

Financial Services Trade Liberalization in the Doha Round: Implications for Latin America

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Summary

The development of a solid financial and banking services sector is a key ingredient for sustainable development in Latin America. The Doha Round negotiations for trade in services, which started in January 2000, include financial services trade as one of the key areas for further liberalization. This paper's objective is to study the implications of the Doha round on further liberalization in the financial services sector in Latin American economies with special emphasis on the banking sector. We begin by discussing the implications of the Financial Services Agreement (FSA) of the General Agreement on Trade in Services (GATS) for the region's banking systems and draw some lessons for the current round of negotiations. Specifically, while countries have during the 1990's been unilaterally liberalized their financial sectors, they have been reluctant to commit to the GATS. We then go on to analyze the current negotiation proposals and their potential impact on the region. We conclude by discussing the policy implications for further liberalization in the context of the Doha Round and the relevance of the World Trade Organization (WTO) framework as a tool for further trade liberalization in the sector.

This paper was written while both authors were at the Federal Reserve Bank of Atlanta. The views expressed here are solely the authors'. We would like to thank Esteban Balseca, Natasha Bajuk and Stephen Kay for useful comments. Charles Galbreath provided excellent research assistance. All remaining errors are our own.

I. INTRODUCTION

Financial services, and banking services in particular, are a key issue in the current negotiations of the General Agreement on Trade in Services (GATS), and are included in the Doha Development Agenda. Not only does the financial sector form a significant share of the services sector, but it is also a key component in the future stability and growth of Latin

America. The dynamism and rapid change experienced in the financial services industry presents a challenge to the GATS.

In this paper, we focus on the economic impact of the current round of negotiations over the banking sector in Latin America. Our analysis advances on two fronts: first, we analyze the Financial Services Agreement (FSA) of the GATS, including an overview of features of the banking sector and the experience of recent liberalization; second, we consider the main avenues for liberalization proposed in the current negotiating round. Given the present structure of the agreement and the recent performance of the industry, we conclude that the agreement will have limited impact on *further* liberalization in the sector.

First, most Latin American countries are *net-importers* of financial services and hence do not have an incentive to liberalize trade.

Second, countries have already liberalized their banking sector *unilaterally* and have experienced gains in the efficiency of the sector. In addition, trade in the sector is small but the capital flows associated with it in banking are very large.

Third, Latin American countries have tended *not* to bind their liberalization measures in the previous round, the ratification process has been slow in some key countries like Brazil, and commitments have been limited. Countries tend to discriminate between modes of trade and, most importantly, have not bound their commitments in *cross-border* trade. While this form of trade accounts for approximately half of the exposure of foreign banks in the region, Latin countries will continue to be reluctant to bind liberalization measures due to prudential concerns, fear of contagion and capital flight.

The FSA needs "fresh air" if it is to complement the unilateral liberalization measures introduced by Latin American countries. In the meantime, regional liberalization schemes will pose strong competition to the multilateral framework. The FSA, however, can serve as an opportunity to legally bind the liberalization measures adopted by Latin American countries since the conclusion of the last round.

We begin by presenting the background to the GATS and the FSA in Section II. We then go on to introduce some key features of the banking sector in Latin America in Section III. Section IV discusses the implications of the FSA while Section V presents further avenues of liberalization in the current round of negotiations. We lay out our conclusions in Section VI.

II. BACKGROUND

The conclusion of the Uruguay Round of the GATT is generally associated with the creation of the World Trade Organization. The successful conclusion of the round also resulted in the establishment of the GATS adopting most of the guiding principles of the GATT. Financial Services was one of the main sectors included in the round, with the United States (US) and the European Union (EU) being the main driving forces behind its inclusion. These two members met stiff resistance from developing countries and Japan, and the negotiations were deadlocked at the end of 1993. An agreement was not reached by the end of the round, and the deadline for an agreement in the sector was extended.

After many delays, the Financial Services Agreement (FSA) was incorporated in the GATS in the 5th protocol in December 1997 and came into force in March 1999. The conclusion of the agreement was deemed a success, with 102 WTO members making legally binding commitments. Current negotiations started at the beginning of 2000 under the Doha umbrella and are scheduled to end by late 2004.

We now turn our attention to the key uniform concepts of the GATS, which were adopted from the GATT system on trade in goods as follows:

1. *Most Favored Nation (MFN)*: All liberalization measures must be extended equally to all WTO members. Any exceptions to the MFN rule must be specifically exempted. (GATS Articles II & XVI).

2. *National Treatment*: WTO member countries may not discriminate between domestic and foreign firms, unless explicitly stated at the time of joining the GATS. (GATS Article XVII).

3. *Transparency*: Local regulations should be published and accessible. Note that this requirement only calls for *domestic* disclosure, not international disclosure. (GATS Article III).

4. *Progressive Liberalization*: Member states agree to increase the number of liberalized sectors and to eliminate exceptions within sectors by committing to future negotiating rounds. (GATS Article XIX).

5. *Dispute Settlement Mechanism*: All commitments are legally binding, and injured states may initiate an arbitration procedure that can result in the imposition of sanctions against the country in breach. (GATS Articles XXII & XXIII).

The GATS divides services into 12 sectors and each member-state commits to liberalize each sector separately. The Annex on Financial Services further divides the Financial Services categories into 16 categories spanning the insurance, banking and securities sectors. For banking, the categories include acceptance of deposits and lending, financial leasing, payment services and guarantees and commitments.

The GATS divides trade in services into four different modes that include transactions that are usually not considered as trade, such as commercial presence and the temporary movement of natural persons. The four modes of trade with corresponding banking examples are presented below:

Mode 1 (Cross-Border Supply): Given a consumer in country A and a supplier in country B, the service crosses the border, e.g. a small business in Costa Rica borrowing money from a bank in Germany.

Mode 2 (Consumption Abroad): In this scenario, the consumer of a service travels to the country where the service supplier is located in order to conduct the transaction, e.g. a French company opening a bank account with a bank in Brazil for transactions taking place in Brazil.

Mode 3 (Commercial Presence): A service in country A is provided by a supplier from country B through a permanent place of business established in country A, e.g. a US bank lending funds in Venezuela through a branch there.

