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Implications of the General Agreement on Trade in Services (GATS) for Trinidad and Tobago's Financial Policy

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ABSTRACT

The January 1st, 1995, General Agreement on Trade in Services (GATS), which entered into force in March 1999, is intended to bring about complete liberalization of international trade in all services, the largest and fastest growing component of such trade. This includes the financial services sector. Financial liberalization can generate a number of benefits, including services specialization, economies of scope, economies of scale in technology acquisition, a reduction of systemic risk, and improved risk management. However, in the case of small island developing countries, as with those in the Caribbean, a number of risks are evident, including adverse selection, increased moral hazard, and decreasing loan quality. This research focuses upon the nature of the financial policy framework required in the Republic of Trinidad and Tobago, in order to limit the dangers and enhance the benefits arising from international financial policy liberalization.

JEL: *F30, F39, F41, G15, G28*

Keywords: *Financial policy; Risk management; Liberalization; Economic growth*

I. INTRODUCTION

International trade is playing an increasingly important role in the financial services sector of many countries; principally through cross border transactions and expanding levels of foreign direct investment.[1] As global economic activity increases, the need for risk management has also become more urgent. With globalization, market liberalization and enhanced technology, there are expanded opportunities for trade in financial services.

The Uruguay Round of trade negotiations placed on the front burner, issues such as competition policy, intellectual property rights and rights of establishment, thus increasing the need for participating countries to have healthy and efficiently operating financial sectors.

The January 1, 1995 General Agreement on Trade in Services (GATS) was intended to facilitate the expansion of services sector trade. Since participating countries are required to either entirely reject or accept all agreements, accession therefore implies the need to work within GATS guidelines and principles, when engaging in trade in services.

If GATS has generated new opportunities, it has also encouraged reform, especially among developing country enterprises. However, such countries are challenged by special constraints, in meeting the rules and obligations of GATS. For instance, banking sectors can require increased regulation, with financial market liberalization. Mishkin (1996) notes that if there were not an effective financial system in place prior to the implementation of a financial liberalization program, an eventual financial market collapse could well succeed a lending boom, characterized by adverse selection, moral hazard and the poor quality of loans.

This paper focuses on the GATS because of the growing importance of international trade in services.[2] Our research examines the nature of the financial policy framework required in Trinidad and Tobago, in order to limit the dangers and enhance the benefits arising from international financial policy liberalization. In the sections that follow, we summarily discuss the principles of GATS; the net advantages of GATS for the Caribbean; the benefits and costs of financial liberalization; financial intermediation and economic growth; trends through the year 2003 in Trinidad and Tobago's economy and financial sector; and the impact of GATS upon the Republic's economy. The conclusion offers a number of policy recommendations.

II. GATS PRINCIPLES

The architecture of the GATS is based upon three main pillars:

(a) A framework agreement, premised on the general principles of liberalization,

(b) Sector-specific annexes, addressing issues such as:

- The movement of natural persons
- Maritime transport services
- Financial services
- Air transportation services
- Telecommunications services

(c) National schedules where governments present their positions regarding market access, national treatment and other service sector commitments, in accordance with specific supply modes (Weiss, 1995).

The fundamental principles agreed by the founding members, when negotiating the GATS in 1995 are as follows:

(1) All services are covered by the GATS except government services and air traffic rules, for which separate laws apply.
(2) Most Favored Nations – all nations are to be granted the same sets of privileges, except in specific circumstances.
(3) Member countries are obligated to offer market access to World Trade Oraganization (WTO) service providers in accordance with the four modes of service trade: cross border trade; movement of consumers or consumption abroad; commercial presence or the establishment of service suppliers in an importing country; and the movement of human resources to supply services abroad.[3] These specific objectives are included in a participating country's schedule of offer lists, after the conclusion of negotiations and commitments.
(4) National Treatment – specific sets of rules in which a country grants to other service suppliers, conditions which are no less favorable than which it grants its own national suppliers.
(5) Transparency in national regulations, which includes incentive arrangements. Participating members are obliged to establish points of inquiry for actual and potential trading partners. The transparency rules also require that individual countries notify the WTO of any changes implemented in regulations for specific services, where commitments for market access and national treatment are made.
(6) Reciprocity: no nation should benefit at the expense of another, except in conditions of varying economic development.
(7) Continuous liberalization through additional negotiation. Domestic regulations and associated changes are to be objective and consistent with a continuous process of liberalization.
(8) Other GATS principles focus on normally unrestrictive methods of international payments, increased participation of less developed countries, recognition of the criteria used for the licensing of service providers and monitoring and disciplining monopolies

