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Further Financial Services Liberalization in the Doha Round?

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Introduction

Recent evidence demonstrates strong links between developing countries' long-term growth and financial reform. Deputy Treasury Secretary Kenneth Dam has suggested that developing countries can transform their domestic financial sectors into "engines of growth."

In this context, the relevant question for trade negotiators approaching the Doha Round of negotiations is: "How can the WTO negotiations strengthen this linkage between financial reform and economic growth and development?" Financial services liberalization has been included in WTO negotiations twice before, with mixed results. An interim agreement was concluded in 1995 at the initiative of the European Union. In that agreement the United States withdrew most favored nation treatment in financial services in response to the reluctance of the governments of emerging-market economies to provide reciprocal market access. It committed itself only to granting market access and national treatment (i.e., the same legal and regulatory treatment as that accorded to domestic firms) to existing foreign service providers.

The significance of the 1997 Financial Services Agreement should not be overstated. Neither the OECD countries... nor developing countries... made commitments amounting to much further market opening beyond the status quo.

In the standalone Financial Services Agreement (FSA), concluded on December 13, 1997, 104 WTO members made commitments. When it took effect in March 1999, the FSA marked a milestone because a significant number of members bound market access commitments for the first time. They agreed to a legal framework for cross-border trade and market access and to a mechanism for settling disputes. The FSA also extended the General Agreement on Trade in Services

(GATS) to financial services, adding to existing agreements in the telecommunications and information technology industries.

But the significance of the 1997 FSA should not be overstated. Neither OECD countries, which are already quite open, nor developing countries which are not, made commitments amounting to much further market opening beyond the status quo. The United States provided reciprocal access to its market, but most OECD countries already have such access, and emerging-market economies found this prospect of little interest.

Why the apparent paradox between the long-term promise of financial-sector reform and the reluctance of developing countries to open their financial markets? What are the connections between financial-sector reform and liberalization of markets for financial services? Why is there such a widespread impression that liberalization increases the chances of financial crises in developing countries? What are the benefits and costs of reform? Of opening? What are the best approaches and highest priorities?

These were some of the questions that motivated the Institute for International Economics to organize a conference? at the request of the Treasury Department? titled "Further Liberalization of Global Financial Services Markets?" on June 5, 2002.

Several factors influence the answers to the motivating questions. One is the relationship between financial reform and various forms of liberalization. Another is the differing interests of the respective players. A third factor is certain weaknesses in the structure of the GATS. This policy brief examines these factors and then provides a number of recommendations for where we might go from here.

Financial Reform and Liberalization—Some Background

The term "liberalization" applied to financial services in the WTO refers to *market opening*—that is, the removal of restrictions on market entry for foreign service providers. WTO concerns with market access should be distinguished from capital account liberalization or convertibility, a term that refers to the freedom with which capital inflows and outflows of varying maturities are allowed to move across borders, and which is a responsibility of the International Monetary Fund (IMF).

The two policies are not unrelated. De facto capital account liberalization has occurred in the past few decades as many countries have legalized foreign currency instruments in the face of increased trade flows, the internationalization of production, and improved communications.

Central to the success of both market access and capital account liberalization, however, is *domestic* liberalization, or what is more commonly known as financial reform. This term refers to the process of deregulation. Deregulation has several dimensions. One is the withdrawal of government intervention through privatizing state-owned banks, for example, thus freeing key prices like interest rates to be market-determined. A second dimension is the freeing of restrictions on intrasectoral activities so that banks can offer insurance, for example. A third dimension is the strengthening of domestic financial institutions and markets to increase the efficiency with which finance is channeled from depositors and investors to borrowers and issuers. Domestic residents benefit from more efficient financial institutions in several ways: through cheaper financing, a wider menu of options for diversifying risk and attaining higher rates of return, and from a larger pool of investable funds.

Weaknesses in the GATS framework and certain trends in financial development cast doubt on its ability to sustain further market opening.

