Angelo King Research Institute for Business and Economic Studies.
[3] The fifteen APEC member countries are: Australia, Canada, Chile, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Peru, Philippines, Singapore, Thailand, and the United States.

discussion of actual practices in the treatment of foreign service providers in the Philippine financial services market and suggests possible areas of negotiation strategies and options for Philippine negotiators in the next round of services negotiations, in particular, financial services trade. Section VII concludes.

II. Financial Services Trade Liberalization under the GATS

The significance of the conclusion of the Financial Services Agreement (FSA) on December 1997 under the General Agreement on Trade in Services (GATS) should be viewed as providing the opportunity of consolidating and complementing unilateral opening of domestic financial services markets in a binding and comprehensive multilateral framework. Rather than representing a liberalization agreement in itself,[4] the GATS and henceforth the FSA, provides only a framework for liberalization of financial services trade. According to the WTO, the agreement covers more than 95 per cent of financial services trade.[5] In so doing, the agreement consists of the following framework: first, the general concepts and provisions covering all sectors, including financial services, second, the annexes, which establishes the rules and provisions focusing on specific sectors, such as the Understanding on Financial Services,[6] and lastly, the schedule of specific commitments on market access and national treatment. According to GATS, trade in services including trade in financial services, can be delivered through any four modes:

Mode 1 (Cross-border supply) – a service crosses a national frontier, but not requiring the physical movement of consumers or suppliers.
Mode 2 (Consumption abroad) – the movement of consumers to the territory of the suppliers.
Mode 3 (Commercial presence) – establishment of the service provider in the territory of the consumer.
Mode 4 (movement of natural persons) – the supply of services through the presence of natural persons from one territory to another.

Much has already been written about the perceived shortcomings and weaknesses of GATS. These will be highlighted below. The rules of GATS are patterned and based on the same general principles of trade in goods as in GATT (General Agreement on Trade and Tariffs) (e.g., Most-Favoured Nation Treatment (MFN) and Transparency). However, unlike in GATT, national treatment is not an automatic but negotiable right. Member countries may inscribe limitations on national treatment in their schedules – with respect to each of the four modes of supply, described above.

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[4] Most observers agree that the agreement contains little new liberalization since member countries offered few new access to their markets, particularly for most emerging markets.

[5] Cornelius (1999); WTO (1998). The activities covered by the GATS in financial services include two broad categories of services: *insurance and insurance-related services and banking and other financial services*.

[6] Refer to Appendixes I and II for the Annex on Financial Services and the Understanding on Financial Services.

The GATS does not define market access, but stipulates six measures that limit market access. These are restrictions on:

- the number of service suppliers;
- the total number of service transactions or assets;
- the total number of service operations or the total quantity of service output;
- the total number of natural persons that may be employed in a particular sector;
- the types of legal entity through which a service can be supplied; and
- foreign equity participation in service suppliers.

The existence of any of these limitations has to be indicated in the scheduled sectors with respect to the four modes of supply. According to Warren and Findlay (1999), "the lack of clarity in GATS regarding national treatment and market access makes it broader in scope than the national treatment and market access provisions of GATT. The GATS provision on national treatment embraces all policies that might discriminate between domestic and foreign suppliers. In contrast national treatment in the GATT extends to matters of internal taxation and regulation only. More importantly, the GATS article on market access extends beyond traditional concerns of access for foreign service suppliers to encompass all policies which restrict access to a market." This 'structural weakness' of GATS of rendering national treatment and market access as 'specific commitments' rather than general obligations has made it specifically difficult to categorize actual policies of member countries into market access or national treatment.[7]

If national treatment and market access were considered as general obligations, the framework agreement would be using a negative list or 'top-down' approach to scheduling commitments. The consequence of this approach is that all market access and national treatment would apply to all sectors unless specifically listed otherwise in the country's negative list schedule of commitments. Several observers have expressed and argued strongly in favor of this scheduling strategy, citing primarily the fostering of greater transparency. This is because the approach immediately makes it obvious those sectors that are excluded from the coverage and brings them to light. The approach forces member countries to 'come clean', which permits them to better assess the contestability of their markets. In addition, the emergence and development of new activities or sectors would be automatically included to established framework or discipline. However, during the actual Uruguay negotiations, countries remained opposed to a negative list of scheduling commitments, and settled with a hybrid approach as a compromise.[8] The

[7] However, according to Mattoo, the main reason why negotiators avoided the GATT approach of making national treatment as a general obligation is because granting market access with full national treatment would have been the equivalent of free trade. Whereas, governments wanted the option of proceeding slowly and gradually towards opening up their markets.

[8] This hybrid approach is a combination of positive and negative list approach. A positive approach, meanwhile, identify sectors or activities on which commitments are made rather than those on which they are not.

reasons raised for the compromise were: first, the advantage of fostering greater transparency can also be addressed by directly coming up with clear provisions on transparency in the framework agreement. Second, even if member countries are willing to adopt a negative list approach, because of the unwillingness of member countries to make new market opening measures, governments may find themselves with a long list of negative exclusions that they consider as sensitive, and this will take out the essence of the scheduling commitments. Instead of attempting to propose what amounts as a major structural change of the agreement, a scheduling proposal was put forward by Mattoo and Low that emphasis should be made on the schedules or entries that are "unbound" (i.e., no bindings), and widening the scope of the coverage of the sectors.[9]

Recognizing that countries should take measures for prudential reasons in order to protect depositors, investors, and the integrity and stability of the financial system, the agreement as provided in the Annex on Financial Services allows member countries the option of not listing in their schedule of specific commitments measures that are considered for prudential purposes. This is known as the 'prudential carve-out.' The 'carve-out' is based on the premise that the measures are not used as a way to circumvent commitments or obligations. However, it is alleged that, as argued by Mattoo (1999), regulators would seem to have considerable discretion in their choice of prudential measures since no definition or definite list of such measures is provided in the Annex. Thus, according to Sorsa (1997), the broad prudential carve out can imply very broad departures from the basic principles of the agreement. For example, on the basis of capital adequacy ratios or discretion in granting of banking licenses may go against the Most-Favoured-Nation treatment (MFN) principle or national treatment by permitting discrimination among countries.[10]

III. Initial trends in financial services trade

The non-tradable nature of services, including financial services trade makes official gathering and availability of data difficult and cumbersome. In addition, the presence of inconsistencies and conceptual problems in the definition of what constitutes financial services trade can be a source of confusion with regards to the value and size of financial services trade. To illustrate this point, for instance, according to Das (1998), GATS (refer to appendix) definition of trade in services goes beyond the products crossing geographical boundaries, or to transactions between residents and non-residents. The definition of trade in services includes local sales by foreign entities that would be considered 'resident' by conventional statistical criteria and for whose activities relevant statistics are not available. The only statistics available follow the Balance of Payments Yearbook classification of the International Monetary Fund. However, BOP statistics, reflect only cross-border trade and thus understate trade in financial services. Thus, when services are traded through foreign affiliates with the status of residents in the country where the services are supplied, such transactions are not covered by the BOP.[11] The

[9] Low and Mattoo (1999); Das (1998).
[10] Cornelius (1999).
[11] Tamirisa et al (2000).

challenge in achieving a realistic and workable trend in financial services trade data is coming up with measures of activities of foreign affiliates.[12]

According to IMF-BOP data for 1999 on cross-border trade in banking and securities, the United States ranks as the number one exporter of banking and securities (See Table 1). Its exports were US$13,930 million, or 23.87 per cent of the total world exports in this category. Aside from the United States, four other APEC economies are included in the top 20 exporters of cross-border banking and securities. Japan accounted for US$2,004 million, or 3.43 per cent of the total world exports, placing her as the number 7th top exporter. Canada accounted for US$966 million, or 1.66 per cent placing her as the 11th top exporter. South Korea accounted for US$478 million, or 0.82 percent, as the 15th top exporter. And, Australia which approximately accounted for US$478 million, or 0.81 per cent, occupied the 16th top exporter position. The five APEC member economies (United States, Japan, Canada, South Korea, and Australia) accounted approximately for a combined 30.54 per cent share of the total cross-border trade in banking and securities in 1999. Meanwhile, the United States, Japan, Canada, Australia, Philippines and Mexico are also listed in the top 20 importers of cross-border trade in banking and securities. The six countries accounted approximately for 28.71 per cent of total trade in this category.

Statistics on cross-border trade in insurance services shows that five APEC member economies are listed in the top 20 of leading exporters of insurance services (see Table 2). Canada accounted for US$2,627 million, or 9.2 per cent of the total exports in this category. The United States accounted for US$2,300 million, or 8.06 per cent of the total world exports. Mexico accounted for US$1,072 million, or 3.75 per cent of total exports. Australia accounted for US$563 million, or 1.97 per cent of total exports. And, Singapore accounted for US$486 million, or 1.70 per cent of total exports. The five APEC member economies mentioned (Canada, United States, Mexico, Australia, Singapore) accounted approximately for a combined 24.68 per cent share of the total cross-border trade in insurance services exports in 1999. Meanwhile, eight APEC member economies are listed in the top 20 importers of insurance services. Mexico, United States, Canada, Japan, China, Singapore, Thailand, and Australia approximately accounted for 50.57 per cent share of the total cross border trade in insurance services imports in 1999. In addition, judging from the stylized facts presented in tables 1 & 2, the internationalization of cross border financial services trade obviously suggests that this type of trade is largely dominated by developed countries.

Noting the previous caveat mentioned earlier, table 3 shows exports and imports of financial services trade for selected Asian economies for the period 1988-99 based on the IMF Balance of Payments Statistical Yearbook. As expected, Hong Kong ranks as the consistent top cross-border exporter of financial services followed by China, Korea, and Singapore, respectively. In terms of imports of cross-border financial services, Hong Kong consistently ranks number one followed by China, Singapore, Thailand, and Korea,

[12] The United States is the only WTO member country, which officially releases and publishes a comprehensive data on financial services, including activities of foreign affiliates.

respectively (See Table 4). Notice that India is gradually becoming a substantial exporter and importer of cross-border financial services trade in Asia.

Tamirisa, et.al. (2000) argued that in the absence of comprehensive country statistics on trade of foreign affiliates, the share of foreign bank assets in total bank assets could be used as an alternative indicator of such trade. In a study by Claessens, Demirguc-Kunt, and Huizinga (1998), they viewed measures such as the share of foreign bank assets to total bank assets as well as the share of banks that is foreign-owned, as the extent of foreign asset penetration and foreign bank penetration in the domestic banking system, respectively. The actual estimates of the two proposed measures for APEC member economies are shown in Table 5.

From table 5 we see that for most APEC member countries (10 out of 19 countries) the foreign penetration measure exceeds the asset penetration measure (this is the case for Australia, Canada, Chile, China, Indonesia, Papua New Guinea, Peru, Taiwan, Thailand, and the United States). This suggests that foreign banks tend to be smaller than domestic banks.[13] Only two APEC member countries have a large foreign bank presence with both foreign penetration measures of at least 50 percent are Hong Kong and New Zealand. It is surprising to note that the United States, contrary to what is expected, appears to have a relatively insulated banking market, with foreign penetration measures below 10 percent.[14]

As regards the insurance sector, table 6 shows the importance of the insurance sector for member countries of APEC as measured by an indicator of insurance penetration-insurance premiums as a share of GDP. There is a clear discernible pattern in the distribution of importance of the insurance sector for APEC member economies. Higher income member countries (i.e., Australia, Canada, Hong Kong, Japan, Korea, New Zealand, Singapore, Taiwan, and the United States) show a greater importance of their insurance sectors, with total insurance premiums averaging at 8 percent of GDP. However, the fact that the lower income member countries of APEC spend only 2 per cent of their GDP on insurance suggests the great growth potential of this sector as these countries become richer.[15] In addition, available data on eighteen member economies of APEC show that these economies attach greater importance to life insurance than non-life. Insurance premiums in the life sector average at around 3.07 per cent of GDP in 1998, while in the non-life sector it is 1.997 percent of GDP.

Table 7 presents the level of foreign participation in the insurance sector for selected Asian insurance markets in 1997. For selected Asian countries, foreign insurers are active in the forms of domestically registered companies, joint ventures, and foreign branches. Foreign insurers are most active in Indonesia, Philippines, Singapore and

[13] Claessens, Demirguc-Kunt, and Huizinga.

[14] Claessens, Demirguc-Kunt, and Huizinga; However, in previous studies, such as DeYoung and Noelle (1996) report foreign bank penetration ratios of almost 50 percent for the United States. However, these studies define a bank as foreign if has more than 10 percent foreign ownership.

[15] Kono, Low, Luanga, Mattoo, Oshikawa, Schuknecht (1996).

Thailand both in the life and non-life sector. In these four countries foreign share of total insurance premiums average at around 27 per cent of GDP in the non-life sector, and 39 per cent of GDP in the life sector. While, only life-foreign insurers are most active in Malaysia and Taiwan with foreign share of total insurance premiums as a percent of GDP averaging at around 41 per cent.

IV. Measuring Commitments and Actual Practices in Financial Services Trade

At the outset, trade in financial services is managed primarily through restrictions on entry and operations of foreign providers (commercial presence) and on cross-border exports and imports of financial services trade. More generally, financial regulations or 'management' can be identified as: licensing requirements, disclosure requirements, controls on permissible business activities, and controls on ownership. The very nature of trade in services makes it difficult for policymakers to identify, determine and measure the extent of barriers and impediments to services trade.

The area of applied trade policy analysis has identified three basic approaches to measuring service impediment, namely, quantity-impact type measures, price-impact type measures, and frequency measures. Quantity-impact type measures compare trade volumes with and without the presence of impediments. Price-impact type measures examine the impact on domestic prices of the impediment. The robustness of the quantity and price-impact measures is handicapped by data limitations and methodological constraints. For example, quality differentials between services adversely affect the measures.[16]

The paper will attempt to quantify the actual practice of APEC member countries in financial services trade, and their specific commitments made in the financial services agreement of GATS using the frequency approach. The advantage of using the frequency approach is that the data limitations usually encountered by the other approaches mentioned above have been partly overcome by the availability of the GATS. The nature of a frequency-based approach to measuring impediments to financial services trade is described below based on previous studies undertaken using the said approach.