A. Four Important GATS Exemptions

The GATS does not impact all policy interventions affecting the financial sector. The following are four important exceptions.

Macroeconomic policy action involves both fiscal and monetary procedures. Monetary policy falls under the umbrella of Central Banks, and can powerfully affect aggregate demand. Monetary policy remains outside of GATS rules.

Governments continue to maintain prudential regulatory control in order to protect their financial sectors. Some of the more common prudential measures include capital adequacy ratios and solvency margin requirements, limitations on the extent of credit concentration and portfolio allocation (WTO 1997)[4.] It merits emphasis that the obligations of any member under GATS do not in any way infringe on the rights of member states to impose prudential regulations. As specifically stated in paragraph 2 (a) of the Annex of Financial Services,

> *"Notwithstanding any other provision of the Agreement, a member shall not be prevented from taking measures for prudential reasons, including for the protection of investors, deposits, policy holders or persons to when a fiduciary duty is owned by a financial service supplier or to ensure the integrity and stability of the financial system."*

A developing country government also has the option of maintaining other regulations that may impinge on the extent of competition allowed, and the general operation of its financial sector. For example the manufacturing sector, within such a country, may be offered a lower rate of interest than other sectors, given the need to develop backward and forward linkages, and the opportunities for learning by doing.

These policies, even if there are considered to be technically deficient, are not debarred by the GATS, unless they limit the application of national treatment to foreign firms.

B. The Benefits of Financial Liberalization

There are a number of benefits, which can be expected for reforming economies, when trade in financial services is liberalized. Liberalization can lead to greater specialization by financial institutions, within those areas where they have comparative and competitive advantages. Specialization, with the benefits of economies of scale, engenders lower unit costs. Competition amongst financial institutions also promotes the emergence of new types of saving instruments. This is likely to increase investment returns, stimulate aggregate savings and investment, and promote economic growth.

With financial liberalization, economies of scale in technology acquisition can also be expected. As the presence of foreign banks, insurance companies and brokers expands, so does the spread of knowledge regarding best practices. With the increasing transfer of financial services technology and innovative ideas, there is an increasing potential for future economic growth.[5]

Liberalization can also lead to a reduction of systemic risk. Foreign financial institutions are typically branches or subsidiaries of transnational companies, and so can rely on the parent or affiliates of the parent, in the event that they find themselves in liquidity or other crises. Furthermore, the deepening of the financial system and the expanding volume and range of transactions resulting from the liberalization process tends to reduce the degree of host economy exposure to volatility and vulnerability to shocks.

Financial liberalization can also improve risk management, by allowing large projects to be undertaken more easily, with related uncertainty compensated by a reasonable rate of return. In particular, transnational financial institutions can transfer funds to seize attractive opportunities in individual countries and loan recipients can take advantage of lower interest rates, currency risk, and better insurance coverage.

Funds from capital surplus countries are therefore able to flow to countries with capital deficits [6]

Increased financial sector competition associated with financial liberalization can result in financial institutions that are more responsive to the needs of consumers, by providing better advice, enhanced financial packages, more timely and expeditious attention, and a more even flow of financial services over time. The overall effect, temporal and intertemporal, can constitute a definite improvement in the financial services provision (Sargeant, 2002).