Mode 4 (Movement of Natural Persons): A service in country A is provided in country B with staff from country B, e.g. a branch of a Spanish bank in Brazil taking its management from headquarters in Spain.

The states adhering to the FSA liberalize the sectors using a *positive list* approach: only sectors specifically registered, discriminated by mode type, are liberalized. This was done to include developing countries that were traditionally more reluctant to liberalize their service sectors. This approach leads to lower liberalization than the *negative list* approach used in GATT negotiations. Under a negative list approach, all sectors are liberalized except those specifically excluded from the negotiations. In contrast, the positive list approach uses a bottom-up technique whereby member countries negotiate which sectors are liberalized.

The special nature of the industry and its effects on the financial stability of member countries was the main reason for Article 2(a) of the FSA (the so-called "prudential carve-out" clause), which recognizes the right of member countries to conduct prudential regulation, so long as regulation is not used as a means of avoiding scheduled commitments. In addition, note that the business of central banks is not covered in the FSA. It is important to add that a special committee on trade in financial services was formed in order to examine the status of acceptance of the fifth protocol, the classification of financial services and developments in the financial sector.

Frustrated with the pace of liberalization, OECD countries signed the Financial Services Understanding (FSU). This is a legal addendum to the GATS that preserves aspects of the negative list approach and has a broader scope and more stringent clauses than the FSA, including horizontal commitments in monopoly right reductions, government procurement, data processing and national treatment.

One of the reasons why countries are reluctant to liberalize financial services trade is their interaction with capital flows. As illustrated in Kono & Schuknecht [2000], trade in financial services does not always lead to movements in capital flows. For instance, under commercial presence, a foreign financial service provider can offer a product using domestic capital as its source.

Article XI of the GATS requires that member countries refrain from imposing any balance of payments restrictions for the services liberalized under the agreement. Only under very specific conditions of duress are countries allowed to restrict capital flows (GATS Article XII). In part as a result of these two articles, developing countries have been reluctant to bind Mode 1 and Mode 2 in financial services. This is because these two types of trade are believed to lead to more volatile capital flows, since they include cross-border loans and deposits.

The current negotiations for the sector started in early 2000 and were incorporated into the Doha Umbrella. The negotiations are conducted using a "request/offer" structure. "Initial requests" were made by the end of June 2002 and "initial offers" by the end of March 2003. There were 9 initial offers, 3 made by Latin American countries. The deadline for the conclusion of the negotiations is December 2004.

III. THE LATIN AMERICAN BANKING SECTOR

In this section, we introduce key facts and recent developments in the region's banking sector in order to establish that the main effects of liberalization have largely materialized over recent years. We present figures establishing the importance of the banking sector in the economies of the largest countries and analyze trends in financial services trade. While the actual financial trade figures are small, we show that the magnitude of the capital flows associated with banking is substantial. In addition, the liberalization episodes in the 1990s have resulted in the presence of large European banking conglomerates entering these markets. The entry of foreign banks has caused significant changes in the performance of the banking sector, leading to its higher efficiency.

Financial services is a key sector for the development of an economy, as it channels savings into investment, diversifies risks and promotes a safe payments system. It also constitutes a significant share of the region's largest economies (see Table 1). Financial services trade data for the 4 modes of supply is non-existent. However, one can use financial services trade data from the *IMF Balance of Payments Yearbook* as a proxy for Mode 1 trade (ECLAC [2002]). Not only is trade in this category small, but it is also a very small

proportion of total trade in services. Only Panama and Uruguay are net-exporters of financial services, the rest of the countries being net-importers. This is one reason why countries in the region are reluctant to open up to trade in the region. On the contrary, countries such as the UK and US are net exporters of financial services, hence their interest on liberalizing trade in the sector.

The importance of financial services trade is underestimated if we focus only on the IMF's balance of payments data. Financial services trade is generally accompanied by sizable capital flows. These capital flows are indeed very large and can have significant effects on the balance of payments for Latin American countries. Figure 1 shows the exposure of the BIS reporting banks in Latin America. While these figures do not include the data of Latin American banks in other Latin American countries, they do include the data for the 7 developed countries to ten Latin American countries. In September 2002, foreign banks had total foreign claims in Latin America totaling \$450 billion. These claims were about evenly divided in cross-border positions and in local positions.

Since 1997 there has been a declining trend in the share of cross-border positions as a percentage of total claims in the major Latin American economies, with the exception of Venezuela. This is mainly a result of the establishment in these economies of major European and American banks, which now provide these services directly from the host country.

Although the liberalization process in Latin America started in the 1980s, it was only in the mid-90s that financial liberalization and particularly the opening of the banking system began (see Table 2). Growing international trade encouraged banks to follow their customers to other countries, and frequent banking crises pressed for the re-capitalization of banks in countries where domestic savings were, and continue to be, scarce (Crystal *et al.* [2001]). This motivated governments to embark upon a process of deregulation, privatization and liberalization of the banking systems. To different degrees in each country, the process mainly involved the liberalization of capital movements and the entry of financial intermediaries.

Liberalization in financial services is considered to have positive effects not only in the sector, but to cause positive spillovers to the economy (Williamson & Mahar [1998], Claessens *et al.* [1998], Peek & Rosengren [2000]). It has been argued that the chief benefit of liberalizing financial systems, particularly the banking system, is the competition spawned and the elimination of monopolistic powers, hence reducing concentration. Borrowers and investors would have access to new alternatives of financing and investment, and would benefit from the lower interest rates charged by banks. Likewise, the import and spillover of the *best practice* in management and new technologies would result in higher efficiency and productivity for the sector as well as a more efficient capital allocation. Furthermore, regulatory systems would improve, catching up with the new scenario and actors, and modernizing the banking system as a whole (García [2002]).