4.1. Frequency-based approach

The pioneering work of Hoekman (1995) on using frequency-based measures of impediments on services trade was applied using the information contained in the country schedules of the GATS and refer to all four modes of supply. The quantification of country schedules on services proceeded by allocating a number to each possible market access or national treatment commitment in each mode and in each industry sub-sector.[17] If a member country is binds a sector to no limitations, a weight of 1 is allocated. If, a member country has agreed to bind sector to some limitations or restrictions a weight of 0.5 is allocated. However, if a member country has recorded unbound entry or simply did

[16] Bosworth, Findlay, Warren (1997).
[17] Warren and Findlay (1999).

not make any commitment for a sector, a weight of 0 is allocated. Thus, the greater the number for each specific sector, the more commitments made. However, as argued by Brown and Stern (2000), the Hoekman frequency-based measures are intended to indicate the relative degree of restriction and are not to be taken as indicating a measure of a tariff equivalent in services. In addition, the different limitations or restrictions are given equal weight and are not distinguished according to their economic impact.

Notwithstanding the limitations described above, a number of previous studies had applied the frequency-based approach, specifically to financial services trade. Claessens and Glaessner (1998) used the approach in quantifying the extent of actual commitments and regulations in the financial services markets of eight Asian economies[18]. Their index used five ways in which financial services are commonly and typically restricted – establishment and ownership, offices and automatic teller machines, lending and business activity, universal banking, and residency requirements. Each entry category was assigned a score from 1 to 5, 1 being most closed and 5 being most open. Weightings were applied to the five entry categories for banking, and three of the five categories for securities and insurance services.

Mattoo (1998) takes a broader scope in his study by examining the market access commitments on financial services by developing and transition economies in the financial services agreement. However, Mattoo adopted a simpler approach in the construction of his own version of a frequency-based index. In the first two modes of supply of services (i.e., cross-border and consumption abroad), a numerical value of zero was assigned to entries of unbound and a value of one to entries of none. In the presence of restrictions or limitations a value of 0.5 was assigned. Notice that unlike the Glaessner and Claessens study, the Mattoo study does not make any distinctions about how the forms and types of restrictions in the first two modes will take. However, with respect to the third mode of supply of services (i.e., commercial presence) a more sophisticated approach was adopted.[19] It is to be noted that the study excludes the presence of natural persons from the analysis, and focuses only on direct insurance, both life and non-life and the acceptance of deposits and lending services. The liberalization index for a member country in a sub-sector is the weighted average of all numerical values.

4.2. Identifying and Classifying the Commitments of APEC member economies in the Financial Services Agreement (FSA)[20]

The commitments of APEC member economies in the financial services agreement were identified and classified based on a number of sources.[21] The schedules

[18] The eight Asian economies included in the study were Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, and Thailand.
[19] Refer to Appendix III for the weighting used for commercial presence.
[20] The details of the assigning of scores for the entry categories, and the weightings used for the sub-sectors included in the study are to be found in Appendix III.
[21] Thirteen out of the fifteen APEC member countries that participated in the financial services negotiations and made commitments in the Fifth Protocol were evaluated. The commitments of APEC economies that were identified are as follows: Australia, Canada, Chile, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, Philippines, Singapore, Thailand, and the United States. China was excluded because it was not yet a

of specific commitments in GATS are intricate and complex documents containing for each member, market access, national treatment and additional commitments, on each sub-sectors of financial services trade. The levels of commitments were distinguished depending on whether a full-binding was committed or designated as “none” entry, suggesting the absence of limitations; ‘limited” bindings, refer to those entry of commitments in the schedule as the intermediate case when there is a limitation; and, “unbound” refers to no bindings. The form of the limitation(s) or restriction(s) on market access was enumerated previously in section II of the paper.

Tables 8-10 show the results of the analysis of commitments for the three main sub-sectors of financial services of APEC economies.[22] We will observe from table 8 that very few APEC member economies, made commitments in mode I (cross border trade) either on a limited or full commitment basis, except for Australia, Canada, Indonesia, United States, Japan. Aside from Indonesia, the other three are high-income countries and regarded as having well functioning and developed financial systems. Almost all of the APEC economies considered in the analysis have made commitments under mode III (commercial presence), but no country made full bindings in both modes of supply.

Full liberalization across the two relevant modes of supply is slightly less rare in insurance than in banking (See Table 9). Just like in banking, more than half of the APEC economies considered made commitments in mode three. Only three economies made full bindings in the insurance sector – United States (cross-border trade); Japan (commercial presence); South Korea (commercial presence). In the securities sub-sector, aside from Indonesia, the higher-income member economies of APEC have made full bindings in cross-border trade (Australia, Canada, Hong Kong, Japan, and the United States). In addition, Canada is the lone country, which made full bindings in both mode of supply. Compared to banking and insurance sub-sectors, more commitments were made in cross border trade under the securities sub-sector. However, as has always been the case in the previous sub-sectors, more than half of the economies made commitments on commercial presence on a limited basis. A possible reason for this preferred mode of entry in APEC economies is the so-called ‘home-country bias’, where consumers may prefer to purchase financial services from familiar local suppliers (including foreign-owned ones) rather than foreign suppliers located abroad.

A scheduling innovation was introduced by some APEC economies, which aimed for guaranteeing the rights of foreign incumbents, and resolve potential conflicts in the negotiations. This scheduling innovation was known as grandfathering provisions, and found its way in the scheduling or entry of commitments through provisions on foreign equity-related, legal form-related, and general (see Table 11). With the introduction of

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WTO member when the FSA was reached. In addition, in spite of China’s huge potential in financial services trade, admittedly, China is the least liberalized of all and faces a major challenge in its bid for WTO membership to develop market-based institutions, particularly in the financial services sector (Dobson, 1998).

[22] It is worthwhile mentioning that the presentation of the results of the commitments emphasized the only two relevant modes in financial services trade – cross-border trade (Mode I) and commercial presence (Mode III). Commercial presence is the dominant mode of trading financial services trade because proximity of between supplier and consumer are necessary for providing most financial services trade (Tamirisa et.al. 2000).

more restrictive financial services regimes pertaining to the forms mentioned than had prevailed when the foreign firms first entered, the rights of incumbents or investors who are already in the market are guaranteed and preserved, while new entrants are placed at a competitive disadvantage.[23] However, the scheduling innovation resolve potential conflicts in the negotiations since for most countries domestic law had changed since the foreign firms first established commercial presence, and therefore countries were unwilling to make commitments which reflected the status quo with respect to commercial presence.[24] According to Mattoo and Low (1998), the 'triumph of moral over economic reasoning' has meant that the GATS made markets less contestable.

4.3. Quantifying the Commitments and Actual Practice of APEC Member Economies on Financial Services Trade[25]

The analysis of Claessens and Glaessner (1998) on actual financial services regulations in selected Asian countries, and Mattoo (1998) on the 1997 financial services negotiations of developing and transition economies used a frequency index to measure the degree of liberalization and openness of countries. The study of Mattoo established the numerical coding by covering the three modes of supply, and the two areas of banking (deposits and lending), and insurance (life and non-life).[26] The liberalization index for a sector is the weighted average of all numerical values. Qian (1999) extended the Mattoo study using similar coverage of sectors, countries, and methodology. The Claessens and Glaessner study measured the actual regulations and barriers of Asian countries covering all three broad sub-sectors of financial services trade.

The paper takes the elaborate tasks of quantifying distinctly and separately the actual regulatory financial services trade and the committed and bound schedules of APEC economies in the financial services agreement of 1997. The specific commitments of individual APEC economies covered in the study were gathered from the WTO website. Whereas, the actual or practiced regulations in the financial services sector of the same set of APEC economies were obtained from the Sectoral and Trade Barriers Database of the European Commission and the recent National Treatment Study of the U.S. Department of Treasury. As noted previously, arriving at an index that will accurately depict and capture the extent of openness in actual regulations of countries relative to the extent of their commitments should be subject to the caveat that with respect to issues of internationalization of financial services, in practice there are only

[23] As pointed out by Mattoo and Low (1998), this is based on the evidence that country differences in ownership and legal form affect firm performance.
[24] One case in point is Malaysia where it began to implement its indigenization policy after several fully foreign-owned firms were already operating in the market. In the foreign incumbents' view making just status quo commitments will weaken what they regard as "acquired rights, which Malaysia supported as a view (Mattoo and Low (1998).
[25] Refer to Appendix III for the details of the frequency-based approach used in the paper.
[26] Mode IV (Movement of Natural Persons) was not included in the measurement.

two relevant and important modes of supply for financial services- commercial presence and cross-border supply.[27]

The results of the estimation for a frequency-based index for most APEC economies are shown in Table 12-14. Based on the estimated indexes for banking (deposits and lending) from Table 12, the range of variation in the degree commitments in financial services is from the relatively less liberal Chile (0.2125) to the most liberal Japan (1) in deposits. Likewise, the range of variation in actual practice is from the most closed Chile (0.2125) to the most open countries of Australia, Canada, Hong Kong, and the United States (0.7875). In lending, the range of variation in the degree of country commitments is the same as in deposits from the relatively less liberal Chile (0.1875) to the more liberal Japan (0.875). The range of variation in actual practice is from the most closed countries of Chile and Malaysia (0.1875) to the most liberal countries of Australia, Canada, Hong Kong, Singapore, and the United States (0.8125).

It was in the insurance sector where a lot of APEC member countries made commitments greater than their actual practice both in the life and non-life sector. These countries were: Indonesia, Japan, South Korea, and Singapore (see below). However, on the whole most APEC member countries have tended to be less forthcoming in their commitments in banking and securities by opting to bind current and existing policy regimes rather than committing to new market opening measures in a multilateral framework.

In addition, based on Figs. 1-2, most of the larger and higher income countries in APEC that are expected to be open and liberal in their commitments and actual practices in lending and deposits are confirmed by the indexes. These countries are Australia (deposits and lending), Canada (deposits and lending), Hong Kong (lending), and the United States (deposits and lending). On the other hand, most of the smaller economies of APEC have generally tended to be less forthcoming in liberal commitments compared to the larger ones. However, Indonesia is a notable exception. Indonesia's computed indexes in its commitments and actual practices in lending and deposits are almost comparable to computed indexes in large and higher income countries in APEC. Compared to other developing economy members of APEC, Indonesia had been quite aggressive and liberal in their multilateral commitments as well as in their actual practices in banking and securities sub-sector. This may well be attributed to the Pakto reforms of 1988 that allowed not only domestic but also foreign entry into Indonesia's financial markets[28] Moreover, based on Figs. 3-5, the earlier observation that the larger and higher income countries in APEC are liberal in commitments and actual practices are also confirmed in the insurance and securities sub-sector.

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[27] Unlike in Mattoo, consumption abroad (mode II) is not included. In addition, the paper adds in the sector coverage the securities sub-sector, which unlike in Mattoo, banking and insurance were the only sub-sectors analyzed.

[28] (Dobson and Jacquet 1998).

Notice also in Figs. 1-5 for all sub-sectors of financial services trade, estimated indexes in actual practice for Japan are quite low which pales in comparison to the very high indexes in its commitments. This obviously suggests that Japan had been very aggressive in the financial services negotiations to a binding multilateral opening of the sector. A possible explanation for the liberal stance of Japan was the series of bilateral financial services agreement concluded with the United States in 1994-1996. With the multilateralization of the agreements in WTO other countries aside from the United States, makes the financial services market in Japan accessible to firms, especially other APEC member economies.[29] However, Japan's actual financial services system continues to be one of the most highly regulated system, and with the phased and gradual program of deregulation introduced recently, foreign financial firms as well as domestic firms have yet to reap the benefits of an open and liberal financial services market.

In addition to Japan, some other APEC countries' actual practices substantially deviate from specific commitments. The countries whose existing regime is substantially less liberal than its binding commitments were:

- Indonesia (insurance). The stipulation that foreign firms can own 100 percent of publicly listed firms will also apply to the insurance sector. Furthermore, although Indonesia continues to prohibit establishing insurance branches, insurance firms will be allowed to operate 100 percent owned subsidiaries.

- South Korea (insurance). South Korea offered to bind its current practice of allowing foreign insurance firms to establish subsidiaries or branches. In addition, South Korea has committed to allow foreign insurance firms to hold 100 percent ownership of domestic firms.

- Singapore (insurance). Foreign entry into Singapore's insurance sector is difficult, however in Singapore's GATS-FSA commitment it agreed to allow foreign companies to have management control and with 49 percent ownership of domestic insurance firms.

- Malaysia (securities). Foreign fund managers in Malaysia are not permitted to own more than 30 percent of a trust fund, and foreign asset managers are not permitted to hold more than 49 percent of a foreign joint venture asset management company. Under its GATS-FSA commitments, these were eased wherein foreign firms will be allowed to have majority ownership of asset management companies, subject to prior authorization from the Malaysian government.[30]

On the other hand, the countries whose existing regime is substantially more liberal than its binding commitments were:

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[29] British Invisibles (1998).
[30] Dobson and Jacquet (1998).

- Hong Kong (deposits). In the financial services sector, in general, Hong Kong, has relatively few limitations on market access or on national treatment, but Hong Kong's existing regime is more liberal than its binding GATS-FSA commitments, such as maintaining the restriction that licenses for deposit-taking companies are extended only to locally incorporated subsidiaries.