Indeed, the absence of liberalization can encourage greater prudential risk, moral hazard and ownership concentration in the financial sector. Financial liberalization is one way to circumvent some of these problems.[7]

C. Financial Intermediation and Economic Growth

The high cost of acquiring information within the financial sector provides a niche opening for financial sector institutions. In practice, shareholders find it difficult to monitor the performance of firms and managers, and it is hardly likely that individual savers have the time or capacity to make such judgments. One consequence may be to inhibit the flow of scarce financial resources into those opportunities, which offer the highest returns. At the same time, high information costs create new entrepreneurial opportunities for financial institutions (Diamond, 1984;). The activities of such intermediaries can reduce costs related to the allocation of scarce resources (Levine, 1997).

Apart from reducing the fixed cost of pooling information, financial institutions can also play an important role in ensuring that corporate managers operate efficiently, even after they receive financing for a particular business venture. If a corporation defaults on one of its payments to a financial intermediary, an immediate chain of events is put in place.

The stock market can also promote corporate control (Jensen and Meckling, 1976). If shares are publicly traded on efficient stock markets, then this affords owners the capacity to remunerate managers in accordance with stock prices. Levine (1997) argues that in a system with efficiently functioning stock markets, inefficient corporate performance is penalized by takeovers. If the managers of such firms are subsequently fired, then efficient stock markets can be seen to play an important role in removing incompetent entrepreneurs from the sector.

Some researchers, such as Greenwood and Smith (1997) have commented on the linkages between exchange, specialization and innovation. In general, more specialized economies tend to engage in larger numbers of transactions. When financial intermediation lowers transaction costs, this encourages greater specialization in an economy, which in turn strengthens its production possibilities. In turn, increasing income can facilitate the financial intermediation process.

D. The Structure and Performance of Trinidad and Tobago's Financial Sector

In 2002 the level of real GDP in T&T was TT$23,374.7m, an increase of 47.1% above that attained in 1989. The real GDP growth performance for Trinidad and Tobago was estimated to be around 2.7% for 2002, whilst inflation remained under control, hovering at 3.9% in the same year. The unemployment rate in 2002 was 10.1%, 0.7 percentage points lower than the year before. In 2002, the average price of a barrel of oil was US$23.4, as compared to US$30.1 per barrel in 2000. For Trinidad and Tobago, the real effective exchange rate in 2002 was 127.1; clearly indicating that the country is becoming increasingly uncompetitive externally.[8] The external debt of Trinidad and Tobago was projected to stand at 17% of GDP in 2002. The level of the external debt itself was US$1,528.1mn in 2002, as compared to US$1,579.7mn in 2001. Preliminary data indicated a trade surplus of US$115m in 2002.

In the financial sector, although there has been a recent slowdown in credit expansion there has been an overall healthy deposit growth. Importantly though, investor confidence has remained sufficiently depressed so that the banking system continues to be plagued by excess liquidity. According to the World Competitiveness Yearbook (2002-2003), Trinidad and Tobago is ranked number 44th out of a listing of 80 nations and 37th in terms of growth competitiveness, although, in terms of tertiary level enrolment, T&T is ranked 75th.

Trinidad and Tobago is blessed with an abundance of hydrocarbon reserves. In 1966 the level of economic activity in the petroleum sector of Trinidad and Tobago was valued at TT$645.6m, or 5.8% of total GDP, at constant prices. By 1973, economic activity in this sector had increased only marginally to TT$868.5m, or 6.4% of aggregate GDP. However, in 1972 the American Oil Company (Amoco) found a massive amount of oil off the East Coast of Trinidad and Tobago, and in December 1973, the Yom Kippur War between Israel and the Arab nations stimulated a quadrupling of oil prices. One result was that during the years 1974-1982, real GDP expanded from TT$14,574.6m to TT$22,297.5m, an increase of 52.3%. In this same time interval, the country's financial sector product expanded from TT$994.2m (6.8% of total GDP) to TT$3055.6m or 13.7% of aggregate GDP. The ensuing fall-off in oil prices and production activity led to a decline in economic activity, which amounted to TT$1443.3m by 1990, or 8.9% of aggregate GDP. By 2002, however, constant price economic activity in the financial sector indicated definite signs of improvement; with a level of activity of TT$2204.2mn or 9.4% total GDP.