Consequently, some of the improvements that can be shown when analyzing part of the banking system's performance -other things being equal- are:

Variable	Direction of Movement
Net Interest Margin	Decrease
Profits (ROAA, ROAE)	Decrease
Asset Quality (lower Past Due Loans, higher coverage of Past Due Loans)	Increase
Efficiency and Productivity (lower overhead costs)	Increase

IV. THE IMPLICATIONS OF THE FSA

The weaknesses in the structure of the agreement have been well-documented (Dobson & Jacquet [1998], Dobson [2002], Miller [1999], Sauve & Steinfatt [2001]) These weaknesses have limited the economic impact of the GATS in the financial services industry in the region and are listed below:

1) *Positive List Approach*: As we stated earlier, only specific sectors and specific modes are liberalized. Latin American countries, with the exception of Panama and Uruguay, are *net-importers* of financial services. Consequently, they tend to view commitments in the financial services sector as 'concessions' to developed countries that tend to be *net-exporters* of such services. Therefore, Latin American countries do not have an incentive to liberalize trade in the sector.

2) *Subsectoral Classification*: The fact that there are 16 subsectors in the financial services categories and that no uniform classification system is used makes the schedules of commitments less tractable (only six countries use the Financial Service Annex classification adopted by developed countries). This also facilitates the limited commitment strategy used by most Latin American countries.

3) *Modes of Trade Classification*: While the 4 modes of trade classification can be useful for most sectors covered under the GATS, the classification is not as appropriate in the financial services sector, especially the distinction between Modes 1 and 2. A more appropriate classification in the banking subsector would be to distinguish between cross-border loans and deposits. Given the fact that international capital flows are necessary when conducting the majority of these transactions, it would also be useful to specify the direction of the capital flows. Furthermore, recent growth in electronic banking makes the distinction between Mode 1 and 2 trade even more blurry, because it is not clear whether the consumer or the service crosses the border.

4) *Timeliness*: One of the main characteristics of the sector is its dynamism and its vulnerability to economic shocks. While the FSA specifically provides the 'prudential carve-out' clause to deal with the latter, the commitments under the FSA can become obsolete quickly if a country decides to liberalize the sector further. This is particularly true of the largest markets in the region (Argentina, Brazil, Mexico and Venezuela), where new rules affecting the financial services sector were instituted after the signing of the FSA (Haar 2003). The role of the FSA is then more limited as to providing guidelines for future policies and regulations in the sector.

The structural deficiencies in the GATS provided the incentives for Latin American countries to limit their commitments in the FSA. Table 3 presents the commitments made by Latin American countries in the 1997 FSA for the banking subcategory. For each country (row) we have columns that specify the commitments for each mode of trade and whether the commitment is made under the market access or national treatment category. 1 means that the sector is bound with no restrictions, 2 bound with restrictions, 3 not bound with exceptions and 4 means that the sector is not bound.

The main lesson from Table 3 is that all Latin American countries make legally binding commitments for Mode 3 (Commercial Presence). Most of the countries that make commitments in commercial presence have restrictions for the legal type of company that foreigners can establish. This limits the type of business that banks can conduct in these countries. Foreign branching is the type of banking more frequently targeted. Few countries have made commitments in Modes 1 and 2, and only Haiti, Panama and Uruguay have

made binding commitments with no restrictions across Modes 1, 2 and 3. Commitments under Mode 4 are generally horizontal, spanning all service sectors.

The question that arises then is, what are the actual restrictions on financial services trade imposed by these countries? Table 4 shows the actual restrictions that countries impose on deposits and loans, as indicated in the IMF's *2002 Annual Report on Exchange Arrangements & Exchange Restrictions*. The layout of the table is very similar to the previous one, except that now we distinguish between restrictions on deposits and loans for residents and non-residents. That is, the first column deals with restrictions on local residents to deposit and borrow money abroad. The second column relates to the restrictions of foreign residents to deposit and borrow money locally. Lastly, the third column specifies whether there are any specific restrictions on foreign direct investment in general and in the banking sector in particular. This is particularly important if Mode 3 trade (commercial presence) is to occur.

A careful analysis of Table 4 shows that: (a) most countries allow FDI in the banking sector, (b) countries tend to distinguish between cross-border loans and cross-border deposits when making restrictions, (c) countries tend not to impose restrictions on cross-border deposits and (d) cross-border loans are more heavily restricted (mainly because of prudential concerns).

This implies that, even though Latin American countries have liberalized trade in Modes 1 and 2, they have not made many binding commitments in these categories. Moreover, the capital flows associated with trade in the banking sector are large, as previously shown in Figure 1.

V. FURTHER LIBERALIZATION IN THE DOHA ROUND

In this section we discuss the implications of further liberalization through the GATS in the banking sector in Latin America. Although it is difficult to foresee the end of the negotiations and the resulting agreement, we can discuss the implications of the proposed improvements in the FSA. The "avenues" of liberalization in the current round are binding commitments in Modes 1 and 2 (especially for developing countries), removing legal requirements and deepening commitments in Mode 3, removal of MFN exceptions, and the introduction of e-banking in the FSA. We divide the impact into four categories: capital flows, supervision and regulation, competition and spillovers.

MODE 1 AND MODE 2 LIBERALIZATION

The most relevant challenge is to make the commitments in these two modes consistent with the commitments that Latin American countries made for Mode 3. The US, EU, Canada and Australia would like to expand commitments in these modes, arguing that cross-border trade in financial services serves as a complement to commercial presence. Developing countries are reluctant to open up trade in these modes, lest it bring instability to their sectors. An example of the lack of consensus can be seen in the discussions occurring in the council for financial services trade, where the representatives of Brazil and Thailand have explicitly stated their reluctance to open up to trade in these modes, citing concern about the volatility of capital flows (GATS S/FIN/M/38 and S/FIN/M/39).

As we have shown, most Latin American countries have not signed any binding commitment under these modes of trade. The most common explanation is that countries

fear making commitments here because of capital account volatility concerns and prudential concerns. The implications for supervision and regulation are likely to be very significant and there will be a need to complement the work of other institutions, most prominently the Bank for International Settlements (BIS). Key [1991] argues that harmonization of regulation is a complement to further liberalization in the GATS. The BIS provides an exceptional forum for the harmonization of banking regulation, and further liberalization in the sector should take advantage of its expertise and avoid duplicate efforts. Since cross-border banking is almost impossible to regulate by the host country, a good clause might be that Mode 1 and Mode 2 trade is only permitted with countries that follow Basle Accord guidelines.