Domestic deregulation, market opening, and capital account convertibility do not have to march in lockstep. Taiwan, for example, has not fully deregulated its domestic financial markets and it still imposes some restrictions on the capital account, but it permits foreign entry. The ASEAN economies of Southeast Asia have not been fully deregulated and foreign entry is still restricted, but their capital accounts have largely been opened. Until the Asian financial crisis in late 1997, South Korea restricted both foreign entry and capital flows and had many domestic reforms to make as part of its accession agreement to the OECD. Since then, it has removed most of these restrictions. Chile reformed its domestic financial market in the late 1970s, opened its capital account in 1980, experienced a financial crisis and reversed its capital account liberalization but later resumed it.

China and India are among the main Asian countries that still have closed capital accounts (although FDI flows are encouraged) and foreign participation in the financial sector is restricted. As part of its WTO accession agreement, China has made significant undertakings to permit foreign entry over the next five years. Thus, while there is no cookie cutter sequence, it should be recognized that as a country undertakes domestic financial reform and opens its market to foreign service providers, at some point the provision of modern financial services will be hampered by continued capital account restrictions, thereby increasing pressures for capital account convertibility. The key, as several participants emphasized, is to approach convertibility, especially at the short end, with great care.

The Players

The main players in financial services negotiations are emerging-market economies and the mature industrial economies in the OECD (South Korea and Mexico are represented in both groups, but for the purposes of this analysis are included in the former group). The widely differing objectives of these two groups suggest good reasons why so little market opening beyond the status quo was negotiated in 1997.

OECD governments sought market access to emerging markets through the FSA for their large financial firms. These firms face maturing markets at home. At the same time, their technologies slash transactions costs, enabling them to take advantage of business opportunities and higher rates of return in the dynamic offshore economies.

Goals of developing-country governments differ. These governments must decide how quickly they will integrate their economies with the rest of the world and the role they wish foreign financial institutions to play. They are interested in foreign capital inflows (and to a lesser extent entry by foreign institutions) to accelerate growth over what it would otherwise be, if they relied exclusively on domestic savings and domestic financial institutions. As the Asian financial and economic crisis of 1997-98 (and the experiences of the southern cone countries in Latin America in the 1980s) demonstrated, however, mobile capital by itself can be dangerous if such flows are allowed without sufficient planning and management. But it is worth noting that an exclusive focus on attracting foreign capital could mean that a country overlooks a significant ingredient of financial system development, namely the role of foreign financial firms in improving the efficiency of domestic financial markets.

Capital inflows take several forms: short-term debt and equity (portfolio) flows, commercial bank lending, and bonds. These instruments can contribute to volatility if investors flee at signs of uncertainty or trouble. Of more value, but not without risk, is long-term FDI, which brings not only foreign control but also the transfer of more sophisticated technologies.

Thus, financial services liberalization in the WTO will promote a country's growth and welfare in two main ways: first, by providing a legal framework that reassures foreign institutions investing for the long term and second, by providing a source of external pressure for change and transparency. While many emerging-market economies have begun to reform their financial-services sectors, to open their markets, and to realize these benefits, some are reluctant to deregulate fully, whereas others are reluctant to open. They cite several significant reasons.

Future advances in market access in financial services may not come primarily from multilateral negotiations…there is a discernible trend toward gradual unilateral opening as part of overall structural reforms and regional or bilateral liberalization arrangements.

The first reason is the mixed experience of countries that have deregulated financial markets, opened their markets, and liberalized their capital accounts. Banking and financial crises are associated with reform and internationalization, or the wrong sequence of such changes. One analysis of banking crises worldwide found that, in 18 of 25 cases studied, financial liberalization had occurred some time in the previous five years (Kaminsky and Reinhart 1999). Reforming and internationalizing the domestic financial system entails risks, especially if governments continue to regulate and supervise financial systems in the same way. To minimize these risks, regulatory institutions and supervisory systems must be modernized and strengthened to enable those charged with oversight to evaluate the risks inherent in a more complex, market-oriented system. Striking a balance between financial-market efficiency and economic stability is difficult, as demonstrated by the US savings and loan crisis of the 1980s and its aftermath, the Scandinavian crises of the early 1990s, and by Japan's ongoing struggle to work out the banking crisis that began in the early 1990s.