In current prices, the level of financial sector economic activity increased considerably, from TT$91.5 million in 1966 to TT$89,221.2 million in 2002. This represented an increase in the share of financial sector economic activity as a proportion of total economic activity from 7.8% to 15.4%. The financial sector is also responsible for almost one tenth of the employed labour force in 2002.

The prime loan rate expanded from 12.8% in 1990 to 13.6% in 2002. In the same period, the savings rate fell from 2.75% in 1990 to 2.5% in 2002. Consequently, the spread between borrowing and lending rates expanded from 10.1% percentage points in 1990 to 11.1% points in 2002. In parenthesis, the spread was as high as 14.5 percentage points in 1998.

At present there are six commercial banks operating in Trinidad and Tobago, with approximately 120 branches. Only CL Financial Ltd. and ANSA Mc Al have penetrated the global market. Some commercial banks have made considerable inroads into the regional market.

In 1990, the financial assets of Trinidad and Tobago stood at TT$29,750 million of which the Central Bank held 23.1%, with commercial banks accounting for 39.8%. Development finance institutions accounted for a mere 3.6% of the total assets of the financial sector in 1990. By 2001, the assets of the financial sector totaled TT$1,321 million (as compared to TT$1,076 million in 1990), with the share of development finance institutions decreasing to 1.7%. Of all the loans advanced by the commercial banking institutions in 1990, the majority, 24.8% went to consumers with 15.1% going to real estate. Agriculture and manufacturing received 3.9% and 15.5% respectively. By 2001 consumer loans accounted for 38.3% of all loans and advances made, with the share of both agriculture and manufacturing decreasing to 1.2% and 11.5% respectively.

By 2001, the monetary situation in T&T was typified by high levels of liquidity. The main influence on the extent of liquidity in the financial system was the spending and financing operations of the Central Bank of Trinidad and Tobago. Increasing liquidity in the financial sector is perhaps best reflected in the increasing level of special deposits from TT$28.9 million in 1990 to TT$164.4 million in 2002. In the same time interval, the amount of cash reserves in the banking system expanded from TT$942 million to TT$2704.5 million. The Central Bank is persistent in its effort to control the emergence of any excess liquidity in the banking sector that it does not think warranted.

In his 2002-2003, Budget Speech, the Minister of Finance argued that the government was intent on promoting Trinidad and Tobago as a major financial player, not only in terms of the Caribbean but also in the Western Hemisphere. To this end, the government planned to introduce legislation intended to facilitate integration of the banking system, by including the supervision of insurance companies and pension funds. The Government emphasized its need to rationalize the government bond market. The government also put in place plans for a Financial Service Ombudsman. The main purpose of this office would be to facilitate the resolution of disputes very quickly, against the backdrop of the prevailing law and international best practices.

In its Medium Term Policy Framework (MTPF) of 2002-2004, the government of Trinidad and Tobago indicated that it remained committed to the maintenance of a stable exchange rate and a low rate of inflation. In this regard, the government announced plans to extend the participation of open market operations, to include insurance companies and money brokers (MTPF, 2002-2004).

E. Interview Assessment

Ten interviews were conducted with leading commercial bankers, corporate managers, central bankers, and economists, during the month of March 2003. The standardized questions asked concerned the respondent's level of familiarity with GATS; the prototypical impact, as well as the potential benefits and dangers, of financial market liberalization; and the distribution of gains from such liberalization. In general, the interviewees expressed the view that with appropriate institutions and processes in place, the consumers of Trinidad and Tobago will benefit from financial services liberalization. However, it was also agreed that developed countries would tend to have inherent advantages under GATS, especially when compared with smaller developing countries, such as Trinidad and Tobago.

It is incumbent upon GATS participants to ensure that prudential regulations exist. For instance, banks must be bona fide and capital as well as reserve ratio requirements need to be specified. It is essential to ensure that the activities of new entrants from abroad accord with domestic law, and that these legal requirements are designed to promote growth. Some countries might not have the necessary infrastructure to support the intentions of policy makers.