As we stated in the previous section, many competitive effects of liberalization have already materialized. In addition, as shown in Figure 1, cross-border lending accounts for roughly half of total foreign lending in the region. It is important to note that cross-border banking is usually reserved for large customers and wholesale banking. If cross-border lending continues to be focused on large customers, the implications of binding the commitments in this type of banking will be limited. However, the emergence of e-banking may have a tremendous impact on cross-border banking, since it could potentially increase the customer base for foreign banks, without incurring the fixed costs entailed by setting up brick and mortar operations.

Finally, the further liberalization of Modes 1 and 2 will not produce significant spillovers on the host countries. As widely documented in the literature, one of the main spillover effects of foreign presence is the transfer of human capital from foreign banks to local banks and domestic regulators (Kireyev [2001]), as well as on technology, management and accounting practices and the diffusion of expertise and industry know-how. This is certainly not the case under the two modes under consideration.

DEEPENING COMMITMENTS IN MODE 3 (COMMERCIAL PRESENCE)

Developed countries (Australia, Canada, the EU, Switzerland and the US) are calling for the removal in this category of restrictions such as license and type of ownership requirements. Countries in the region tend to restrict the operations of branches and impose requirements on the legal status of banks (i.e. Brazil, Colombia and Mexico).

Most of the initial proposals tabled include the removal of the type of establishment being allowed in a given country. Generally speaking, developed countries request that their financial institutions be free to choose the type of subsidiary to be established in a host country. For practical purposes, many Latin American countries would have to allow the operations of branches, remove quantitative restrictions and specific capital requirements for foreign banks. In addition, technically non-discriminatory measures such as the economic needs tests required by Chile and Venezuela and lending limits imposed by Argentina will have to be removed.

Commercial presence by foreign institutions is permitted (with varying restrictions) by all countries in Latin America. Using a data set for Latin America, Martínez Peria *et al.* [2002] show that foreign bank lending reacts more to positive than to negative host country shocks, and is not significantly curtailed during crisis. Although they find that banks transmit shocks from their home countries and that changes in their claims to other countries spill over to host countries, their main conclusion is that foreign banks can have a stabilizing effect on the host country's system in times of crisis.

There are also positive commercial spillovers, such as increasing the technical expertise of host country regulators, etc. (Peek & Rosengreen [2001]). The removal of the ban on branch operations and other legal requirements will only have a marginal effect on direct and portfolio capital flows.

In other areas the economic implications of further liberalization under Mode 3 will be limited. On the supervision and regulation front, the deepening of liberalization will reinforce the need for the harmonization of regulation. As stated above, this is better performed in a forum like the BIS.

Regarding the removal of MFN Exemptions, Colombia, the EU, Japan, Norway and the US are calling for full removal, or at least for them to be utilized only on specific occasions. This will have implications for Costa Rica, El Salvador, Guatemala and Nicaragua. These countries have called for an MFN exemption citing integration of the financial sector in Central America.

UNIFORM CLASSIFICATION REQUIREMENT

Countries have opted for two distinct classification methods when stating their commitments: the classification used in the GATS Annex on Financial Services, and the United Nations' CPC. The use of these two methods generates confusion when reading the complex schedules. Switzerland has proposed a revision of the classification methodology, while Canada, Colombia, EU and the US are proposing the use of the annex classification. This could present a technical challenge for most Latin American countries because they mainly use the CPC in their commitment schedules.

VI. CONCLUSION

The region's financial sectors, and the banking sector in particular, are prone to crisis while still in the development phase. In addition, these countries are net-importers of financial services, and Latin American countries have consequently adopted a defensive stance in the GATS financial services negotiations, committing only to bind positions that are below the status quo. This limits the role of the FSA, reducing it to a guarantee for a lower bound in liberalization in the sector. Moreover, loopholes in the agreement such as the "prudential carve-out" clause leave a good deal of room for arbitrary interpretation that could lead to countries renege on their commitments.

Countries might be tempted to follow other liberalization options, such as liberalizing trade in the sector, as part of regional trade agreements. Stephenson [2002] shows that in some instances countries make more lasting commitments in the sector in agreements like the NAFTA than in the FSA. However, using regional agreements as an instrument to liberalize the financial services sector will have very limited impact if these agreements do not include developed countries, as trade is usually conducted on a north-south basis, with Latin American countries being net-importers and recipients of FDI in the sector.

Most countries have already liberalized their financial services sector and are still reluctant to bind liberalization measures. Their reluctance stems from fears related to financial instability and the ability to take prudential measures in such situations. Therefore negotiations should continue to focus on the clarification of acceptable prudential measures, and most importantly, to bind the countries' existing unilateral liberalization measures in the GATS framework.

Table 1

FINANCIAL SERVICES TO GDP		
Country	1995	2002
Argentina ^{1,5}	0.0640	0.0741
Bolivia ^{1,2,3,4}	0.1075	0.1390*
Brazil ⁵	0.0710	0.0766
Chile ¹	n.a.	0.1245
Colombia ^{1,2,3}	0.1768	0.1709
Ecuador ⁵	0.0407	0.0263
Mexico ^{1,2,3}	0.1564	0.1557
Paraguay ¹	0.4761	0.4537*
Peru	n.a.	n.a.
Uruguay ^{3,5}	0.2049	0.2751
Venezuela ^{3,5}	n.a.	0.0154

Notes: Financial services including: * data from 2001.

¹ Financial services (direct and indirect).

² Real estate.

³ Insurance.

⁴ Business services.

⁵ Financial institutions/intermediaries/establishments.

Source: Haver Analytics.

Table 2

LIBERALIZATION OF FINANCIAL SERVICES TIMETABLE		
Country	Start of Liberalization	Largely Liberalized Financial Sector
Argentina 1	1977	1977-1982
Argentina 2	1987	1993-1996
Brazil	1989	---
Chile	1974	1985-1996
Colombia	1980	1995-1996
Mexico 1	1974	---
Mexico 2	1989	1992-1996
Peru	1991	1993-1996
Venezuela	1991	1996-1997

Source: Williamson and Mahar [1998] and updates from the authors.