- South Korea (lending, securities). As part of an overall financial sector program agreed upon with the IMF, South Korea has gone considerably beyond its GATS commitments in the banking sector. Restrictions on foreign bank subsidiaries were removed. Foreign banks are now allowed to acquire South Korean banks and restrictions on land ownership have been removed. As in the banking sector, changes in the securities sector go beyond the commitments contained in South Korea's offer. Limits on foreign portfolio investment have been liberalized and an OTC market is now allowed. Limits on foreign equity participation in investment trust companies and investment advisory companies have been lifted. Foreign securities firms may now establish subsidiaries in South Korea and may purchase Korean securities firms.[31]

- Singapore (lending, securities). Singapore's GATS commitments largely reflect the current liberal regulatory environment. The major exception occurs in cross border trade, wherein the relatively few restrictions on Singapore residents buying financial services of all kinds abroad were not committed.

- Thailand (lending, securities). Thailand's current regime governing the participation of foreign securities companies goes beyond its commitment in the GATS-FSA. The Asian financial crisis has caused the Thai government to ease restrictions on foreign ownership of securities firms. Starting in 1997, the Thai government allowed foreign ownership in finance companies, finance-cum-securities companies to exceed the previous 25 percent ceiling and to exceed 50 percent for a maximum period of 10 years.

- Mexico (securities). The implementation of NAFTA in 1994 permitted foreign securities companies, in particular, U.S. and Canadian securities firms to enter the Mexican market through subsidiaries. Non-NAFTA country firms may enter the Mexican market under NAFTA's provisions via their U.S. or Canadian subsidiaries. This allowed them to circumvent the fact that Mexico's GATS-FSA offer is less liberal than treatment accorded under NAFTA.[32]

[31] U.S. Treasury (1998).
[32] U.S. Treasury (1998).

V. Some issues in the liberalization of financial services trade

5.1. Links between trade and finance

Empirical evidence points to a strong positive correlation between trade openness and financial sector development.[33] Trade can exert significant effects on the functioning and development of the financial system. Foreign traders, investors, and domestic producers can find their cost of doing business reduced significantly because of access to technologies and innovation which help them to improve or raise efficiency. They therefore emphasize to the government and the financial services sector to improve their services and policies.

Similarly, as far as trade in financial services, the literature suggests that international openness in financial services trade brings more than just traditional gains from trade. Liberalization or internationalization of financial services trade also facilitates the transfer of knowledge or skills and technology, especially the liberalization of commercial presence, as firms take advantage of economies of scope.[34] Financial services trade also leads to improved variety and quality of financial services and financial products available in the market. This is because growing trade creates a demand for more sophisticated financial services, and ultimately leads to financial sector development.[35] Increased openness in financial services trade enhances competition and efficiency, which lowers prices, and average costs. A set of empirical studies has demonstrated that the liberalization of the financial services sector can boost income and growth through improved quality of investment. Levine (1996, 1997) and King and Levine (1993) have shown that countries with more open and liberalized financial sectors have grown faster than countries with closed or inward looking financial sectors.

The salient and important points raised above find their relevance in actual practice through the issue of whether to grant greater and enhanced foreign bank participation in domestic financial markets of countries. Several arguments have been raised in favor of granting greater access of foreign banks and these were: first, foreign banks encourage adoption of best practices and transfer of skills in the banking industry. By allowing foreign banks the immigration of their skilled banking personnel, and since these banks will also hire local bankers with a better knowledge of the local economy, over time, local bankers will learn from the practices of international banks and acquire skills which they bring when they move back to domestic banks.[36]

Second, foreign banks enhance the capability of financial institutions to effectively measure and manage risk. Foreign banks can easily demonstrate the latest in risk management techniques and thus lead to improved management of risk and better

[33] See World Economic Forum 1996.
[34] Zutshi (1995); Agosin, Tussie and Crespi (1995).
[35] WorldBank (2000).
[36] Eichengreen (1999); Worldbank (2000); IMF (1999).

allocation of credit in the domestic banking system by spreading these practices to local or home country regulators.[37]

Third, foreign banks are argued to improve the quality, pricing, and availability of financial services, either directly as providers of such services or indirectly by stimulating competition with domestic financial institutions. A recent cross-country study by Claessens, Demirguc-Kunt and Huizinga (1998) showed that foreign bank participation was associated with lower overhead costs, however with lower profitability for domestic banks.[38] In addition, performance indicators for a sample of emerging markets for 1996-98 seem to confirm that foreign banks in these markets are relatively more efficient than domestic banks. In Latin America for example, especially in countries that went through a relax foreign bank entry early in the sample period (Argentina, Colombia, Peru, and Venezuela) have on average higher returns on average equity, and lower cost-to-income and problem loan ratios, than domestic banks.[39] Similar results were also observed with Hungary, Spain, Ireland, Portugal, and others.[40]

Fourth, foreign banks are generally regarded as well diversified in their portfolios than domestic banks and usually have access to sources of funds through their parent company located abroad. Because of diversification foreign banks are exposed to less risk and less exposed to negative shocks that might hit the local economy. Having a large foreign component to the banking sector helps insulate the banking system. However, this is subject to the caveat that economic shocks are country-specific, region-specific, or industry specific. In cases where the foreign bank comes from the same region the usefulness of diversification is diminished if region-specific shocks hit the local economy.[41]

However, arguments in favor of local presence of foreign banks are not without its critics. Costs or risks often mentioned as accompanying foreign bank participation in local financial markets were the following. First, foreign financial institutions may "cherry pick" or target the most lucrative or profitable segment of the domestic market or customers like servicing large corporations or high-income households. The costs and risks are borne by domestic financial institutions, which are forced to serve other more risky customers. Second, the ability of domestic regulators in supervising and regulating a complex financial system with the added presence of foreign financial institutions may be limited. Instead, this may lead to greater systemic risks as foreign financial institutions cannot be supervised, monitored, and regulated.[42]

Third, the infant industry argument for protection depends upon the conventional wisdom of learning by doing. The industry should be given protection because local

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[37] Mishkin (1999); Goldberg et al. (2000);IMF (2000).
[38] Yoshitomi and Shirai (2000).
[39] IMF (2000).
[40] Clarke et al. (1999); Claessens and Klingebiel (2000).
[41] Mishkin (1999); WorldBank (2000).
[42] Claessens and Glaessner (1998).

production would give rise to learning by doing that would eventually lower local costs of production. In such circumstances, local production starts and reveals the country's comparative advantage. As argued by Mattoo (1998), in the financial sector the rationalization for protection is the vulnerability of domestic financial firms that is related to a much bigger concern regarding the stability of the financial system. The inefficient domestic financial firms if exposed to competition may fail and set off a systemic risk. However, the perceived failure of the infant industry argument is that the protected firms are forever stuck in perpetual infancy, and this is due to the inability of the government to credibly commit to some future date to liberalize.[43]

Fourth, related to the infant-industry argument is the belief that the financial sector is a special or strategic sector of the economy that should best be controlled by domestic interests. Moreover, although consumers ultimately stand to gain from any design of a liberalization strategy, there may be political backlash from those who lose from sectoral reforms.

5.2. Financial services trade and capital account liberalization

A second major issue concerns the relationship between capital account liberalization and market access commitments in the financial services agreement. It is now widely held and accepted that capital account liberalization in the presence of inadequate supervisory policies and prudential regulations, and inadequate macroeconomic policies can contribute to serious economic and financial difficulties. The introduction and intensification of competition causes domestic banks' profit margins to decrease as confirmed by Claessens, Demirguc-Kunt and Huizinga (1998) study mentioned earlier. This will force banks to expand risky activities and 'gamble for redemption' at levels that exceed their capacity to manage them. In addition, by exposing domestic banks to sophisticated and complex financial services products makes regulation, monitoring and evaluation of bank balance sheet becomes difficult.

The removal of restrictions on international capital movements and the opening of the domestic financial services markets to foreign competition are two interrelated, yet distinct, components of the internationalization of financial services.[44] A country may

[43] It can be argued that the GATS-FSA offers countries the opportunity of credibly committing to liberalization at some future date.

[44] Capital movements includes – capital transfers, acquisition or disposal of non-produced, non-financial assets; direct investment, portfolio investment, and other investment-arise from investment or loan operations or the transfer of personal assets (for example, by emigrants) and generate payments of interest, dividends, rent or profit. While, trade in financial services - insurance, banking, securities trading and portfolio management services-takes place when services are provided in exchange for payment of fees, commissions and other charges. These include including intermediary service fees (such as those associated with letters of credit, bankers' acceptances, lines of credit, financial leasing, and foreign exchange transactions), commissions and fees related to transactions in securities (for example, brokerage, placement of issues, underwritings, redemptions, and arrangements of swaps, options and other hedging instruments), commissions of commodity futures traders, and fees related to such services such as asset management, financial market operational and regulatory services, security custody services). Free trade in financial services means that domestic consumers may use services of foreign financial institutions, and domestic financial institutions may provide services to foreigners (Tamirisa, 2000).

allow foreign firms into its market yet restrict capital inflows and outflows from abroad. Moreover, the extent to which trade in a financial service is linked to the underlying capital movements generally depends on the type of the financial service and the way it is supplied, i.e., across borders or through commercial presence. In other words, the crucial issue here is which type of financial services trade encourages stable capital flows, at levels which can be absorbed by the economy and would not undermine the stability of the financial system.

It appears that the relationship between trade in financial services and capital flows is particularly close under Mode 1 (cross-border supply). Take for example, lending. If governments allow foreign banks to provide loans to domestic residents involving international capital, the movement of capital related to the underlying transaction is analogous to liberalizing capital movements, with a strong bias to volatile short-term lending.[45] On the other hand, trade in services via commercial presence requires foreign direct investment to establish such presence. In this case, when foreign-owned affiliates (typically, subsidiaries) are incorporated in the host country, they are considered residents of this country. In addition, financial services that typically give rise to current transfers and payments without necessarily involving cross-border capital movement are services such as insurance intermediation, stock brokerage, provision and transfer of financial information, consulting, advisory services as well as non-life insurance services (e.g., motor services) and many other consumer financial services, which involve few or if any, investible funds. They thus have fewer linkages with capital account liberalization, and internationalization of these services might proceed more independently of other financial reform processes.[46]

In light of the severe financial turmoil over the last few years, one should appropriately ask whether on what form and how fast should countries liberalized their financial services trade. Rather than dismantling barriers to trade in financial services across the board, it might have been preferable for them to maintain at least restrictions under Mode 1. This applies primarily to countries with weak and inadequate financial systems. Thus, countries are advised to limit their commitments to the commercial presence of foreign institutions, which require only a limited liberalization of capital flows under the financial services agreement.[47] As pointed out by Kono and Schuknecht (1998), the liberalization of commercial presence results in less distorted and less volatile capital flows and more stable financial sectors than cross-border trade. Commercial presence improves the institutional environment through better access to information and transparency. Better information facilitates proper risk-assessment, which leads to the reduction of herding behavior and irrational response of investors.

Thus, this points to the important prerequisites for yielding the full benefits and minimizing or controlling the risks from liberalizing financial services trade. Financial

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[45] Cornelius (1999).
[46] Claessens and Glaessner (1998).
[47] Cornelius (1998).

services trade and financial sector stability are complementary if they are accompanied by consistent macroeconomic policies and an adequate prudential regulation and supervision, in particular, with respect to liberalizing commercial presence.[48] This is the preferred and dominant option of supplying financial services across most APEC economies, and it should be accompanied by the strengthening of prudential regulation and supervision. This is necessary to ensure that only 'sound' foreign service providers enter and operate in the domestic market.

However, cross-country experience and theory show that there is a tradeoff between enhancing competition through increase market access measures and guaranteeing financial stability. Because services are often not tradeable and intangible, frequently market access barriers are enforced "behind the border" and are embodied in regulations such as control in entry and operations of firms, limitations on foreign equity holdings or nationality constraints, or requirements for professionals to re-certify as a condition for operating in the market. As financial services are regulated by many prudential rules, the distinction between protection and prudential is blurred.[49]

We could identify two possible ways to proceed which minimize tradeoffs between financial regulation and competition. First, market based measures are currently being considered through the development of international standards and codes of good practice in the areas of financial services and accounting of financial transactions and institutions. Such efforts are expected to reduce the possibility that domestic standards and codes are perceived by other countries as burdensome or effectively constitute barriers to trade.[50] The efforts of the Basel Committee's Core Principles for developing effective banking supervision with minimum requirements in this regard are extensive and well documented.[51] The IOSCO (International Organization of Securities Commissions), and IAIS (International Association of Insurance Supervisors) conduct similar work in the areas of securities and insurance. Among numerous other codes and standards, IOSCO has produced the Statement of Objectives and Principles of Securities Regulation and International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers. IAIS has produced the Supervisory Standard on Licensing, as well as other standards.[52] In this regard, improvements in communications and dialogue between regulators *across* countries are necessary preconditions for achieving progress in this area. Second, differences in prudential regulation between countries can be reduced if not eliminated if countries recognize the prudential measures of other countries with high standards of prudential regulation and supervision. Such recognition may be based on an agreement or arrangement with the countries concerned, or may be accorded unilaterally.[53] This has the implication that as Mattoo (2000) points out, there are

[48] Worldbank (2000).
[49] Sorsa (1997).
[50] WTO (1997).
[51] According to these principles, in particular, the licensing process should include an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base (Tamirisa et al 2000).
[52] WTO (1997).
[53] Hoekman (1997).

limitations which can be achieved at the multilateral level, and that the regulatory aspects can be handled at the national or bilateral level.

Related to the issue of capital account liberalization and financial services trade is the linkage between monetary policy and financial services trade. The conduct of monetary policy may be affected by the degree of openness of the financial services sector. This is because by allowing new foreign financial services providers, they may introduce a new class of financial instruments, which may affect the behavior of money demand and make monetary management more difficult. This is definitely an empirical matter which goes beyond the scope of the paper. However, initial indications will reinforce similar arguments raised earlier in the paper that the link between financial services trade and monetary policy depend on the type of financial services. As long as few investible funds are involved (e.g., non-life insurance services and many other consumer financial services), the link between having a prudent monetary management of sophisticated financial instruments and the decision to open up or to 'internationalize' the financial services sector may be a trivial issue.