Although GATS has advantages, countries must be aware of the dangers of liberalization. For example, portfolio investment inflows may move with extreme rapidity, as with the “tequila” crisis in Mexico, during the early 1990s. These inflows can be profoundly disruptive, negating domestic fiscal and monetary policies. Interest rates may fall, and the expansion effect of any given monetary policy may be greater than perceived, which could imply an overvaluation of the economy’s wealth, or a ‘boom,’ followed closely by a ‘bust.’ There is also the possibility of capital outflows when attractive domestic investment opportunities are difficult to find. But the only functional answer is to encourage domestic economic growth and development.

Several interviewees commented that although Trinidad and Tobago has a broadly open market economy, and the services sector has been significantly liberalized, this was not widely appreciated by the public, or indeed, by some financial sector enterprises. Further, the formulation and choice of financial policy was not transparent. Such policy should be based upon broad principles, minimum commitments, and effective implementation. There was no evidence that sufficient sectoral analysis had been completed, or that financial sector regulations were internally consistent. For example, within the insurance industry, more products could imply increased competition, since insurance purchases did not need to be locally denominated, and secured from local insurance companies. At the same time, local equities still had to be purchased from a broker in Trinidad and Tobago, thus affording a certain degree of protection to the sector.

F. Recommendations and Policy Suggestions

The banking sector within developed market economies has been characterized by a history of substantive intervention and protection. With the emergence of globalization, this sheltered market environment will not be available to the financial sectors of developing economies. The GATS will offer comparative advantages to developed country enterprises. Yet well-informed responses can yet provide some counter-advantages for a country such as Trinidad and Tobago.

Liberalization of the financial services sector of the domestic economy should be accompanied by a stable macroeconomic environment, since adverse balances on key macroeconomic aggregates, can encourage capital flight. In particular, financial institutions operate more efficiently as allocators of scarce resources in environments that are characterized by low rates of inflation. In turn, this is a function of stable and predictable monetary policies. The national economy seems susceptible to no immediate dangers related to this concern, given its macro-economic fundamentals.

Yet within the context of GATS, an important question arises. What exactly are the benefits of having an indigenous financial sector? In many cases indigenous banks would facilitate small business formation in Trinidad and Tobago. Large banks tend to focus more on big projects. With indigenous ownership of banking enterprises, limitations upon external leakages, by way of international profit remittances, may be expected. Alternatively stated, an indigenous banking sector implies that a greater proportion of banking profits remain within the country, thus improving the potential for further domestic investment. In addition, foreign banks are committed to the domestic economy only to the extent that profitability exists and the financial sector is stable. As the recent experience of the East Asian economies during the financial crisis of 1997 illustrated, when there are serious problems in the financial sector, international banks have a tendency to cut their losses and run with potential contagion effects for the macro-economy.

However, whilst ownership is important, the efficiency of the ownership structure is also central. A standard microeconomic argument is that firms existing in a protected market can develop traits of X–inefficiency. Basically X–inefficiency in the domestic market place means that per unit costs of operation are higher than those that might obtain with more robust competition.

Another key question relates to the sectors of the economy to which loans are disbursed. As was previously illustrated, the majority of loans and advances made by the commercial banking sector in Trinidad and Tobago have been traditionally directed to consumers. It may be argued that more funds should instead be targeted towards petrochemicals, agriculture and manufacturing, in the interest of national developmental. It is therefore possible that the participation of foreign bankers in the financial sector could improve the nation’s developmental prospects, especially as the literature suggests the historic propensity of developing country bankers to have a short-term lending horizon. In other words, foreign enterprises could meet the demand for longer-term commercial and industrial loans.

With GATS, the larger financial concerns in Trinidad and Tobago should pay greater attention to the expansion of their market bases, while rethinking the common practice of drawing only on the domestic saving pool for development. From the perspective of reducing and spreading risk, the best practice should be to diversify their lending options. The financial policy makers of Trinidad and Tobago should encourage a more global asset diversification strategy, rather than the current tendencies toward concentration upon the domestic or CARICOM market.