Table 3

CURRENT SCHEDULE OF COMMITMENTS

Country	Sector	Mode 1		Mode 2		Mode 3		Mode 4	
		Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment	Market Access	National Treatment
Argentina	Horizontal					2		3	3
	Banking	4	4	1	1	1	1		
Bolivia	Horizontal							3	3
	Banking	4	4	4	2	1			
Brazil	Horizontal					2	1	3	3
	Banking	4	4	4	2	1			
Chile	Horizontal					2	2	3	3
	Banking	4	4	4	4	2	1		
Colombia	Horizontal					2		3	3
	Banking	4	4	4	4	1	1		
Costa Rica	Horizontal							3	3
	Banking	4	4	4	4	2	1		
Dominican Republic	Horizontal					2		3	3
	Banking	1, 2, 4	1, 2, 4	1, 2, 4	1, 2, 4	2	2		
Ecuador	Horizontal							3	3
	Banking	1	1	1	1	2	1		
El Salvador	Horizontal					2	2	2	
	Banking	4	4	4	4	3	4		
Guatemala	Horizontal		2		2		2	3	3
	Banking	1	4	1	4	2	4		4
Haiti	Horizontal	1	1	1	1	1	1	1	1
	Banking	1	1	1	1	1	1	1	1
Honduras	Horizontal					2	2	3	3
	Banking	4	4	4	4	2, (1)*	1		
Mexico	Horizontal	1	1	1	1			3	3
	Banking	4	4	4	4	2	1	4	4
Nicaragua	Horizontal		3			3	3	3	3
	Banking	4	4	4	4	2	1		
Panama	Horizontal					3		3	3
	Banking	1	1	1	1	1	1		
Paraguay	Horizontal								
	Banking	4, (1)*	4, (1)*	4, (1)*	4, (1)*	1	1	3	3
Peru	Horizontal					4		3	
	Banking	4, (1)*	4, (1)*	4, (1)*	4, (1)*	2	1		
Uruguay	Horizontal							3	3
	Banking	1	1	1	1	2	1		
Venezuela	Horizontal							3	3
	Banking	4	4	4	4	2	2		

Note: * denotes commitments in information transfer; (1) means that the sector is bound with no restrictions; (2) bound with restrictions; (3) not bound with exceptions; (4) means that the sector is not bound.

Source: Argentina: GATS/SC/4, Bolivia: GATS/SC/12.2, Brazil: GATS/SC/13, GATS/SC/13.3, Chile: GATS/SC/18, GATS/SC/18.3, Colombia: GATS/SC/20, GATS/SC/20.3, Costa Rica: GATS/SC/22.1, Dominican Republic: GATS/SC/28, GATS/SC/28.3, Ecuador: GATS/SC/98, El Salvador: GATS/SC/29, GATS/SC/29.2, Guatemala: GATS/SC/36, Haiti: GATS/SC/11, Honduras: GATS/SC/38, GATS/SC/38.1, Mexico: GATS/SC/56, GATS/SC/56.3, Nicaragua: GATS/SC/63, GATS/SC/63.1, Panama: GATS/SC/124, Paraguay: GATS/SC/68, Peru: GATS/SC/69, GATS/SC/69.2, Uruguay: GATS/SC/91, GATS/SC/91.1, Venezuela: GATS/SC/92, GATS/SC/92.3.

Table 4

ACTUAL RESTRICTIONS ON BANKING TRANSACTIONS							
Country	Sector	Mode 1		Mode 2		Mode 3	
		Deposits	Loans	Deposits	Loans	Deposits	Loans
Argentina	Banking	1	2	1	4	No Specific Restrictions	
Bolivia	Banking	1	2	1	NA	No Specific Restrictions	
Brazil	Banking	1	2	1	2	Several Restrictions	
Chile	Banking	1	2	4	2	Restrictions	
Colombia	Banking	2	2	2	2	No Restrictions	
Costa Rica	Banking	1	2	1	NA	No Restrictions	
Dominican Republic	Banking	4	2	1	2	No Restrictions	
Ecuador	Banking	1	2	2	2	No Restrictions	
El Salvador	Banking	1	2	1	2	Restrictions	
Guatemala	Banking	1	1	1	NA	No Restrictions	
Haiti	Banking	1	NA	1	NA	Allowed	
Honduras	Banking	1	2	1	2	Allowed	
Mexico	Banking	1	2	1	2	Several Restrictions	
Nicaragua	Banking	1	1	2	NA	No Restrictions	
Panama	Banking	1	1	1	1	No Restrictions	
Paraguay	Banking	1	1	1	2	No Restrictions	
Peru	Banking	1	2	1	2	No Restrictions	
Uruguay	Banking	1	1	1	1	No Restrictions	
Venezuela	Banking	1	NA	2	NA	No Restrictions	

Notes: The first column deals with restrictions on local residents to deposit and borrow money abroad. The second column relates to the restrictions of foreign residents to deposit and borrow money locally. Lastly, the third column specifies if there are any specific restrictions on foreign direct investment in general and in the banking sector in particular.

1 means that the sector has no restrictions,

2 has few restrictions,

4 that sector is restricted to trade.

Source: IMF Annual Report on Exchange Arrangements and Exchange Restrictions [2002].