Kaminsky and Reinhart presented their latest findings at the Institute conference. They have found that hasty liberalization (i.e., domestic reform) with little thought to the consequences or to the relationship with the capital account tends to be associated with crises. They also observed that while financial reform and capital account convertibility stabilize financial markets in the long run, in the short run the relationship is not so easy to establish, partly because reform and market opening may trigger financial excesses initially as well as changes in institutional arrangements in the longer term.

These findings emphasize the importance of multiple factors in the trade-off. The general conclusion is that there is neither a universal recipe nor a standard sequence for domestic reform and internationalization. The case studies agree, however, that macroeconomic preconditions and the strength of the financial sector influence the chances of successful adjustment. Economies with stable and realistic prices (including exchange rates) and prudent fiscal policies do better because the creditworthiness of potential domestic borrowers is superior. Those that have reformed and strengthened the domestic financial sector—by freeing up interest rates, reducing credit subsidization, strengthening financial institutions and their supervision—have met necessary preconditions to easing restrictions on the capital account and to full-scale internationalization.

Second, it is frequently argued that finance is special because of the important services the financial sector provides to a growing and developing economy. Financial services, in this view, are therefore best owned and controlled by domestic interests. More sophisticated foreign entrants, pursuing different objectives, could come to dominate the industry to the detriment of national objectives. In the extreme, this argument has merit—few governments would tolerate 100 percent foreign ownership of major domestic financial institutions. But foreign participation brings substantial benefits and can be managed—indeed the 1997 FSA explicitly allows for such management. Foreign participation, judiciously supervised, provides access to foreign savings, technical transfer, and is a force for modernization. The presence of foreign firms increases the competitiveness, efficiency, and diversity of the financial sector. The speed of innovation and the interconnectedness of markets imply that continuing with the status quo—that is, heavily restricting foreign entry—will be costly because households are denied better returns and businesses are denied lower financing costs. In the long term, the impact will be to reduce growth and competitiveness. This link between real-sector activity and finance is perhaps the central issue.

Third, domestic financial reform and internationalization are often politically difficult because, while users of financial services (including businesses, households, and governments) stand to benefit, other powerful interests stand to lose. Introducing competition threatens significant interests within the local financial industry, just as reduction of the role of government threatens the position of certain bureaucratic interests. Reluctant governments who must manage the difficult political economy of financial reform and internationalization do have a point, one which trade negotiators should take into account. Market opening and capital account liberalization present real risks as well as political risks.

The fundamental issue remains how to persuade reluctant developing countries that opening their financial markets to foreign service providers is in their long-term interest.

The answer, however, is not to halt the process of reform and liberalization. Rather it is to proceed, while putting primary emphasis on strengthening the system's ability to evaluate and manage risk. The implication for negotiating strategies is that diplomatic pressure should be applied in a way that strengthens the process. This requires a delicate mix of determined pressure for further opening with enough flexibility to make sure that the domestic political debate responds to rather than rejects that pressure, thus strengthening the hands of those who push for opening the financial markets. The downside risk of complacency—of failing to insist on reform—is that nothing worthwhile gets done, but the downside risk of requirements that are too demanding is that antiforeign sentiment builds, eventually upsetting the domestic coalitions required to support reform. Such reasoning seems to have influenced only a few governments. In the 1997 FSA negotiations only limited progress on market access to developing economies was achieved, and mostly in the insurance and securities industries (see table 1).

Going forward, the focus of the WTO negotiations on freer cross-border trade and foreign entry in financial services will reflect the fact that many standard policy interventions in the financial sector are untouched by commitments within the GATS. In particular, countries retain the scope for macroeconomic policy; meanwhile the so-called "carve-out provision" in the GATS protects prudential regulation. To the extent that they are compatible with broad market access, national treatment, and scheduled commitments to liberalize, other government financial policies can still be maintained, but in a more open context, under a multilateral agreement.