Trinidad and Tobago’s financial policy makers need to work within CARICOM to ensure that cross-border transactions face as few barriers as possible, across the region. This is one way in which commercial bankers can expand their market base, and minimize the cost associated with establishing a more viable financial enterprise. However, the lack of critical mass in the quantum of long-term funds available for lending remains a significant constraint. Although liberalization may pose challenges for Trinidadian financial sector enterprises, it is likely that important non-regulatory factors such as culture and ethnicity, combined with stable macroeconomic policies, will facilitate the survival of local bankers.[9] At the same time, the WTO and other multilateral governing institutions would be unwilling to accommodate significant deviations from established polices, including discrimination against foreign investors.

Given the GATS, local commercial banks should be establishing retail branches in Diaspora and other communities within North America and Europe, as initial steps, in order to bring in valuable foreign revenue pools. The point is that liberalization carries with it both opportunities and threats. The natural question is: how to take advantage of the opportunities that exist in extra-regional markets? One response might be to explore potentials for mergers and joint ventures, as well as other forms of strategic partnering, between local commercial banks and foreign multinational corporations in the financial sector.[10]

The Government of Trinidad and Tobago, including the Central Bank, should work towards improving the information architecture of its financial services infrastructure, as a matter of priority. The competitive position of financial services within Trinidad and Tobago can be strengthened by several measures. To begin with, domestic bankers might reconsider their competitive position, and apply best practice benchmarks, so that customers have no incentives to switch to foreign competitors. Secondly, host countries are relying on strategies which control market access to a greater degree, partly because the principle of national treatment has ruled out options regarding restricting the number of branches a foreign financial intermediary sets up in a host economy, or which limit geographical location, or even determine the number of automatic teller machines that they may be able to establish. However, as the Regional Negotiating Machinery (RNM) suggests, “the oligopolistic high-cost/price nature of the industry probably warrants the encouragement of entry of additional foreign firms, particularly since the latter share does not seem to be excessive.” (RNM, 1998, pp. 3-5,)

III. CONCLUSION

The liberalization of the financial services sector should proceed only when macroeconomic stability, and export growth promoting strategies are properly implemented. The right regulatory framework must be put in place, together with the appropriate institutions. These include systems and processes to allow the largest possible returns from the liberalization process. At the same time, developing country governments should proceed cautiously in making commitments under the GATS. Minimum commitments should be made initially, and the required research completed, including the case for special and differential treatment for small developing countries.

The GATS accord should not be considered in isolation, but understood as a necessary part of a concomitant wave of globalization and liberalization sweeping the world and manifested in the Caricom region in the form of the CSME, WTO relations and the FTAA. In this regard financial sector reform and conformation with the GATS is more of a necessity than a choice. The trick remains, however, as with all aspects of this wave of neoliberal polices, to minimize the dangers and maximize the opportunities.

Finally, we must consider the consequences of the second Gulf War between the United States of America and Iraq. Might these results eventually trigger a reversal of global economic integration? Some analysts have suggested that the possibility of large scale global conflict, terrorism, political backlash and market uncertainty have the potential to raise the costs of cross-border business to levels not seen in decades and thereby to limit the gains in economic well-being that global economic integration can yield - perhaps bringing about a collapse of the GATS accord as well.

Overall, the ultimate goal of policy makers in the financial sector of Trinidad and Tobago should be to develop a dynamic and competitive financial sector, which can provide a suitable spectrum of financial services to the commercial, private and governmental sectors of the economy. The competitive position of domestic financial services can be strengthened through a number of measures. One method is to continually engage in financial sector liberalization. The domestic banking fraternity in Trinidad and Tobago should aim to provide a range of products indistinct from their foreign competitors. A strategy, which restricts the number of new entrants into the market so as to regulate the amount of competition, may become warranted. The Trinidad and Tobago government might wish to consider a strategy of this nature, if it is desired to ensure that there will not be a run on the financial sector, should a financial crisis emerge, and foreign banks leave.