Figure 1

EXPOSURE OF THE BIS REPORTING BANKS IN LATIN AMERICA
Total Foreign Claims

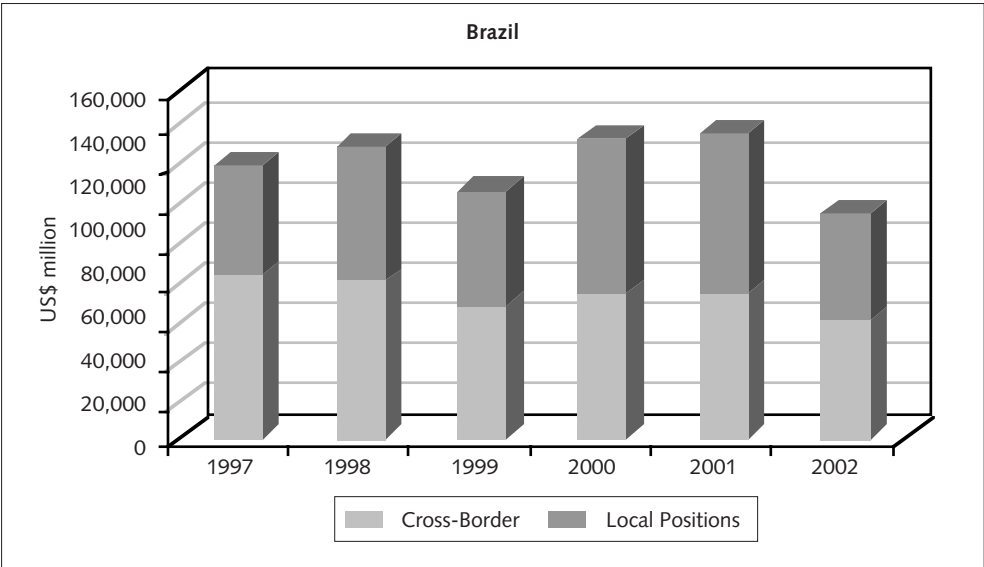
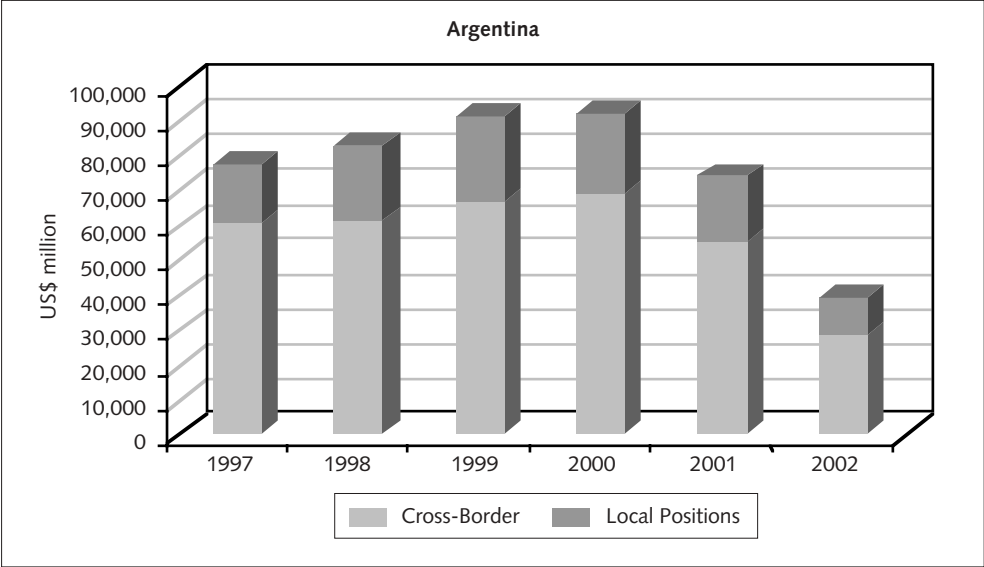


Figure 1 (continued)

EXPOSURE OF THE BIS REPORTING BANKS IN LATIN AMERICA
Total Foreign Claims

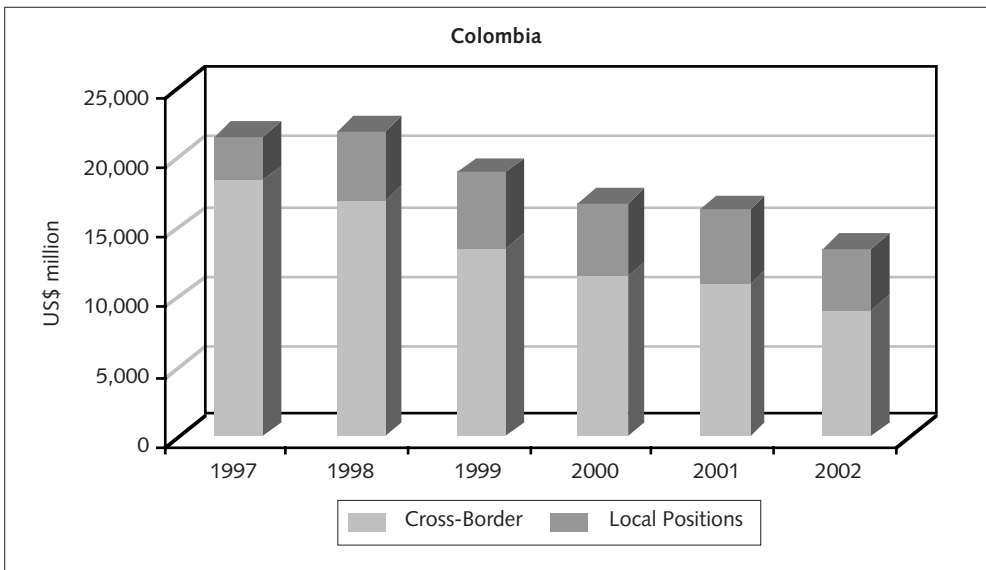
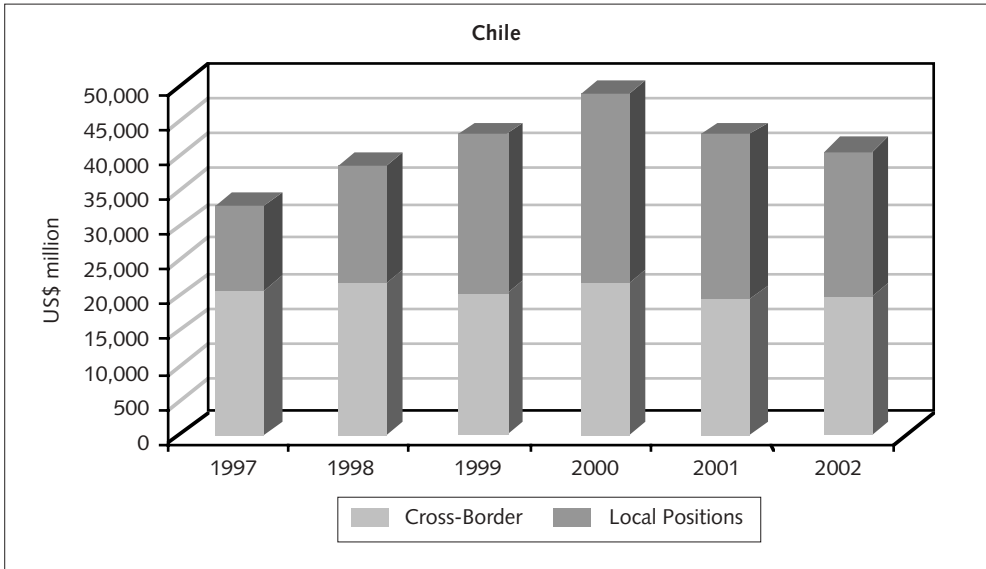