VI. Treatment of Foreign Financial Institutions in the Philippine Financial Services Sector[54]

6.1. Banking

With the exception of four 'grandfathered' foreign banks, the entry and licensing of new, wholly foreign-owned banks was prohibited under the 1948 General Banking Act. Foreign participation was limited to a maximum of 30% of a bank's voting equity (with an increase to 40% possible with specific presidential approval upon recommendation by the then Central Bank). However, with two recent amendments to the Act, the conditions of entry as well as the scope of operations of foreign banks have been substantially improved. The first amendment was Republic Act 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks), which was signed into law on 18 May 1994, and most recently, Republic Act 8791 or the General Banking Law signed and approved in May 2000. These reform initiatives were carried out in order to enhance the efficiency of the domestic financial system through increased competition, and to make the Philippine banking system more globally competitive capable of facing the challenges of a changing and dynamic external environment.

The 1994 Act allowed three possible modes of entry, if authorized by the Monetary Board: (i) by acquiring, purchasing or owning up to 60% of the voting stock of existing banks; (ii) by investing in up to 60% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (iii) by establishing branches with full banking authority. In turn, Republic Act 8791 or the General Banking Law of

[54] This section draws heavily on U.S. Treasury National Treatment Study (1998) and EU Sectoral and Trade Barriers Database (1999).

2000 expanded the coverage of RA 7721 by allowing a foreign bank to acquire up to 100 percent of the voting stock of one bank, but only within seven years from the effectivity of Republic Act 8791. This provision also applied to foreign banks that had acquired 60 percent of the voting stock of a bank under the 1994 reform.

The 1994 Act also opened a five-year window permitting up to ten new foreign banks to enter the market as full service branches. All ten foreign branch licenses have already been issued, therefore, additional foreign banks are, in effect, restricted from entering the Philippine banking industry in branch form. Subsequently, the General Banking Law of 2000 formalized the moratorium on new bank entry within three years from the effectivity of the General Banking Law.

A foreign bank cannot have both a subsidiary bank and a bank license. Criteria used for the granting of licenses were: (i) a foreign bank seeking to enter the Philippine banking industry has to be widely owned and publicly listed unless more than 50 percent of its equity is held by its home government; (ii) The bank is considered widely owned if there are at least 50 shareholders, with no individual owning more than 15 percent of the bank's stock; and (iii) a bank had to be among the top 150 banks worldwide (by net worth) or among the top five banks in its home country. Foreign-owned banks and branches are prohibited from collectively controlling more than 30 percent of the banking system's total resources or assets.

Each new foreign bank is permitted to open a total of six offices, but three are required to have BSP Monetary Board approval with regard to location. The 1994 reform allowed the four existing foreign banks established prior to 1948, to add up to six new sub-branches. Foreign branches must permanently assign a capital of not less than 210 million pesos for the first three and for the next three will require 35 million pesos. Foreign banks seeking the right to operate an expanded bank will need a total capital of at least 2.5 billion pesos, the same as domestic banks. Capital adequacy ratios and legal lending limits are based on the locally incorporated capital of the branch instead of consolidated global capital, and net-due-to-head-office borrowings need to be fully converted to pesos to qualify as capital for certain regulatory requirements. These restrictions mitigate much of the benefit in establishing branches.

6.2. Insurance

Since 1974, foreign shareholding in domestic insurance companies was limited to 40% and in spite of the approval of the Foreign Investment Act of June 1991, maintained the ownership limit at 40%. The 13 foreign companies established prior to 1974 had been grandfathered because of the passage of the Foreign Investment Act of 1991. However, with the enactment of Republic Act No. 8179 in March 1996, foreign insurers are now deleted from the negative list in the Foreign Investment Act of 1991. Consequently, foreign insurance companies can take over 100% ownership of existing local companies and can establish wholly-owned subsidiaries and branches. However, only 5 licenses will be granted over the next 2 years for each of the latter categories, but may be increased to

10 each with the approval of the President of the Philippines upon recommendation of the Secretary of Finance.

The criteria applied for entry are similar to those applied to bank licenses; (i) the companies had to belong to the top 200 foreign insurance or reinsurance in the world or (ii) among the top 10 in their country of origin, and (iii) had been in the industry for at least ten years. To qualify as a branch or as a new company incorporated in the industry, a company also had to be widely owned and publicly listed in its country of origin, unless it was majority owned by the government. For a company to be considered as widely-owned, no single stockholder of the company must own more than 20 percent of its voting stock.

Foreign insurance companies established in the Philippines appear to be generally granted national treatment with certain exceptions. First, capital requirements are differentiated for foreign joint ventures or foreign companies, according to their share of foreign equity. For an insurance company, a minimum paid-up capital of 250 million pesos and a contributed surplus fund of 50 million pesos are required where foreign equity is 60% or more. Where foreign equity is less than 40%, capital requirements fall to 50 million pesos and 25 million pesos contribution to surplus fund. There exists an intermediary category for foreign equity ownership comprised between 40% and 60%. The same differentiated treatment for foreign reinsurance companies, though with much higher amounts of capital.

Secondly, special deposit requirements are imposed. For instance, foreign insurance companies are required to deposit with the Insurance Commission eligible form of securities that have an actual market value not less than the minimum paid-up capital required of domestic insurance companies. It is specifically required that at least 50% of the securities should represent evidences of government debt and government owned or controlled corporations (GOCCs). In the case of domestic companies, they had to deposit 25 percent of minimum paid-up capital with the Insurance Commission, with the same requirement that it should be in the form of government securities.

6.3. Securities

Philippine residents not sourcing foreign exchange from the banking system may freely invest offshore without government-imposed limits or approval. If the foreign exchange for investment is obtained from the banking system, the limit is US$6 million per investor per year.

Securities brokers/dealers incorporated under foreign laws cannot set up as a branch in the Philippines. However, they are free to establish either a representative office or a wholly-owned subsidiary. In the case of investment houses, foreign participation is limited to 60 percent ownership or less. Underwriting activities can be led through total or joint ownership of local investment houses or commercial banks. The foreign ownership limit on firms engaged in trust activities and mutual fund management is 40 percent.

Foreign companies established in the Philippines appear to be generally granted national treatment with certain exception, for instance, foreign-owned companies are not allowed to trade in government securities for the account of their customers, but they are allowed to trade on their account. Foreign investors can only own "B" shares of local corporations.

6.4. Possible Negotiation Strategies for the Philippines in the Next Round of Services Negotiations

No attempt is made to offer a comprehensive negotiation strategy for the Philippines in the next round of services negotiations. This is beyond the scope of the paper. However, an array of specific and broad negotiation strategies and proposals in financial services trade are offered which can guide our negotiators in pushing for commitments that will contribute in the strengthening of the domestic financial system, while at the same time enjoying the benefits of greater competition due to a higher level of access and participation of foreign financial services providers in the Philippine financial services sector. [55]

- The recent reform in allowing foreign equity participation of 100 percent in the banking sector as provided in the General Banking Law of 2000 should be committed. This will improve on the 1997 commitment that allows foreign banks to acquire only up to 51 percent of an existing domestic bank or a newly incorporated bank subsidiary;

- The actual practice of allowing foreign insurance companies to take over 100 percent of existing local companies and establish branches in the Philippines should be committed, respectively. This will improve on the 1997 commitment that foreign insurance firms may hold only up to 51 percent of existing or newly incorporated Philippine companies in life and non-life insurance and the commitment of allowing foreign insurance companies to establish only as subsidiaries, respectively;

- The actual practice of allowing foreign investment houses and foreign financial leasing to a maximum of 60 percent equity should be bound. This will improve on the 51 percent allowed equity for investment houses and 40 percent allowed equity for financial leasing in the 1997 agreement;

- The Philippines should consider binding actual practice in asset management which allows 40 percent foreign equity limit on mutual fund management;

- The Philippines should consider binding actual practice of allowing foreign securities companies to establish a representative office and subsidiary, while at the same time allow and commit the establishment of a branch;

[55] See Box 1 for a review of Philippine commitments in the 1997 financial services agreement.

- The Philippines should also gather support and consensus within APEC to address the issues of:
  - Movement of natural persons that will recognize the greater freedom for transfer and employment of foreign workers;
  - Recognition of qualifications obtained overseas.

- In order to address uncertainty as to the scheduling and interpretation of commitments, encourage Members to use the classification list outlined in the Annex on Financial Services when scheduling commitments in financial services;

- The Philippines should gather support and consensus within APEC with regards to the improvement in regulatory oversight systems in two facets: (i). Establishing a program of technical assistance among developed countries to help enhance systems of prudential regulations and supervision in developing countries, including the Philippines, and (ii) Facilitating greater liberalization through an appropriate phase-in of liberalization over a certain transition period. During this transition period, while a program of technical assistance to upgrade supervisory capabilities set in place, the Philippines may further consider some piecemeal market opening measures, some of which may require prior legislative action:
  - The moratorium on granting of new licenses for establishing branches in banking and insurance
  - The economics needs test in granting licenses for foreign banks and foreign insurance companies
  - The number of branches a foreign bank is permitted to operate
  - The lending limit based on locally incorporated capital of the branch, as opposed to consolidated global capital of the foreign bank.

6.5. Identification of existing or potential achievements of comparative advantage in the Philippine financial services sectors: The Impact of Technology

In a seminal paper by Arndt (1988), an important point was raised that the standard neo-classical explanation of comparative advantage, the Heckscher-Ohlin explanation in terms of different factor endowments among countries and different factor proportions among products, has little relevance to trade in financial services. Interestingly, then, that the reason why countries with abundant capital have a comparative advantage in trade in financial services is not that the financial services industry in these countries is capital intensive. Instead, Arndt pointed out, that the source of comparative advantage is due to economies of scale and development of specialized skills that goes with a large domestic banking market. More importantly, the rapid change in technology, particularly in information technology, has a crucial role to play in enhancing and developing comparative advantage in financial services, because of the ability of changes in technology in creating new skills requirements and new markets which, consequently, creates economies of scale.

Likewise, technological changes are having a profound effect on the way financial companies conduct their business and on the way financial services are provided to customers. New technology has made it possible to alter the manner in which financial services are carried out, and it has also facilitated a greater separation of production from delivery, both in terms of geographic relocation within the organization and across firms (Lewis, 1998). This whole revolution in 'integrative services' in financial services is made possible by developments in information technology. In this view, the rapid spread and the dynamic growth of information technology greatly contributed to the expansion of financial services trade on a global scale. This allowed developed countries to 'transfer' or outsource their comparative advantage in financial services trade from high-cost locations in major financial centers to low-cost areas, primarily in developing countries. The so-called back-office activities or operations of international financial firms are shifted overseas, and are separated from front office activities were made possible because of changes in information technology.

For the Philippines, just like other developing countries, it does not have the capital and technical capability to establish commercial presence in financial services in other APEC countries whether in the form branches or subsidiaries, however, there are significant opportunities in terms of the human resource aspect of liberalization in financial services trade. As pointed out earlier, opportunities exist for the Philippines in highly skilled back-room office activities, which can be complemented in skills like electronic data processing and entry, product design, and computer programming.[56] These are activities which are increasingly outsourced and traded across borders.

As pointed out by Lamberte, the pool of highly skilled informatics workforce in the Philippines, will be the country's key to sustained competitive advantage in services in the future. This is based on the evidence that the number of information technology graduates had increased significantly in recent years. This is further reinforced by a recent finding by a local consulting company that the financial services sector is one of the more aggressive users of information technology in the Philippines. And a growing number of banks and other financial institutions are seeing IT as a critical component of their business.[57]

VII. Conclusion

The analysis of the commitments made across a major sample of APEC member economies resulted in several crucial and important policy implications. First, few commitments were made in cross-border trade as a relevant mode of supply in financial services. This stems probably from the close relation between liberalizing cross border trade in financial services and capital account liberalization. It is now widely held and accepted that liberalization of the capital account in the presence of inadequate supervisory policies and prudential regulations, and inadequate macroeconomic policies can contribute to serious economic and financial difficulties. In light of the recent

[56] Avila (undated).
[57] Hunter Consulting (2001).

financial turmoil in the East Asian and Southern Cone regions, this is a risky gamble that most APEC economies will not dare to tread.

Second, most of the commitments made were on the dominant mode of supply in financial services, i.e., commercial presence, though on a limited basis. Two possible explanations are given here. First, the so-called home-country bias will have a role to play here since consumers in the host-country will definitely prefer to purchase financial services from familiar local suppliers (including foreign-owned ones) rather than foreign suppliers located abroad. This is especially true in the case of insurance. Second, most of the limitations made on commercial presence by most APEC economies were to restrict new entry and introduce new competition in the local market while allowing increased foreign equity participation in local financial institutions. This may well be attributed to the pressing need of most developing countries within APEC to have well-capitalized and well-diversified foreign financial firms to help in the strengthening and recapitalization of troubled and weak domestic financial institutions which were badly burned by the recent financial contagion in East Asia and in some parts of the Southern Cone. In addition, increasing foreign equity participation in the local financial market is the preferred option rather than having foreign financial institutions coming as new competitive and efficient players in the market, which will drive their domestic rivals out of the market.[58]

Third, as expected most of the larger and higher income countries within APEC made commitments that binded their already liberal financial services markets. Meanwhile, most of the smaller countries opted to bind current and existing policy regimes rather than commit to new market opening measures in a multilateral framework. Likewise, the Philippines pursued negotiation strategies that mirrored observed patterns for smaller countries within APEC, namely, bind current and existing policy regimes in place, more commitments on commercial presence than on cross-border trade, and emphasized increased foreign participation than on allowing entry for new foreign financial services providers. Nevertheless, recent reform initiatives in the Philippine financial sector since the conclusion of the financial services sector negotiations in GATS offers new directions for Philippine negotiators to elevate national financial reforms in a multilateral framework during the next round of GATS negotiations.