There is a predisposition in Trinidad and Tobago for plans to remain unimplemented and for solutions emanating from research not to be transformed into action. Competent professionals must be involved in the process within the private sector, the public sector, the University of the West Indies and organized labor. However, the country should use these findings to propose their commitments to the GATS accord during negotiations.

A further suggestion assumes that the Caribbean might indeed be limited in its availability of financial resources, especially hard currency long-term funds. Joint financing of projects or syndicated lending can mean that domestic financial institutions would combine with foreign ones in the supply of capital and financial services to regional businesses. This is likely to contribute not only to the development of the various economies but to the further development of the financial sector itself.

It has long been understood by financial experts that the extent of capital required for the development of the region may not be available from the existing savings pool. Even so drawing only on the domestic savings pool for development should not be singularly promoted. This is because of risk migration, from a best practice perspective. Global portfolio diversification should be preferred rather than a strategy that focuses solely on the possibilities that exist within the region. The reverse must also apply that is, just as citizens must be allowed to invest extra-regionally, foreigners must be encouraged to invest in the region. In this way the region will indeed be exploring some of the advantages of globalization. Policy makers must improve and maintain an environment that will allow these strategies to work, but the private sector must also be proactive in the promotion of these initiatives if they are to materialize.

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The database used in this paper is available upon request from the authors.

ENDNOTES

1. In the Annex on Financial Services, to the General Agreement on Trade in Services, the term financial service is defined as*, "any service of a financial nature offered by a financial services supplier to a member."*
2. Trade in services is not only the largest but is also the fastest growing aspect of international trade, accounting for over 60% of world output in 2000. Indeed, it has been estimated that service sector jobs account for 37% of the level of world employment.
3. More specifically these four modes of service supply are:
   - Cross Border Supply – the supply of services from one member to another member without a physical movement of the supplier or customer,
   - Consumer Abroad – freedom of a member state's economic agents to purchase services from another member state,
   - Commercial Presence – the freedom of economic agents in one country to be able to establish a commercial presence in another territory,
   - Presence of Natural Persons – freedom of entry and temporary residence for an economic agent from one country to enter another country to supply a particular service.
4. Other characteristically common measures would include restrictions on *"credit concentration or portfolio allocation, requirements for preserving asset quality, liquidity ratios, controls on market risk, management controls and disclosure and reporting requirements"(WTO, 1997).*
5. The basic thrust of current growth theories is that the long run engine of growth is the knowledge accumulation process. Whereas a new idea may pose problems of diminishing returns at the level of one firm, it could also have a positive impact on the production technology of other firms (Romer, 1994).
6. Edey and Hviding (1995) argue that this type of practice seems to have occurred within the European Union.
7. Liberalization also has disadvantages such as economic contagion - a ripple effect that occurs, as investor confidence in one country is lost, and the negative impact on the country is transferred to its trading partners. As a result of contagion and other negative factors, such as social, political or economic instability, there is a risk of capital flight, resulting in the withdrawal of foreign enterprises. The benefits of liberalization also hinge on the effectiveness of a country's legislative and regulatory frameworks for the financial services sector. If these frameworks are inadequately designed or implemented, significant levels of corruption, lack of transparency and moral hazard may emerge, leading to an increasing decline in customer and investor confidence, and eventually, to adverse effects on sectoral profits as well as employment, and national payments balances. Finally, there is always the perception that multinational corporations competing directly with local

firms may cause those firms to lose both jobs (because of their sub-optimal uses of technological expertise and resources) and profits.

8. The real effective exchange rate provides an indication of the international competitiveness of a country. A score above 100 indicates that the country's international competitiveness is worsening; whilst a score less than 100 indicates that external competitiveness is improving.
9. These factors can therefore be used to gauge the short run financial market as imperfectly competitive.
10. In terms of indigenous banks penetrating foreign banking sectors, a number of relevant questions must be posed which indicate the degree of openness of extra-regional markets. If barriers exist, what are the characteristics of these barriers? For example, were the capital requirements enormous for small banks? Are these barriers breakable by similar domestic banks? Can home country governments lobby the host country to reduce these barriers?

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