Figure 1 (continued)

EXPOSURE OF THE BIS REPORTING BANKS IN LATIN AMERICA
Total Foreign Claims

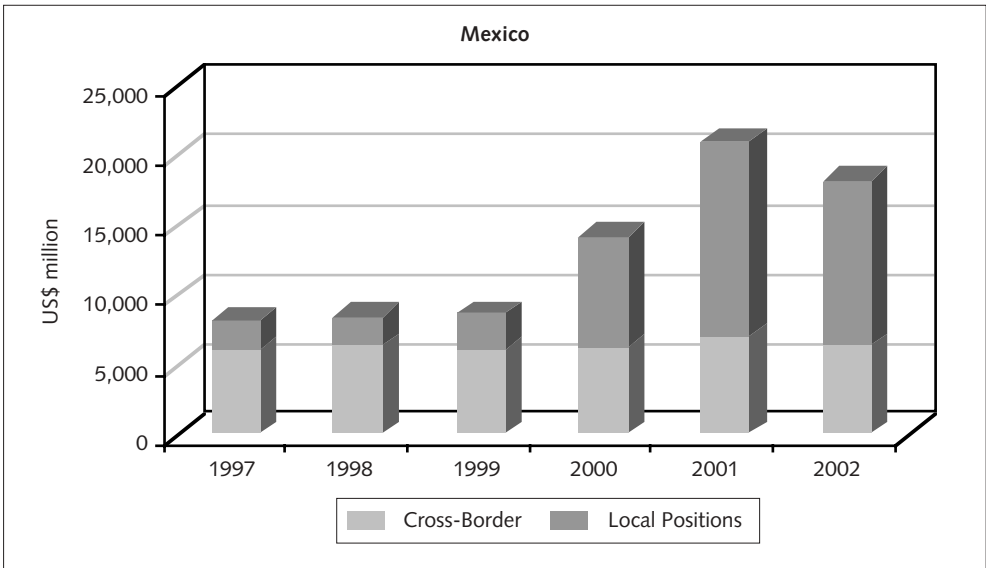
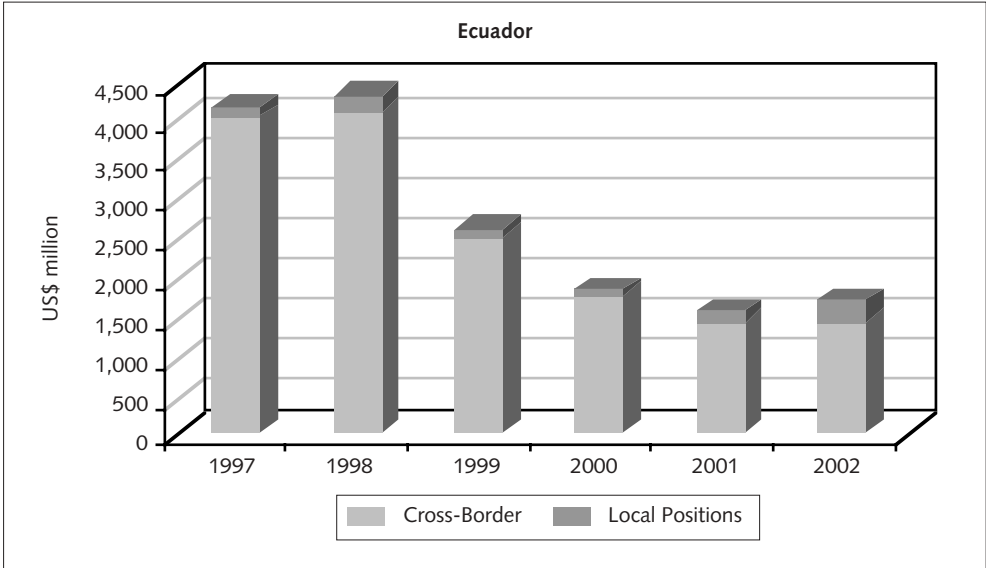


Figure 1 (continued)