Table 1 World Trade Organization financial services agreement: Market access in selected emerging markets, 1997

	Banking	Insurance	Securities
Status quo plus	Malaysia Mexico	Brazil Indonesia Japan South Korea The Philippines Mexico	Brazil Indonesia South Korea Malaysia The Philippines
Status quo	Argentina Brazil Chile India Indonesia Japan South Korea Thailand	Chile India Thailand	Argentina Thailand
Less than status quo	The Philippines	Malaysia*	Chile India

* This entry compares existing practice in 1998 with Malaysia's commitment in December 1997.

Source: Dobson and Jacquet (1998, 93).

The GATS Framework and the Doha Round

The GATS framework as it affects market access issues will influence future prospects for multilateral financial-services sector negotiations. The GATS has some significant design challenges that apply to financial services. Services are a heterogeneous group of products, with the common thread that most of them are subject to government intervention. Weaknesses in the GATS framework and certain trends in financial development cast doubt on its ability to sustain further market opening.

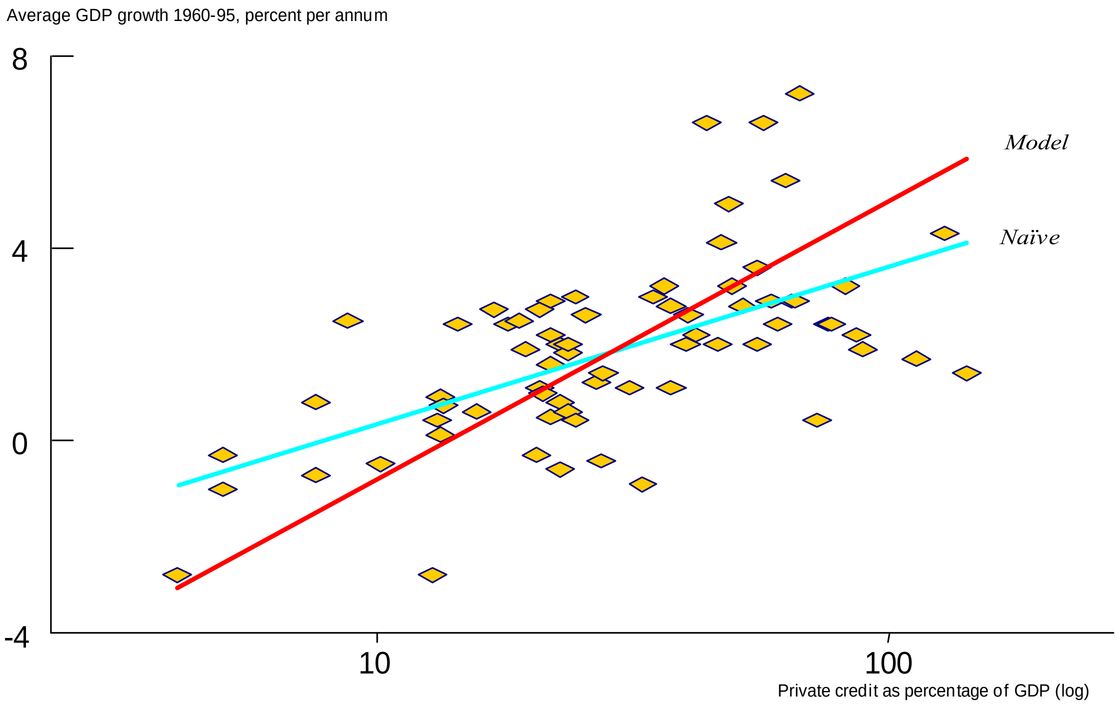
The positive list approach: One weakness is the positive list approach to commitments. Positive lists identify sectors where commitments are made, rather than those where they are not. This approach was all that could be agreed to at the time the GATS was negotiated. It contrasts with the negative list approach, employed in the negotiations of the North American Free Trade Agreement, where countries commit to full liberalization unless specific exclusions are negotiated. With the negative list approach, market opening and market access are the central objective; in contrast, the positive list approach tends to reinforce the status quo and makes it difficult to liberalize potentially significant sectors.

Further, it implies that as new sectors emerge, they stand outside the market-opening framework until explicitly brought into it.