Multilateral agreements such as the GATS-FSA render reforms of the domestic financial sector to become credible and sustainable. This is because commitments to reform must be bound if they are to have credibility. Binding reform prevents what is necessarily a gradual process, such as financial sector reform from falling into reversal. On the other hand, the concern for Philippine negotiators is that as a trade agreement, the GATS exclusively focus on market opening measures, and may not give appropriate consideration to the economics of financial reforms, leaving the responsibility to national authorities the appropriate sequencing of financial sector reforms.[59]

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[58] Mattoo (1998).

[59] Dobson and Jacquet (1998).

In view of this, three crucial questions are put forward: first, for the other countries that were not forthcoming in liberal commitments, and fell short of their commitments to actual regime in place, do they have to commit to a progressive liberalization in the future? And, for those countries that have committed to a standstill policy, particularly the Philippines, will there be a further need to open up? Finally, before countries will pre-commit to progressive liberalization and a liberal stance in the future, do they have to push other countries within the APEC grouping, and other member countries within GATS to liberalize as well?

On the first question, Article XIX of the GATS requires that signatories enter into further rounds of negotiations for progressive liberalization within five years of ratification of the agreement. In other words, under GATS-FSA rules it commit signatories to provide a built-in mechanism for the incremental broadening of market-opening measures. Meanwhile, at the outset, standstill bindings have merit. They provide the market participants with the assurance that the conditions on which their decisions are based will not be overturned by sudden policy changes or reversals. Nevertheless, for countries that were not forthcoming in their commitments and those countries that have maintained the status quo or have committed existing regimes in place, it should be borne in mind that opening and precommitting to future liberalization is in the self-interest of all countries not only large and developed countries, but also including the small developing countries, particularly in APEC.

As already emphasized, an efficient financial sector are one of the core of "infrastructures" in the economy by providing financial intermediation, diversification and managing risks, allocating capital, and the presence of well developed and competitively priced financial services is increasingly important to the ability of individual firms to export. These are benefits that are of crucial importance for small, developing countries, especially those with weak and undeveloped financial services markets. However, given the recent experience with the East Asian financial turmoil and consequently, the need to enhance soundness of domestic financial markets through improved quality of prudential regulation and supervision, developing countries are not likely to be aggressive in the next round of financial services negotiations. Therefore, it remains a matter of convincing developing countries on how the GATS-FSA will lead to maximizing the gains from financial services liberalization through sustained improvements in growth and development prospects while the risks and costs involved in liberalization are reduced or eliminated.

This can be done through a higher level of recognition of the special needs and interests of developing member countries. In fact, in the Financial Services Agreement (FSA) it was felt by developing countries that they made most of the market opening and other concessions.[60] In this regard, there is a need for developed countries to show patience and sincerity in the next round of negotiations. As such, facilitating greater liberalization among developing countries should allow them to phase in commitments over a specified period. Although a method for phasing in commitments will have to be

[60] Dobson (2000).

agreed upon, a favorable development on this matter for developing countries will be of crucial importance to the success of the next round of negotiations. Moreover, alleviating and mitigating fears of developing countries with potentially adverse effects arising from liberalization, for instance, through specific safeguard measures probably patterned after the safeguards-based opening of the Mexican financial market with respect to NAFTA can be used as a model.[61]

In this view, the United States and Canada, both being important APEC members, which along with Mexico (another APEC member) forms the triumvirate of the NAFTA grouping, can strongly push and support the above-mentioned proposals, while at the same time can provide the stimulus and motivation for other APEC members to undertake liberal commitments in the next round. Moreover, there are clear signs in APEC member countries that advances in market opening will come from a combination of different factors. First, member countries of APEC that are in IMF program due to the Asian crisis have included relaxation in foreign entry as one facet of domestic reforms in said program. This is considered extensive and faster than what were negotiated earlier in FSA.[62] Second, the overarching goal of advancing a sense of community akin to APEC, while promoting the goal of multilateral liberalization inherent to GATS through creating a kind of an international constitution for free trade and market access should spur liberal commitments in APEC. Third, the growing interest of APEC economies in financial services reform as a means of achieving the shared objective of financing the huge long-term infrastructure projects as well as the needs of aging populations in some of the wealthy APEC member countries makes the GATS-FSA a strong complementary mechanism to bound existing and ongoing unilateral opening of financial markets in APEC countries.[63] Finally, most international financial centers are located in member countries of APEC (Japan, Singapore, Hong Kong), and have unilaterally proceeded with allowing further foreign entry for fear of being left behind by other financial centers.[64] Thus, progress in shaping future financial liberalization efforts of APEC economies will come from a combination of several processes, with GATS-FSA being one of these processes, while the others will come primarily from outside of WTO. The combination of unilateral, regional and market forces also becomes the mechanisms for APEC countries to engage and lock-in market opening measures in the WTO.

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[61] Sauve and Gillespie (2000).
[62] Dobson (2000).
[63] Dobson and Jacquet (1998).
[64] ibid.

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Table 1
Top 20 exporters and importers of banking and other financial services 1999 (US$ million)

Exporters	**Value**	**Share of total (%)**	**Importers**	**Value**	**Share of total (%)**
United States	13,930	23.87%	Belgium-Lux.	4,714	15.90%
U.K.	11,310	19.38	United States	3,570	12.04
Switzerland	7,969	13.66	Italy	3,099	10.45
Belgium-Lux.	5,815	9.97	Germany	2,850	9.61
Germany	3,990	6.84	Japan	2,720	9.17
Italy	2,261	3.87	France	1,400	4.72
Japan	2,004	3.43	Canada	1,337	4.51
Ireland	1,662	2.85	Spain	1,318	4.45
France	1,440	2.47	Ireland	1,259	4.25
Spain	1,347	2.31	Austria	835	2.82
Canada	966	1.66	Netherlands	738	2.49
Austria	942	1.61	Brazil	573	1.93
Netherlands	607	1.04	Switzerland	562	1.90
Sweden	492	0.84	Turkey	491	1.66
Korea	478	0.82	Sweden	430	1.45
Australia	472	0.81	Czech Rep.	354	1.19
Turkey	347	0.59	U.K.	330	1.11
Brazil	305	0.52	Australia	321	1.08
Portugal	265	0.45	Philippines	317	1.07
Czech Rep.	227	0.39	Mexico	250	0.84

Source of raw data: International Monetary Fund, 2000 Balance of Payments Statistics Yearbook;

Table 2
Top 20 exporters and importers of insurance services[65]
1999(US$ million)

Exporters	**Value**	**Share of total (%)**	**Importers**	**Value**	**Share of total (%)**
U.K.	6,650	23.29	Mexico	5,235	13.90
Canada	2,627	9.2	U.S.A.	4,080	10.83
Germany	2,550	8.93	Canada	3,412	9.06
U.S.A.	2,300	8.06	Japan	2,330	6.19
Switzerland	1,882	6.59	Germany	2,120	5.63
Italy	1,299	4.55	China	1,932	5.13
Mexico	1,072	3.75	Italy	1,818	4.83
Ireland	990	3.47	Ireland	1,416	3.76
France	970	3.4	France	1,008	2.68
Belgium-Lux.	914	3.2	Austria	943	2.50
Austria	838	2.94	Spain	936	2.49
Spain	809	2.83	U.K.	920	2.44
Poland	570	2.0	Singapore	803	2.13
Australia	563	1.97	Belgium-Lux.	751	1.99
South Africa	502	1.76	Poland	741	1.97
Singapore	486	1.70	Norway	717	1.90
Sweden	466	1.63	Thailand	654	1.74
Norway	454	1.59	India	614	1.63
India	242	0.85	Australia	599	1.59
Netherlands	224	0.78	Netherlands	566	1.50

Source of raw data: International Monetary Fund, 2000 Balance of Payments Statistics Yearbook.

[65] Include both life and non-life insurance, as well as reinsurance and retrocession, insurance intermediation, and services auxiliary to insurance.

Table 3
Exports of financial services for selected Asian economies, 1988-99
(US dollar million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NIES												
Hong Kong	819	986	953	1177	1493	2345	2794	2637	3018	n.a.	n.a.	n.a.
Korea	276	283	332	445	505	567	595	855	908	n.a.	n.a.	n.a.
Singapore	98	96	88	114	168	262	330	421	489	n.a	n.a.	n.a.
Taiwan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ASEAN												
Indonesia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Malaysia	2	3	3	3	4	5	6	7	n.a.	n.a.	n.a.	n.a.
Philippines	13	17	14	20	23	21	10	62	28	24	24	118
Thailand	6	7	10	12	44	55	55	99	111	71	51	56
South Asia												
India	71	110	123	107	150	141	145	170	210	229	230	242
Pakistan	4	6	17	11	5	20	20	15	40	41	n.a.	n.a.
China	345	332	227	342	486	452	1700	1852	123	201	411	370

Source of raw data: Das (1998); 2000 IMF Balance of Payments Statistics Yearbook.

Table 4
Imports of financial services for selected Asian economies, 1988-99
(US dollar million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NIES												
Hong Kong	510	576	610	711	881	1075	1059	1416	1414	n.a.	n.a.	n.a.
Korea	296	316	405	472	402	531	537	643	855	236	252	300
Singapore	557	631	779	832	534	633	771	973	1004	999	733	803
Taiwan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ASEAN												
Indonesia	150	177	234	272	294	311	355	437	486	509	334	272
Malaysia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	40	50	59	47	74	93	101	109	80	110	43	398
Thailand	205	259	336	389	569	614	756	961	960	892	592	654
South Asia												
India	223	332	344	350	403	439	492	559	587	650	628	614
Pakistan	31	28	25	63	37	80	95	104	115	104	n.a.	n.a.
China	213	187	94	214	274	362	1880	4273	233	1370	1921	2023

Source of raw data: Das (1998); 2000 IMF Balance of Payments Statistics Yearbook.

Table 5
Share of Foreign Banks in Domestic Banking Systems: 1988-1995

	No. of foreign banks in total	**Foreign bank assets in total**
Australia	0.37	0.05
Canada	0.64	0.07
Chile	0.32	0.25
China	0.13	0.00
Hong Kong	0.60	0.69
Indonesia	0.35	0.16
Japan	0.09	0.21
Korea	0.23	0.23
Malaysia	0.09	0.06
Mexico	0.04	0.02
New Zealand	0.85	0.91
Papua New Guinea	0.50	0.34
Peru	0.43	0.35
Philippines	0.49	0.12
Russia	0.08	0.06
Singapore	0.29	0.62
Taiwan	0.14	0.09
Thailand	0.08	0.02
United States	0.24	0.03

Source: Claessens, Demirguc-Kunt, and Huizinga (1998).

Notes: (a). as in the source of the data, a foreign bank is defined to have at least 50 percent foreign ownership.

(b). Figures reported are ratios of number of foreign banks to total number of banks and foreign bank assets in each country, respectively, averaged over the 1988-1995 period. Total number of banks is for 1995. Reported figures for the Philippines were recent available data on the commercial banking system (total number of commercial banks is for September 2001 and foreign bank assets in total were for the average of 1994-June 2001 period)

(c). No available data for Vietnam.

Table 6
Insurance penetration: premiums as share of gross domestic product (%)
(1998)

	Total business	Non-life	Life
Australia	9.96	3.56	6.40
Canada	7.14	4.05	3.09
Chile	3.39	1.15	2.23
China	1.49	0.63	0.86
Hong Kong	4.38	1.13	3.26
Indonesia	1.27	0.65	0.62
Japan	11.73	2.38	9.35
Korea	13.87	3.55	10.32
Malaysia	4.02	2.12	1.90
Mexico	1.52	0.83	0.69
New Zealand	6.54	4.76	1.78
Peru	0.90	0.65	0.25
Philippines	1.50	0.78	0.72
Russia	1.56	1.10	0.46
Singapore	4.61	1.08	3.53
Taiwan	6.46	1.90	4.56
Thailand	2.28	1.08	1.21
United States	8.65	4.55	4.11

Source: Swiss Re, sigma (1999).

Table 7
Foreign Participation in Asian insurance markets, 1997

	Number of foreign non-life insurers			Number of foreign life insurers			Foreign share of total premiums	
	Domestic foreign-owned companies	Foreign-owned joint ventures	Foreign branches	Domestic foreign-owned companies	Foreign-owned joint ventures	Foreign branches	Non-life	Life
China	0	0	4	0	1	1	0.4%	0.8%
India	0	0	0	0	0	0	0.0%	0.0%
Indonesia	0	22	0	0	22	0	20.3%	23.4%
Japan	5	0	26	5	0	3	4.7%	3.8%
Malaysia	2	0	6	0	0	4	9.6%	57.6%
Philippines	7	0	6	9	0	2	13.6%	32.6%
Singapore	12	0	21	2	0	4	57.3%	52.5%
South Korea	0	0	3	0	0	5	0.3%	0.3%
Taiwan	2	0	12	3	0	15	7.8%	24.9%
Thailand	11	0	5	0	0	1	17.7%	48.9%
Vietnam	0	0	0	0	0	0	0.0%	0.0%

Source: Swiss Re, sigma (1999).

