



International Chamber of Commerce

The world business organization

Department of Policy and Business Practices

Financial services liberalization must be part of any Doha Development Round deal

Statement by the Chair of the Commission on Financial Services and Insurance

Introduction

The ministerial meeting of representative WTO member countries that started on 21 July 2008 included a conference on services liberalization where Ministers signalled a willingness to open up their services markets and financial sectors in particular.

These political commitments reinforce and build on requests for services liberalization in the earlier Report by the Chairman of the WTO Council for Trade in Services.

Meanwhile, the Trade Negotiating Committee of the WTO has officially taken note of these political commitments to open up services markets. All WTO members have been requested to table within the coming weeks, improved revised offers and then final draft schedules of commitments for services liberalization.

The Doha Development Round of the WTO is thus now in a phase where member states must prove that they are indeed willing to open up their services sectors to a degree that generally matches the level of liberalization in trade in agricultural and industrial goods. Greater market access for financial services offered by the financial sector including foreign banks, insurance companies, securities firms, private equity, venture capital, stock exchanges, rating agencies and audit firms among others, should be an intrinsic part of this exercise.

Financial services liberalization benefits all parties concerned

Financial services liberalization usually creates a “win-win” situation, bringing benefits for the “importing” country as well as for the respective foreign financial institutions. By setting up or expanding their commercial presence, foreign financial institutions transfer long-term capital and know-how of both business and regulatory matters to a financial sector and improve its performance through competition as well as cooperation. They also help to create international trade and investment flows, adding further to the prosperity of all countries concerned.



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These benefits require mainly but not only, liberalization of commercial presence (“mode 3”), both with regard to the rights of establishment in all legal forms, including investment in domestic institutions, and the freedom to operate on an equal basis with domestic competitors. In addition, temporary movement of key personnel such as managers and technical experts (“mode 4”) must be granted to a sufficient degree and in a non-bureaucratic manner. Allowing for more cross-border financial services (“mode 1”) can also help the development of financial sectors and economies. Finally, WTO transparency requirements for domestic regulation as part of a Doha deal could also be beneficial.

As of today, many WTO member states have increased their financial sector opening to a degree that goes well beyond their liberalization commitments in the first Financial Services Agreement under the WTO’s General Agreement on Trade in Services (GATS) of 1997. By binding current levels of market access, the Doha Round would significantly increase the legal certainty of establishment and operation of foreign financial institutions in WTO countries. In addition, those countries with remaining discriminatory or even prohibitive barriers for foreign financial institutions should commit to substantive liberalization steps in order to reap the benefits of an efficient and competitive financial sector.

Financial turmoil must in no way impede liberalization in the WTO

Some of the countries still restricting the activities of foreign financial institutions may feel inclined to point to the current financial market turbulence as justification for not opening up their financial sector. There can be no doubt that the current turmoil provides lessons for the financial industry, central banks, supervisors and international standard-setting bodies as well as rating agencies. Calls for greater transparency and better regulation, making appropriate use of self-regulatory initiatives, are justified. By contrast, repudiating liberalization in the WTO would be to draw a dangerously wrong conclusion from the financial market turbulence, since such a decision would involve foregoing the important benefits a country can derive from financial market liberalization.

Developing countries should gradually liberalise their financial sectors

The above-mentioned benefits of financial sector opening also hold true in principle for developing WTO member countries. However, in order to give these countries time to build up their local financial industries and their regulatory and institutional frameworks, liberalization should be implemented using transitional periods. Such a phased approach may well be in line with the interests of foreign financial institutions in increasing their market presence over time and with the gradual development of the financial sector and the broader economy. Binding phased liberalization in the Doha Development Round, starting with establishment rights for basic financial services and



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providing transitional periods for further opening measures, can help to put developing countries on the road to prosperity. To facilitate the evolution of the regulatory and institutional framework of their financial sector, technical assistance from more advanced WTO member countries is highly desirable.

Conclusion

The upcoming services liberalization offers by WTO member countries should include substantive binding and further opening of financial sectors worldwide. Granting market access rights for foreign financial institutions in the WTO/GATS framework can also provide particularly important benefits to the countries opening up. The degree and pace of financial services liberalization should be appropriate to the level of development of a country. There should be no conclusion of the Doha Development Round without adequate financial services liberalization commitments.

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