Reciprocity is another weakness of the GATS framework. The division of the WTO negotiations along sectoral lines—that is, separating services from goods and individual services from each other—makes reciprocity less credible and less effective. Reserving financial services negotiations for finance ministers makes such linkages even more difficult. Asymmetry in the interests of OECD and developing countries in services negotiations adds to the difficulties. This asymmetry of interests was evident in the 1997 FSA where developing countries complained that they had made most of the market-opening and other concessions—because the OECD producers sought access to their markets, not the converse. Nevertheless, the fact that the FSA—and the Information Technology Agreement (ITA) before it—were completed shows that the approach can deliver something.

Financial-sector opening and domestic financial reform have lives of their own. Multilateral negotiations take place in the context of the market-led trend toward globalization of the sector. While the 1997 negotiations reflected GATS principles to the extent possible, the outcome was largely to bind the status quo on market access and to create agreed procedures for settling disputes. Telecommunications and financial services are among the fastest-growing and fastest-evolving industrial sectors in the world economy. Their growth and evolution are being driven by the

Figure 1 Naïve and modeled impact of financial development on growth



Source: Caprio (2002).

information and communications technology (ICT) revolution and by domestic deregulation as governments scramble to catch up with market forces that drive the rapidly changing transactions, business arrangements, and cross-border flows in these services. Evolution in the financial-services sector is also being driven by the emergence of new services such as asset and wealth management that take it beyond the traditional banking, securities, and insurance players.

Evidence for the link between financial-market development and an economy's long-term growth and development. The severity and extensiveness of the East Asian crisis by late 1997 made it clear that weak financial systems were one of a combination of significant causal factors. Thus, although East Asian governments saw little to gain from reciprocal access to the OECD economies, they were anxious to signal their commitment to reform as a way to restore tattered credibility. Perhaps one of the most significant changes in the sector since 1997 is the solid evidence that confirms the link between growth and financial-market development. Gerard Caprio's (Caprio 2002) presentation to the Institute conference stressed the importance for governments to reduce state ownership, build solid infrastructure, improve the information infrastructure and technology to reduce intermediation costs, provide limited safety nets and use incentives to induce better market monitoring, and increase the clout of supervisors. His "naïve" and modeled relationship between financial development and growth (see figure 1) shows a markedly positive relationship across countries between average GDP growth and financial development, measured by private credit growth as percent of GDP, over the 1960-95 period.

Recommendations: Where To From Here?

What might be possible at Doha? The outcome will be influenced by the goals of the players and by factors outlined above. Box 1 illustrates in very concrete language the objectives of the US insurance industry, endorsed by Maurice Greenberg of the American International Group and Brant Free of Chubb Corporation. In fuller terms, there follow several recommendations applicable not only to the insurance industry but also to a wide range of financial services in developed and developing countries alike.

Liberalize whenever and wherever possible

Future advances in market access in financial services will not come solely from multilateral negotiations. Instead, there is a discernible trend toward

Box 1 Key objectives of the US insurance industry

- First, all countries should commit to protect the acquired rights of investors already established in their markets.
- Second, countries should commit, at a minimum, to a standstill in their current insurance practices. If a country currently permits foreign investors to hold 51 percent in an insurance operation, that 51 percent should be guaranteed. It makes no sense to bind less than what is currently permitted.
- Third, countries should frame their insurance commitments on the basis of a Model Schedule that will protect acquired rights; permit freedom of establishment, full market access, and national treatment; and provide for insurance regulation based on internationally accepted, procompetitive regulatory principles.

other routes to market access: gradual unilateral opening has occurred in a number of countries as part of overall structural reforms; in others it has been part of regional or bilateral liberalization arrangements; IMF programs have also provided an important source of reforms. Hence, while it is worthwhile to ask how the current WTO process can be improved, experience with the FSA suggests that future progress may be expected from a combination of sources. Countries on IMF programs after the Asian crisis agreed to faster and more extensive domestic reform and foreign entry than was negotiated in the FSA. More recently, the inclusion of the financial sector in IMF surveillance gives another push. Other forums such as APEC have also helped. Japan and Singapore unilaterally accelerated the modernization of their financial sectors by allowing further foreign entry because they feared being bypassed for other international financial centers.