Table 8
Market Access Commitments in Banking (Deposits and Lending)

Country	**Full Commitment (Cross Border Trade)**	**Limited Commitment (Cross Border Trade)**	**Full Commitment (Commercial Presence)**	**Limited Commitment (Commercial Presence)**
Australia	✔			✔
Canada	✔			✔
Chile				✔
Hong Kong				✔
Indonesia	✔			✔
Japan		✔	✔	
South Korea				✔
Malaysia				✔
Mexico				✔
Philippines				✔
Singapore				✔
Thailand				✔
United States	✔			✔

Table 9
Market Access Commitments in Insurance Services (Life and Non-Life)

Country	Full Commitment (Cross Border Trade)	Limited Commitment (Cross Border Trade)	Full Commitment (Commercial Presence)	Limited Commitment (Commercial Presence)
Australia				✔
Canada				✔
Chile				✔
Hong Kong				✔
Indonesia				✔
Japan			✔	
South Korea		✔	✔	
Malaysia		✔		✔
Mexico				✔
Philippines		✔		✔
Singapore				✔
Thailand		✔		✔
United States	✔			✔

Table 10
Market Access Commitments in Securities

Country	Full Commitment (Cross Border Trade)	Limited Commitment (Cross Border Trade)	Full Commitment (Commercial Presence)	Limited Commitment (Commercial Presence)
Australia	✔			✔
Canada	✔		✔	
Chile				✔
Hong Kong	✔			✔
Indonesia		✔		✔
Japan	✔			✔
South Korea				✔
Malaysia		✔		✔
Mexico				✔
Philippines				✔
Singapore				✔
Thailand				✔
United States	✔			✔

Table 11
Grandfather Provisions in Banking, Insurance and Securities

Foreign equity-related	
Country	**Provision**
Indonesia	*Banking, Insurance and Securities.* Share ownership of foreign service suppliers is bound at the prevailing laws and regulations. The conditions of ownership and the percentage share of ownership as stipulated in the respective shareholder agreement establishing the existing individual joint venture shall be respected. No transfer of ownership shall take place without the consent of all parties in the joint venture concerned.
Malaysia	*Banking.* Entry is limited to equity participation by foreign banks in Malaysian-owned or controlled commercial and merchant banks with aggregate foreign shareholding not to exceed 30 per cent, but the thirteen wholly-foreign owned commercial banks are permitted to remain wholly-owned by their existing shareholders. *Insurance.* New entry is limited to equity participation by foreign insurance companies in locally incorporated

	insurance companies with aggregate foreign shareholding not to exceed 30 per cent. Foreign shareholding not exceeding 51 per cent is also permitted when (i) existing branches of foreign insurance companies are locally incorporated, which they are required to be by 30 June 1998, and (ii) for the existing foreign shareholders of locally incorporated insurance companies which were the original owners of these companies.
Philippines	*Insurance and banking.* New investments of up to 51 per cent of the voting stock, but existing investments of foreign banks will be maintained at their existing levels.
Legal form-related	
Hong Kong	*Banking.* The condition that branches of foreign banks are allowed to maintain offices in one main building and no more than two additional offices in separate buildings, does not apply to banks incorporated outside HKSAR licensed before May 1978 in respect of fully licensed banks and before April 1990 in respect of restricted license banks.
Indonesia	*Banking.* Existing branches of foreign banks are exempted from the requirement imposed on

	new entrants to be in the form of locally incorporated joint venture banks.
Malaysia	*Insurance*. Branching is only permitted for direct insurance companies with aggregate foreign shareholding of less than 50 per cent but companies are permitted to maintain their existing network of branches.
Thailand	*Banking*. While the establishment of new branches is subject to discretionary licensing, existing foreign banks which already had the first branch office in Thailand prior to July 1995 will each be permitted to open no more than two additional branches.
General	
Philippines	*Insurance*. Limitations in market access listed in the specific insurance sub-sectors do not apply to existing wholly or majority foreign-owned authorized insurance/reinsurance companies as of the entry into force of the WTO Financial Services agreement.

Source: Mattoo (1998).

Table 12
Degree of openness/restrictiveness to trade in financial services of APEC economies
(Banking: Lending and Deposits)

	Commitments		Practice	
Country	**Deposits**	**Lending**	**Deposits**	**Lending**
Australia	0.7875	0.8125	0.7875	0.8125
Canada	0.7875	0.8125	0.7875	0.8125
Chile	0.2125	0.1875	0.2125	0.1875
Hong Kong	0.425	0.75	0.7875	0.8125
Indonesia	0.575	0.625	0.575	0.625
Japan	1	0.875	0.575	0.625
Korea	0.425	0.375	0.5	0.5
Malaysia	0.425	0.375	0.2125	0.1875
Mexico	0.425	0.375	0.425	0.375
Philippines	0.425	0.375	0.575	0.625
Singapore	0.425	0.5625	0.575	0.8125
Thailand	0.425	0.375	0.575	0.625
United States	0.7875	0.8125	0.7875	0.8125

Note: The higher the score, the more open is the financial services market. Scores range from 0 to 1 with a score of 1 being the most open and a score of 0 being most closed.

Table 13
Degree of openness/restrictiveness to trade in financial services of APEC economies
(Insurance: Life and Non-Life)

	Commitments		Practice	
Country	**Life**	**Non-life**	**Life**	**Non-Life**
Australia	0.6375	0.5625	0.6375	0.5625
Canada	0.7125	0.6875	0.7125	0.6875
Chile	0.2125	0.1875	0.6375	0.5625
Hong Kong	0.6375	0.5625	0.6375	0.5625
Indonesia	0.6375	0.5625	0.425	0.375
Japan	0.85	0.75	0.2125	0.1875
Korea	0.85	0.875	0.3625	0.1875
Malaysia	0.425	0.5	0.575	0.625
Mexico	0.425	0.375	0.425	0.375
Philippines	0.425	0.5	0.6375	0.5625
Singapore	0.425	0.375	0.2125	0.1875
Thailand	0.575	0.375	0.3625	0.3125
United States	0.7875	0.8125	0.575	0.625

Note: The higher the score, the more open is the financial services market. Scores range from 0 to 1 with a score of 1 being the most open and a score of 0 being most closed.

Table 14
Degree of openness/restrictiveness to trade in financial services of APEC economies
(Securities)

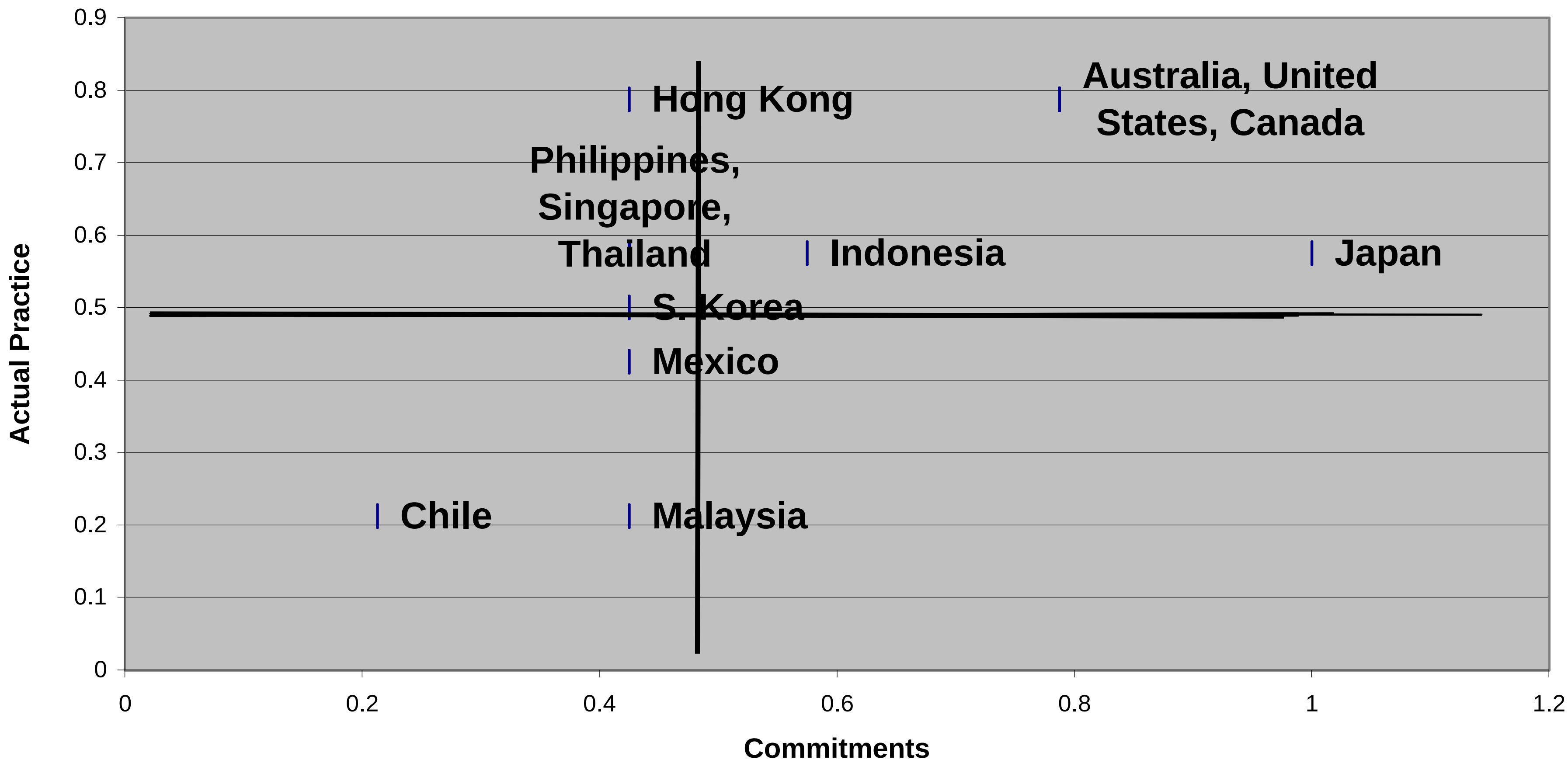
Country	Commitment	Practice
Australia	0.875	0.875
Canada	1	0.75
Chile	0.125	0.375
Hong Kong	0.75	0.875
Indonesia	0.625	0.5
Japan	875	0.75
Korea	0.375	0.5
Malaysia	0.5	0.125
Mexico	0.25	0.5
Philippines	0.25	0.75
Singapore	0.25	0.75
Thailand	0.25	0.5
United States	0.875	0.875

Note: The higher the score, the more open is the financial services market. Scores range from 0 to 1 with a score of 1 being the most open and a score of 0 being most closed.

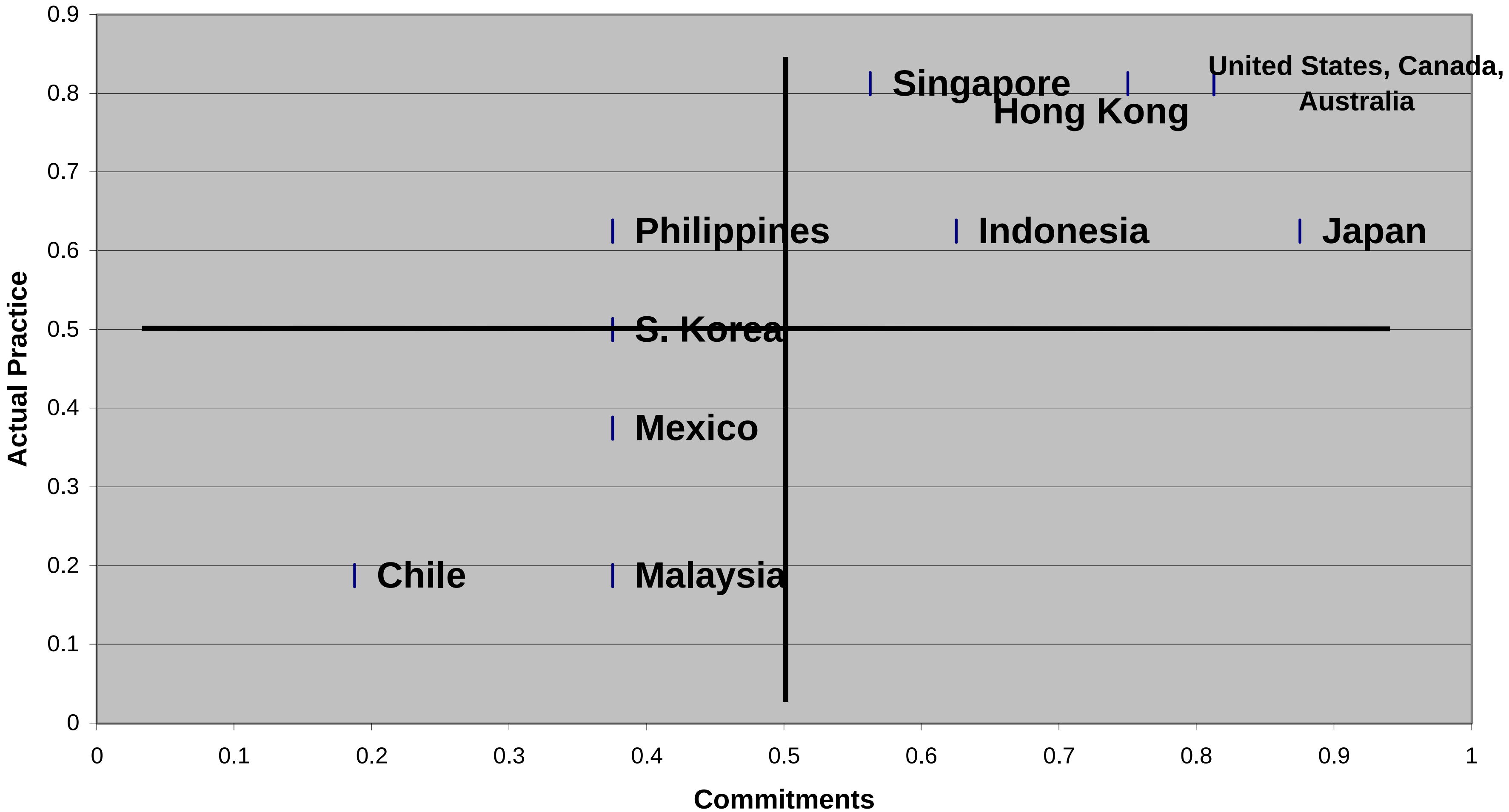
Table 15
Financial Services Agreement: Market Access in APEC Economies