EXPOSURE OF THE BIS REPORTING BANKS IN LATIN AMERICA
Total Foreign Claims

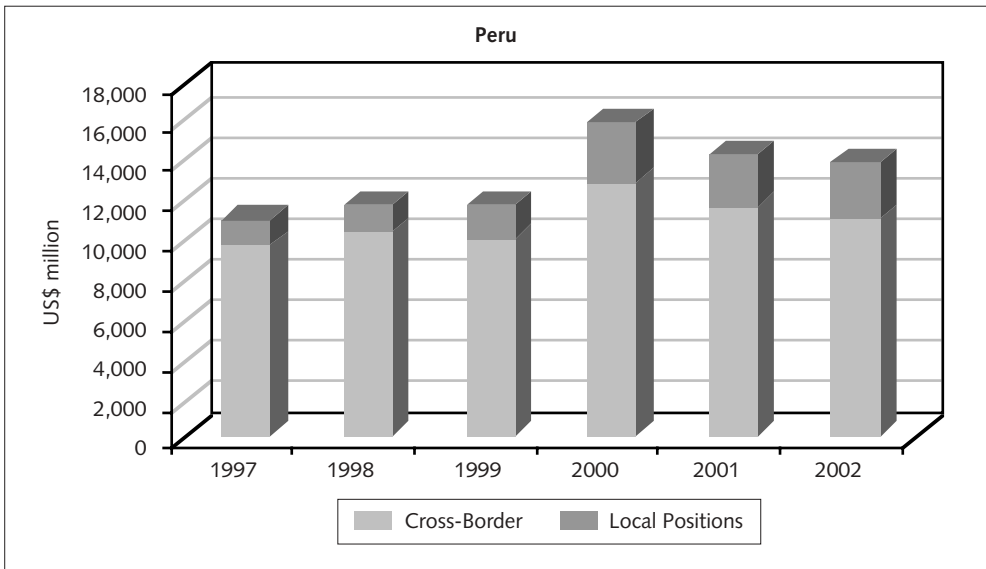
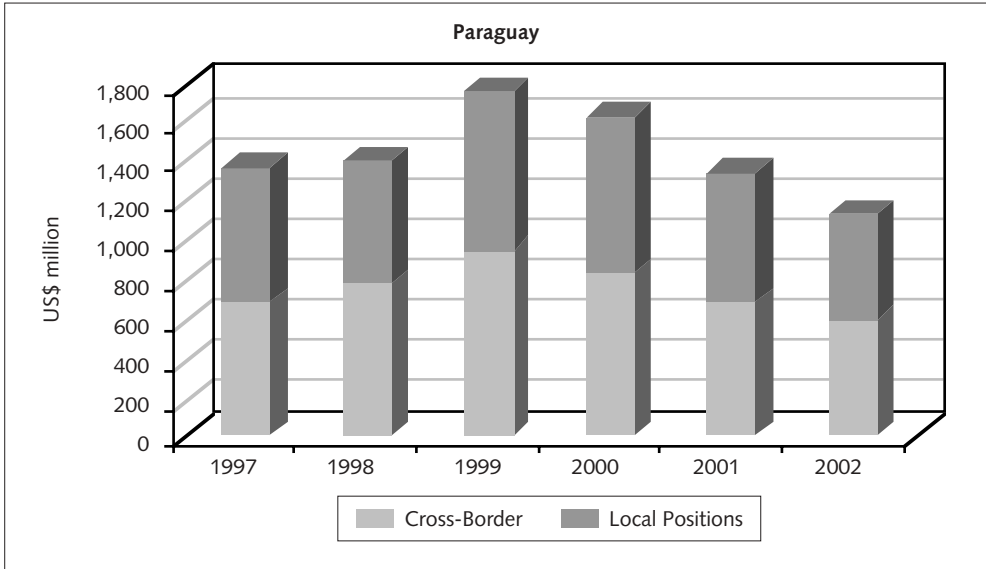
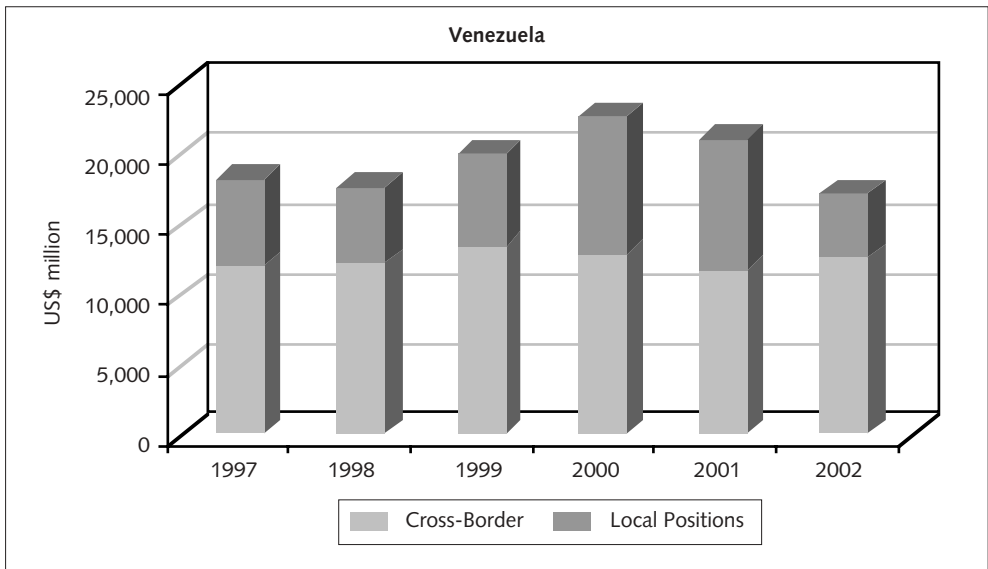
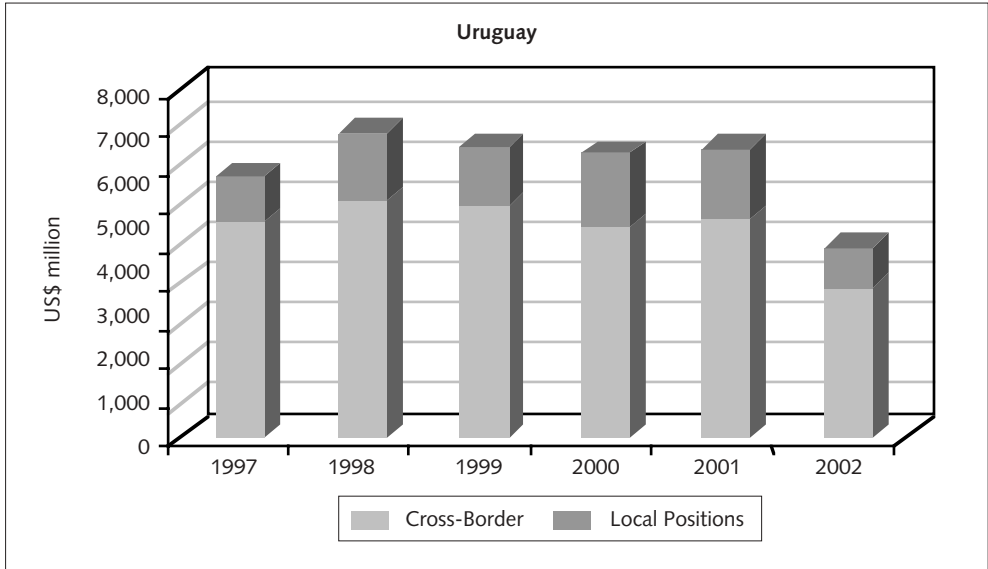


Figure 1 (continued)

EXPOSURE OF THE BIS REPORTING BANKS IN LATIN AMERICA
Total Foreign Claims



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