Priority areas for liberalization should reflect best practice

The foregoing might suggest a WTO role that merely codifies reforms, many of which were negotiated elsewhere. Conference participants, however, stressed that WTO negotiations should have a more significant role. They should facilitate the right of companies to establish and operate freely; market conditions, not ownership limits, should determine foreign entry. Conference participants from the financial-services industries emphasized the importance of best practices. Representatives of insurance industry associations throughout the OECD countries presented a Model Schedule for use by WTO members in making commitments in the forthcoming Round (Financial Leaders Working Group 2002). The Model Insurance Schedule has two basic elements. First is traditional market access. This includes the right to establish an insurance operation as a branch, joint venture, or wholly-owned subsidiary—whatever makes the most business sense. It also includes national treatment and MFN commitments, and key operating rights. The second element covers a recommended framework of procompetitive regulatory practices designed to promote an optimal insurance environment. The Model Schedule includes proposed text for use within the existing GATS framework on market access, national treatment, and domestic regulation.

Other industry participants observed that reputation rather than market share drives their consideration of whether or not to enter a foreign market. Since local glitches can undermine their global brand, control of local operations is essential to ensure that rigorous operational standards are met. Foreign service providers should also be subject to regulatory treatment that is identical to that for domestic companies. Current practices of limiting foreign bank ATM offerings, for example, deny them network externalities that are increasingly vital to the provision of modern financial services. Participants also emphasized the importance of free cross-border trade in services and free movement of personnel; limited and transparent exemptions; and grandfathering to protect existing investments from new deviations from established principles.

Improve the WTO role in binding reforms agreed outside of a round

The combination of non-WTO processes and market forces, plus the WTO binding mechanism and dispute settlement, can jointly contribute to an effective international trade regime. Financial-services reforms that open markets are often agreed as part of IMF programs, to strengthen national financial systems and increase resilience to future crises. These reforms should be bound in the WTO. This does not mean the IMF and WTO should gang up on a country; rather it means the country should be willing to bind the reforms that serve its long-term interests. In the Doha Round, a country should receive credit for IMF reforms or unilateral improvements in its financial services regime.

Table 2 An index of openness in financial services, 1997

	Banking		Securities		Insurance	
	Commitment	Practice	Commitment	Practice	Commitment	Practice
Hong Kong	4.20	4.75	4.00	4.40	4.40	4.00
Indonesia	3.15	3.20	3.50	3.00	3.10	2.60
South Korea	1.10	1.70	1.70	2.10	1.20	2.60
Malaysia	2.40	2.40	2.50	2.50	2.10	2.10
The Philippines	2.80	3.35	2.40	2.40	2.90	2.80
Singapore	2.25	2.50	2.70	2.70	4.10	4.10
Thailand	2.95	2.85	2.00	2.00	2.80	2.80
India	2.70	2.25	2.50	2.10	1.00	1.00
Average	2.69	2.88	2.66	2.65	2.70	2.75

Note: 1 = most closed
5 = most open
Source: Claessens and Glaessner (1998).

Use forthcoming WTO accession agreements to push for market opening and domestic reform

China is an excellent example of what can be accomplished (although much remains to be done to create a sound domestic financial system). The experience with China can be applied to forthcoming negotiations with Russia, for example.

Improve available data on and transparency of barriers to cross-border transactions and foreign entry

Lack of comparable cross-country data is a general problem in service sectors. Many services originate as nontradables; thus, existing information on barriers to services and trade are scarce and difficult to compare across countries. Indices of openness in the financial-services industries in key emerging-market economies are included in table 2. They summarize commitments on the degree of financial liberalization at the end of 1996. As table 1 indicated, little forward movement occurred in 1997.

The indices in table 2 weighs various types of barriers, including measures that limit the right of establishment and ownership, limits on business activities such as granting the ability to establish branch offices or banks' ATMs, restrictions on lending, or on permission to carry on universal banking services and residency requirements for the officers or staff of foreign financial institutions. The index values also compare commitments (made in the 1997 FSA) with existing practice.