	Banking (Deposits)	Banking (Lending)	Insurance (Life)	Insurance (Non-Life)	Securities
Commitments greater than Practice	Japan Malaysia	Japan Malaysia	Indonesia Japan South Korea Singapore Thailand United States	Indonesia Japan South Korea Singapore Thailand United States	Canada Indonesia Japan Malaysia
Commitments Equal to Practice	Australia Canada Chile Indonesia Mexico United States	Australia Canada Chile Indonesia Mexico United States	Australia Canada Hong Kong Mexico	Australia Canada Hong Kong Mexico	Australia United States
Commitments Less than Practice	Hong Kong South Korea Philippines Singapore Thailand	Hong Kong South Korea Philippines Singapore Thailand	Chile Malaysia Philippines	Chile Malaysia Philippines	Chile Hong Kong South Korea Mexico Philippines Singapore Thailand

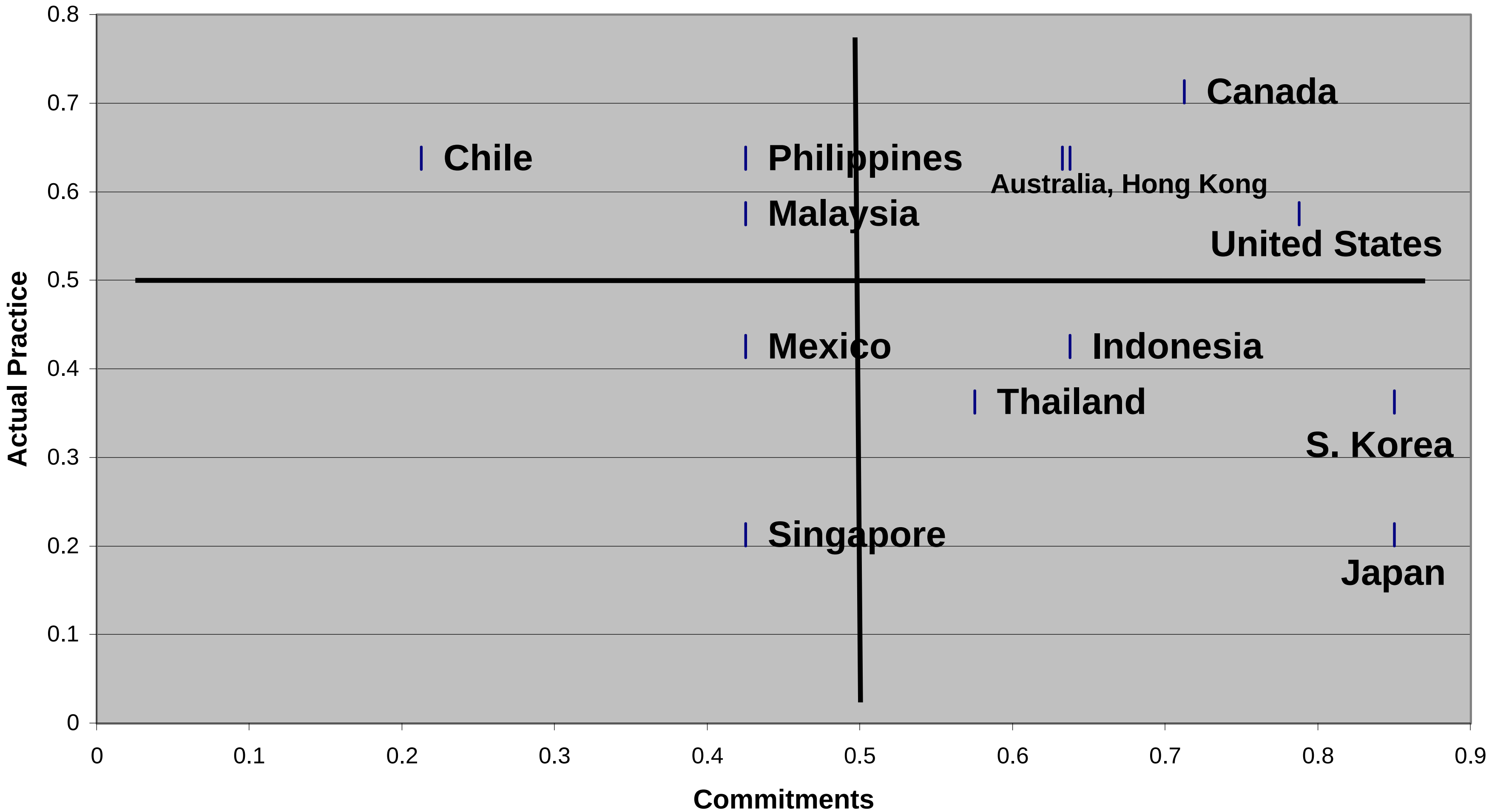
Openness/Restrictiveness of APEC Economies in Financial Services Trade
(Banking: Deposits)
Figure 1



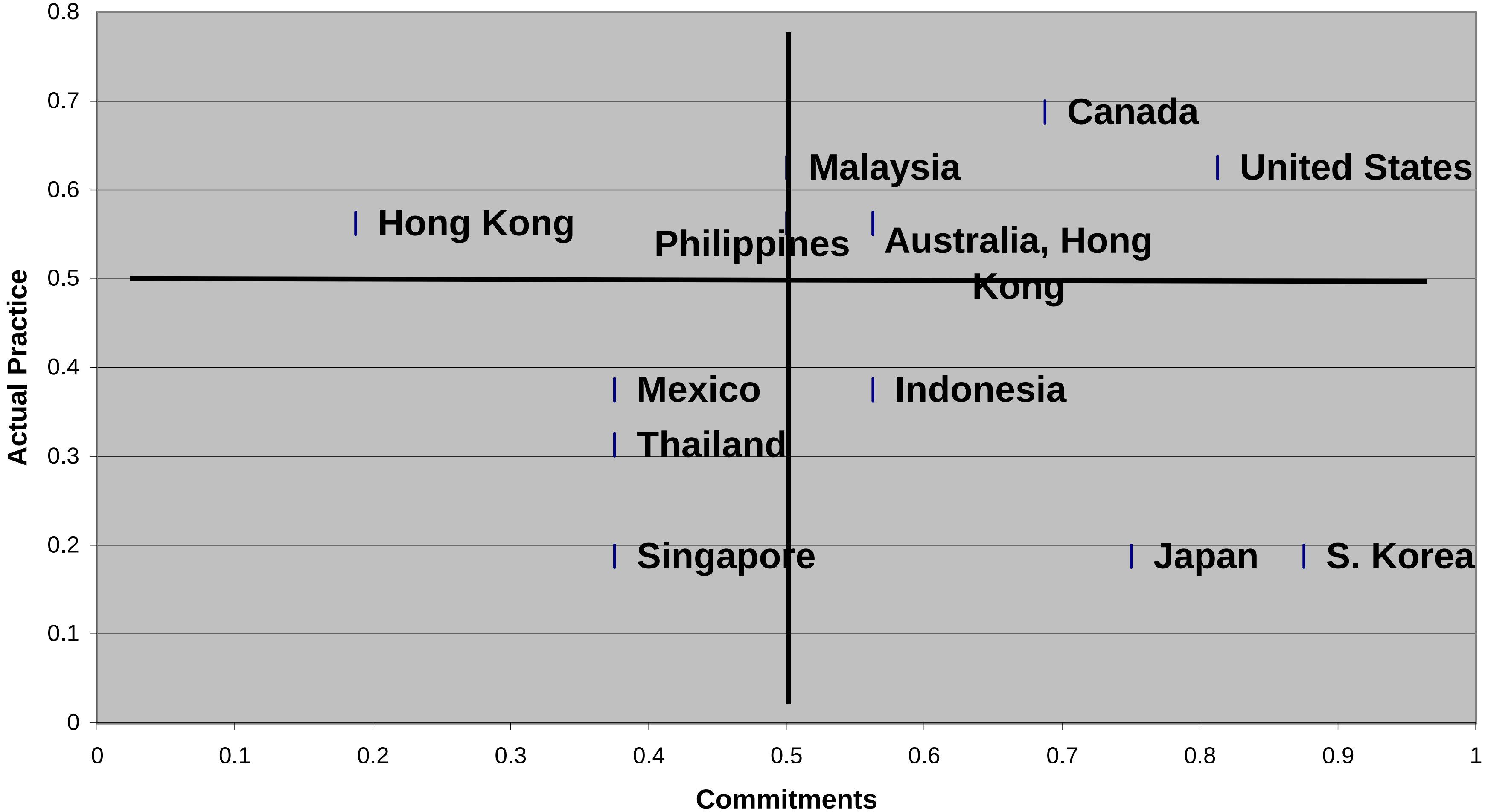
Openness/Restrictiveness of APEC Economies in Financial Services Trade
(Banking: Lending)
Figure 2



Openness/Restrictiveness of APEC Economies in Financial Services Trade
(Insurance: Life)
Figure 3

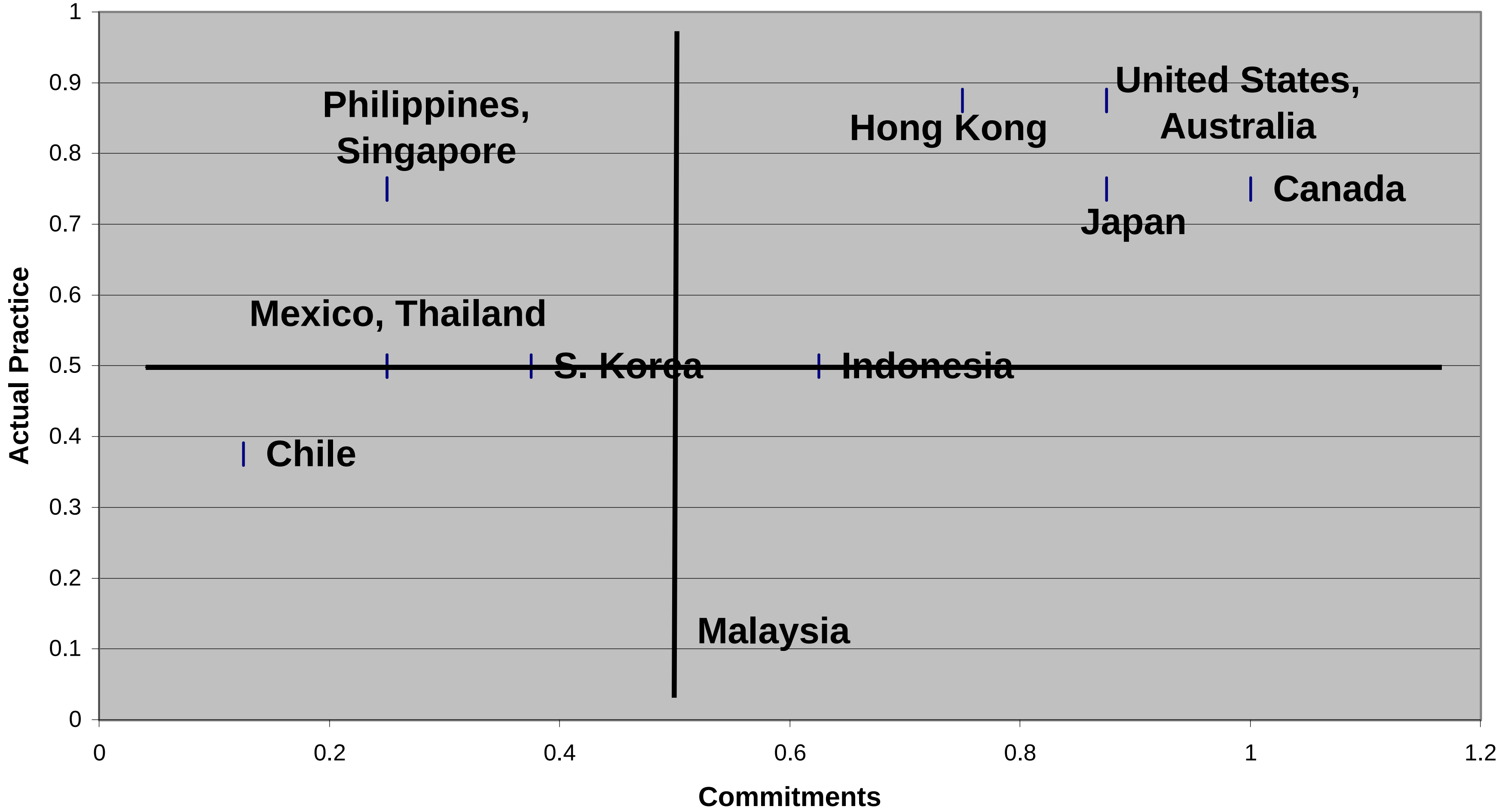


Openness/Restrictiveness of APEC Economies in Financial Services
(Insurance: Non-life)
Figure 4



Openness/Restrictiveness of APEC Economies in Financial Services Trade (Securities)

Figure 5



Box 1
Philippine Commitments in the 1997 GATS-Financial Services Agreement
(Cross border trade and Commercial Presence)

Banking

Cross Border trade
1. No bound commitments.

Commercial Presence
1. Foreign banks can acquire up to 51% of an existing domestic bank or a newly incorporated bank subsidiary.

2. States that foreign equity participation in existing banks beyond the 51% level will be maintained at existing levels.

3. Lower limits of 30% (up to 40% with presidential approval) for non-bank holdings in local banks.

4. 70% of domestic assets must be held by banks with Philippine majority ownership.

5. New licenses for branches of foreign bank bound at 10 for 1995-2000. Limits on prescribed capital ratio and board membership (majority must be Filipinos) and some activities are subject to restrictions.

6. Reduces the scope of its MFN exemption based on reciprocity in commercial banking and by excluding the authorization to expand existing operations from the scope, leaving only the authorization to establish commercial presence subject to the reciprocity test.

7. Increases the allowable additional branches of foreign banks to 6 from the current 4, with the first three in locations of the bank's choice, and the remaining three at designated locations.

Insurance

Cross border trade

1. Cross-border trade in MAT insurance permitted for licensed companies only, except in marine. Reinsurance bound but subject to compulsory cessions. All other insurance activities require commercial presence.