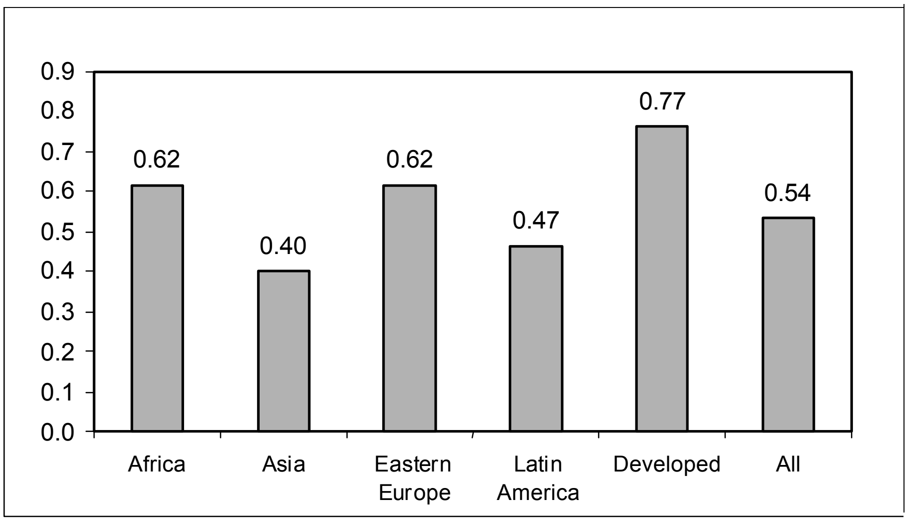
Commitments fall short of practice in some economies (such as banking in Hong Kong), and exceed practice in others (securities in Indonesia). By sector, entry into banking was more liberal than into securities or insurance. By economy, many economies carried on discriminatory practices, with the international financial centers in Hong Kong and Singapore being the most open. Hong Kong was the most open to all financial services, while South Korea was virtually closed to banking services, India was similarly closed to insurance services; and Thailand was the least open to securities firms. Interpretation of these indices requires fairly detailed country knowledge; for example, Malaysia appears to restrict foreign entry, but one of the reasons is that it has restricted new licenses for insurance or securities firms to both domestic and foreign firms. Cross-border trade is less restricted than entry by foreign firms to the domestic markets. Before the 1997-98 crisis, several countries allowed free access to offshore banking services; in the wake of the crisis some of these were substantially modified (to correct distortions associated with the Bangkok International Banking Facility, for example).

Improvements in transparency would also reduce the difficulties of considering a negative list to replace the positive list approach to negotiations. In order to put more pressure on countries for broader commitments, it is necessary to evaluate and compare barriers to entry and cross-border flows in a wider variety of services sectors. This suggests that more could be made of the negative list approach as an alternative framework? provided there is better understanding of the starting point.

Broaden the coverage of bound commitments

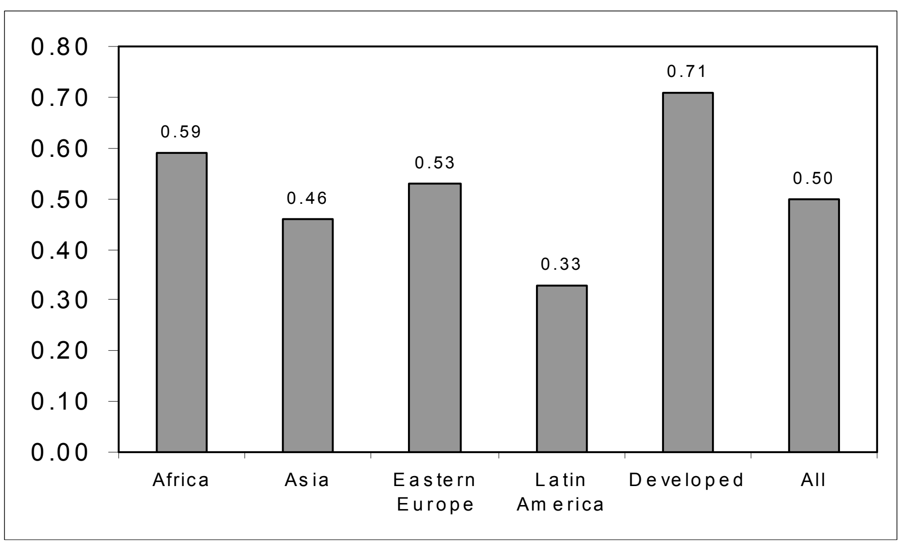
Few countries have made sweeping commitments to market access and national treatment in financial services. In his presentation, Bernard Hoekman (Hoekman and Mattoo 2002) illustrated that Latin American and Asian economies have been among the most reluctant to open their insurance and core banking sectors (figures 2 and 3), with the Africans ahead in their commitments. Thus, another issue for Doha is to encourage countries to commit that