2. Allows cross-border trade in marine hull and marine cargo insurance.

Commercial Presence

1. Foreign firms may hold up to 51% of existing or newly incorporated Philippine companies in life and non-life insurance; and up to 40% in reinsurance and auxiliary services. Two-thirds of board members must be Filipinos. No commitments on insurance branches only subsidiaries.

2. States that foreign equity participation in existing insurance companies beyond the 51 percent level will be maintained at the existing levels.

Securities

Cross border trade

1. No bound commitments.

Commercial Presence

1. Establishment bound for:
- investment houses (51% maximum foreign holding); 60 percent under existing law.
- Factoring and financial leasing (40% foreign maximum); 60 percent under current law.
- Financial advisory services, money and foreign exchange broking and credit card services (40% limit for foreign non-banks).
- Security business. Compulsory membership of stock exchange, with members limited to 200. Foreign holding limited to 40% for firms issuing securities.

Appendix I

Highlights of the Annex on Financial Services

2. Domestic regulation

Notwithstanding any other provisions of the Agreement, a Member shall not be prevented from taking measures for prudential reasons, including for the protection of investors, depositors, policy holders or persons to whom a fiduciary duty is owed by a financial service supplier, or to ensure the integrity and stability of the financial system. Where such measures do not conform with the provisions of the Agreement, they shall not be used as a means of avoiding the Member's commitments or obligations under the Agreement.

3. Recognition

(a) A Member may recognize prudential measures of any other country in determining how the Member's measures relating to financial services shall be applied. Such recognition, which may be achieved through harmonization or otherwise, may be based upon an agreement or arrangement with the country concerned or may be accorded autonomously.

(b) A Member that is a party to such an agreement or arrangement referred to in subparagraph (a), whether future or existing, shall afford adequate opportunity for other interested Members to negotiate their accession to such agreements or arrangements, or to negotiate comparable ones with it, under circumstances in which there would be equivalent regulation, oversight, implementation of such regulation, and, if appropriate, procedures concerning the sharing of information between parties to the agreement or arrangement. Where a Member accords recognition autonomously, it shall afford adequate opportunity for any other Member to demonstrate that such circumstances exist.

5. Definitions

(a) A financial service is any service of a financial nature offered by a financial service supplier of a Member. Financial services include all insurance and insurance-related services, and all banking and other financial services (excluding insurance). Financial services include the following activities:

Insurance and insurance-related services

(i) Direct insurance (including co-insurance):

(A) life
(B) non-life

(ii) Reinsurance and retrocession;

(iii) Insurance intermediation, such as brokerage and agency;
(iv) Services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services.

Banking and other financial services (excluding insurance)

(v) Acceptance of deposits and other repayable funds from the public;
(vi) Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction;
(vii) Financial leasing;
(viii) All payment and money transmission services, including credit, charge and debit cards, travelers cheques and bankers drafts;
(ix) Guarantees and commitments;
(x) Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:

(A) money market instruments (including cheques, bills, certificates of deposits);
(B) foreign exchange;
(C) derivative products including, but not limited to, futures and options;
(D) exchange rate and interest rate instruments, including products such as swaps, forward rate agreements;
(E) transferable securities;
(F) other negotiable instruments and financial assets, including bullion.

(xi) Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provisioning of services related to such issues;
(xii) Money broking;
(xiii) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services;
(xiv) Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments;
(xv) Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services;
(xvi) Advisory, intermediation and other auxiliary financial services on all the activities listed (v) through (xv), including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy.

(b) A financial service supplier means any natural or juridical person of a Member wishing to supply or supplying financial services.

Appendix II

Highlights of the Understanding on Commitments in Financial Services

<u>Standstill</u>

Any conditions, limitations and qualifications to the commitments noted below shall be limited to non-existing non-conforming measures.

Market Access

Monopoly Rights

In addition to Article VIII of the Agreement, the following shall apply:

Each Member shall list in its schedule pertaining to financial services existing monopoly rights and shall endeavour to eliminate them or reduce their scope.

Cross-border Trade

Each Member shall permit non-resident suppliers of financial services to supply, as a principal, through an intermediary or as an intermediary, and under terms and conditions that accord national treatment, the following services:

(a) insurance of risks relating to:

(i) maritime shipping and commercial aviation and space launching and freight (including satellites), with such insurance to cover any or all of the following: the goods being transported, the vehicle transporting the goods and any liability arising therefrom; and

(ii) goods in international transit;

(b) reinsurance and retrocession and the services auxiliary to insurance as referred to in subparagraph 5(a)(iv) of the Annex;

(c) provision and transfer of financial information and financial data processing as referred to in subparagraph 5(a)(xv) of the Annex and advisory and other auxiliary services, excluding intermediation, relating to banking and other financial services as referred to in subparagraph 5(a)(xvi) of the Annex.

Each Member shall permit its residents to purchase in the territory of any other Member the financial services indicated in:

(a) subparagraph 3(a);

(b) subparagraph 3(b); and

(c) subparagraphs 5(a)(v) to (xvi) of the Annex

Commercial Presence

Each Member shall grant financial service suppliers of any other Member the right to establish or expand within its territory, including through the acquisition of existing enterprises, a commercial presence.

A Member may impose terms, conditions and procedures for authorization of the establishment and expansion of a commercial presence in so far as they do not circumvent the Member's obligation under paragraph 5 and they are consistent with the other obligations of the Agreement.

Temporary Entry of Personnel

(a) Each Member shall permit temporary entry into its territory of the following personnel of a financial service supplier of any other Member that is establishing or has established a commercial presence in the territory of the Member:

(i) senior management personnel possessing proprietary information essential to the establishment, control and operation of the services of the financial services supplier; and

(ii) specialists in the operation of the financial service supplier.

(b) Each Member shall permit, subject to the availability of qualified personnel in its territory, temporary entry into its territory of the following personnel associated with a commercial presence of a financial service supplier of any other Member:

(i) specialists in computer services, telecommunication services and accounts of the financial service supplier; and

(ii) actuarial and legal specialists.

National Treatment

When membership or participation in, or access to, any self-regulatory body, securities or futures exchange or market, clearing agency, or any other organization or association, is required by a Member in order for financial service suppliers of any other Member to supply financial services on an equal basis with financial service suppliers of the Member, or when the Member provides directly or indirectly such entities, privileges or advantages in supplying financial services, the Member shall ensure that such entities accord national treatment to financial service suppliers of any other Member resident in the territory of the Member.

Definitions

"Commercial presence" means an enterprise within a Member's territory for the supply of financial services and includes wholly- or partly-owned subsidiaries, joint ventures, partnerships, sole proprietorships, franchising operations, branches, agencies, representative offices or other organizations.

Appendix III

Calculation of Frequency Based Index

Modal weights

The approach used in the paper in constructing a frequency-based index was adopted from an earlier study of Mattoo (1999). However, the paper differs in some respects in terms of modal coverage and modal weights used, the inclusion of the three major activities covered under the financial services agreement of GATS, the separate measurement of actual practice in the financial services sector and the committed and bound schedules.

The modal weights used in the study are presented below:

	Cross-border supply	**Commercial Presence**
Banking		
Deposits	0.15	0.85
Lending	0.25	0.75
Insurance		
Life	0.15	0.85
Non-life	0.25	0.75
Securities	0.5	0.5

Numerical Analysis

With respect to cross-border trade, a numerical value of zero was attached to entries "unbound" (no commitments or market opening measures) and a value of one to entries of 'none" (with commitments and without limitations). In cases where a commitment was made and with some limitations, a value of 0.5 was attached. On the other hand, the actual practices with respect to cross border trade in financial services followed a similar procedure for the creation of the rating or indicator. A numerical value of 1 was attached when actual access conditions are considered more liberal than the commitments. A value of 0 was attached when access conditions are relatively closed. In case when actual access conditions are considered less liberal and open than the bound commitments a value of 0.5 was attached.

With respect to commercial presence, a slightly different approach was used. This was based on first identifying the "most restrictive measure" specified, and then applying a value based on an assessment of its restrictiveness. The presence of any of the following limitations led to the indicated value being attached (regardless of whether other less restrictive measures were also applied). The construction of the indicator or rating applied both to actual practices and commitments:

No new entry or unbound for new entry	0.10
Discretionary licensing for new entry	0.25

Ceiling on foreign equity a less than 50%	0.50
Ceiling on foreign equity at more than 50%	0.75
Restrictions on the legal form of commercial presence	0.75
Other minor restrictions	0.75

In each sector, the liberalization index, for each country, c, is defined as:

$$Index^c = \sum m_k r^c_k \text{ summed over } k = 1,2,3$$

where: m_k is the modal weight

and r_k is the numerical value of the most restrictive measure applied by country c to mode k.

The liberalization index is thus the modal weighted average of the value of the most restrictive measure applied by a country to each mode in the sector.

Appendix IV

Banking Commitments

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	U.S.	Average
Cross-Border Trade														
Deposits	1	1	0	0	1	1	0	0	0	0	0	0	1	
Commercial Presence														
Deposits	0.75	0.75	0.25	0.5	0.5	1	0.5	0.5	0.5	0.5	0.5	0.5	0.75	
Index	**0.7875**	**0.7875**	**0.2125**	**0.425**	**0.575**	**1**	**0.425**	**0.425**	**0.425**	**0.425**	**0.425**	**0.425**	**0.7875**	**0.5481**
Cross-Border Trade														
Lending	1	1	0	0	1	0.5	0	0	0	0	0	0	1	
Commercial Presence														
Lending	0.75	0.75	0.25	1	0.5	1	0.5	0.5	0.5	0.5	0.75	0.5	0.75	
Index	**0.8125**	**0.8125**	**0.1875**	**0.75**	**0.625**	**0.875**	**0.375**	**0.375**	**0.375**	**0.375**	**0.5625**	**0.375**	**0.8125**	**0.5625**

Actual Practice

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	U.S.	
Cross-Border Trade														
Deposits	1	1	0	1	1	1	0.5	0	0	1	1	1	1	
Commercial Presence														
Deposits	0.75	0.75	0.25	0.75	0.5	0.5	0.5	0.25	0.5	0.5	0.5	0.5	0.75	
Index	**0.7875**	**0.7875**	**0.2125**	**0.7875**	**0.575**	**0.575**	**0.5**	**0.2125**	**0.425**	**0.575**	**0.575**	**0.575**	**0.7875**	**0.5673**
Cross-Border Trade														
Lending	1	1	0	1	1	1	0.5	0	0	1	1	1	1	
Commercial Presence														
Lending	0.75	**0.75**	0.25	0.75	0.5	0.5	0.5	0.25	0.5	0.5	0.75	0.5	0.75	
Index	**0.8125**	**0.8125**	**0.1875**	**0.8125**	**0.625**	**0.625**	**0.5**	**0.1875**	**0.375**	**0.625**	**0.8125**	**0.625**	**0.8125**	**0.6010**

Insurance Commitments

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	United States	
Cross-Border Trade														
Life	0	0.5	0	0	0	0	0	0	0	0	0	1	1	
Commercial Presence														
Life	0.75	0.75	0.25	0.75	0.75	1	1	0.5	0.5	0.5	0.5	0.5	0.75	
Index	**0.6375**	**0.7125**	**0.2125**	**0.6375**	**0.6375**	**0.85**	**0.85**	**0.425**	**0.425**	**0.425**	**0.425**	**0.575**	**0.7875**	**0.5846**
Cross-border Trade														
Non-life	0	0.5	0	0	0	0	0.5	0.5	0	0.5	0	0	1	
Commercial Presence														
Non-life	0.75	0.75	0.25	0.75	0.75	1	1	0.5	0.5	0.5	0.5	0.5	0.75	
Index	**0.5625**	**0.6875**	**0.1875**	**0.5625**	**0.5625**	**0.75**	**0.875**	**0.5**	**0.375**	**0.5**	**0.375**	**0.375**	**0.8125**	**0.5481**

Actual Practice

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	United States	
Cross-Border Trade														
Life	0	0.5	0	0	0	0	1	1	0	0	0	1	1	
Commercial Presence														
Life	0.75	0.75	0.75	0.75	0.5	0.25	0.25	0.5	0.5	0.75	0.25	0.25	0.5	
Index	**0.6375**	**0.7125**	**0.6375**	**0.6375**	**0.425**	**0.2125**	**0.3625**	**0.575**	**0.425**	**0.6375**	**0.2125**	**0.3625**	**0.575**	**0.4933**
Cross-border Trade														
Non-life	0	0.5	0	0	0	0	0	1	0	0	0	0.5	1	
Commercial Presence														
Non-life	0.75	0.75	0.75	0.75	0.5	0.25	0.25	0.5	0.5	0.75	0.25	0.25	0.5	
Index	**0.5625**	**0.6875**	**0.5625**	**0.5625**	**0.375**	**0.1875**	**0.1875**	**0.625**	**0.375**	**0.5625**	**0.1875**	**0.3125**	**0.625**	**0.4471**

Securities
Commitments

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	United States	
Cross-Border Trade	1	1	0	1	0.5	1	0	0.5	0	0	0	0	1	
Commercial Presence	0.75	1	0.25	0.5	0.75	0.75	0.75	0.5	0.5	0.5	0.5	0.5	0.75	
Index	**0.875**	**1**	**0.125**	**0.75**	**0.625**	**0.875**	**0.375**	**0.5**	**0.25**	**0.25**	**0.25**	**0.25**	**0.875**	**0.5385**

Actual Practice

	Australia	Canada	Chile	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	Philippines	Singapore	Thailand	United States	
Cross-Border Trade	1	1	0	1	0.5	1	0.5	0	0.5	1	1	0.5	1	
Commercial Presence	0.75	0.5	0.75	0.75	0.5	0.5	0.5	0.25	0.5	0.5	0.5	0.5	0.75	
Index	**0.875**	**0.75**	**0.375**	**0.875**	**0.5**	**0.75**	**0.5**	**0.125**	**0.5**	**0.75**	**0.75**	**0.5**	**0.875**	**0.6250**