Figure 2 Liberalization indices based on GATS commitments: Core banking services



Source: Hoekman and Mattoo (2002).

Figure 3 Liberalization indices based on GATS commitments: Direct insurance services



Source: Hoekman and Mattoo (2002).

all services sectors will be subject to national treatment and market access disciplines, with target dates and transition periods. Surprising as it may seem, aiming to bind the status quo for only a specified share of all commitments is moderately ambitious. Complementing this with efforts on rules to increase the impact of multilateral disciplines for certain modes of supply, particularly national treatment for FDI, would also be timely.

As table 2 implies, OECD countries should continue to focus on market opening in developing countries and emerging-market economies to deepen and broaden the limited commitments made in 1997, particularly to provide a wider choice of commercial presence for suppliers of financial services (such as majority joint ventures, wholly-owned subsidiaries, and branches) and to improve the scope of national treatment commitments. Also, in view of the explosion of Internet services since 1997, further commitments should be made to the cross-border provision of financial services by electronic means.

OECD countries should continue to focus on market opening in developing countries and emerging-market economies.

Broaden the goals to encourage countries to permit cross-border data flows

Stanley Fischer of Citigroup noted the importance for large financial institutions in the OECD countries to be allowed to process and analyze data in large centers that serve institutions in several countries. Countries that restrict the cross-border movement of financial data can undermine the ability of such institutions to evaluate and manage risk. More attention should be accorded to this issue, since it foreshadows similar cross-border data transfer requirements that will arise as electronic commerce in financial services takes hold in emerging-market economies. Of course, solutions will also have to address privacy concerns.

Build a greater sense of ownership among users of financial services in emerging-market economies

A fundamental issue remains: How to persuade reluctant developing countries that opening their financial markets to foreign service providers serves their long-term interest. OECD countries should realize that proreform governments in developing countries face domestic opposition from vested interests that perceive a threat from increased competition. Improved access to markets abroad will assist in building constituencies for reform. The Doha Round provides potential for a broader set of trade-offs? advantages to developing countries? than was possible with the FSA talks in 1997. Agriculture, apparel, and antidumping are potential candidates in goods, while movement of individual workers is an issue in services. Even so, these are difficult issues left over from previous rounds and realism about the potential for such trade-offs will be important.

Another way to build constituencies for reform is to build technical capacity to negotiate these issues in developing countries through supporting training and technical assistance. As some Institute conference participants pointed out, with better evidence of the social and private benefits of liberalization now available, public and private sector players should enlist available forums to disseminate this information.

Conclusion

These recommendations reflect a range of interests represented at the conference. They also reflect two fundamental points about forthcoming multilateral negotiations. First, the OECD countries, particularly the United States as the leader in financial services, should approach the Doha Round with the broad goal of ensuring that negotiations encourage financial-market development. Second, financial-sector evolution means that new players will be seeking market access, adding asset and wealth management, and financial advice and advisory services, to the traditional players.

The outline of the United States' services offer, published in summary form in early July 2002 (USTR 2002), reflects these conference perspectives and sets out a useful conceptual framework for Doha. The framework for financial services links financial services liberalization with increased efficiency and financial-sector stability. Importantly, financial-market progress in developing countries is also identified as "one of the most important catalysts of economic and trade growth."

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