



INTERNATIONAL POLICY CENTER
Gerald R. Ford School of Public Policy
University of Michigan

IPC Working Paper Series Number 110

Trade in Financial Services – Has the IMF Been Involved Constructively?

Robert M. Stern

October 10, 2010

Trade in Financial Services—Has the IMF Been Involved Constructively?

Robert M. Stern
University of Michigan

Abstract

This paper considers the key policy issues related to liberalization of trade in financial services that the IMF should be concerned with, and the role the IMF has played in advising on policies related to trade in financial services in its bilateral and multilateral surveillance and conditionality attached to lending programs. IMF staff were generally aware of the literature and country experiences showing the benefits of financial liberalization. But Fund advice in support of liberalization can be best interpreted to be in support of country unilateral policy actions and the dynamics of the WTO accession process.

Key words: Trade Liberalization in Financial Services; IMF Surveillance and Conditionality

JEL Classification: E58; E65; F33; F53; G2; G13

October 10, 2010

Address correspondence to:

Robert M. Stern
Gerald R. Ford School of Public Policy
University of Michigan
735 S. State Street
Ann Arbor, MI 48109-3091

E-mail: rmstern@umich.edu

Trade in Financial Services—Has the IMF Been Involved Constructively?*

Robert M. Stern
University of Michigan

I. INTRODUCTION

Attention has focused especially in the past few years on the importance of issues concerning trade in services in light of the macroeconomic interests of the IMF. IMF (2005b) pointed to the critical role of services issues for competitiveness, the difficulties posed by limitations on the availability of data covering restrictions on services trade, and the indications that protection of service sectors is relatively high especially compared to that of manufactures.

In this context, this paper will describe/assess the following three broad issues:

- (i) What key policy issues related to liberalization of trade in services should the IMF be concerned with, and on what existing standards of evidence should the IMF base its approach(es) to these issues?
- (ii) What role has the IMF played in advising on policies related to trade in services in its bilateral and multilateral surveillance and in conditionality attached to lending programs?
- (iii) What is the overall assessment of the IMF's involvement in trade in services liberalization?

*This paper has been adapted from Stern (2009), which is a Background Paper that is part of an evaluation by the IMF Independent Evaluation Office (IEO) to be found on the IEO website (http://www.ieo-imf.org/eval/complete/eval_06162009.html).

In considering services, an obvious starting point is to note the characteristics of services, which are that they are intangible, invisible, and perishable, requiring simultaneous production and consumption. Goods, in contrast, are tangible, visible, and storable, and hence do not require direct interaction between producers and consumers. An indication of the scope of services is provided in Box 1, which is based on the framework of the General Agreement on Trade in Services (GATS)—a component of the World Trade Organization (WTO).

It should be evident from the GATS categorization of services that, except for financial services, which will be the focus of this paper, most services do not come under the direct purview of the IMF and instead are subject to the rules and operational responsibilities of the WTO and the World Bank. This is not to say that nonfinancial services do not affect a country's macroeconomic conditions and policies. Rather, the point is that such effects may be primarily indirect in character and better left to the other international institutions.

Box 1. Scope of Services Covered in the GATS

1. Business services
2. Communication services
3. Construction services
4. Distribution services
5. Educational services
6. Environmental services
7. Financial services
8. Health-related and social services
9. Tourism and travel-related services
10. Recreational, cultural, and sporting services
11. Transport services
12. Other services not elsewhere included

The modes of delivery of international service transactions can be categorized as follows:

- *Cross-border trade (Mode 1)*: services that are traded internationally across borders. An example is financial services provided by a bank in one country through mail or electronic means to a bank or consumers in another country.
- *Consumption abroad (Mode 2)*: services that require the consumer to be in the location of the producer. Examples are when consumers from one country travel to another country to consume tourism or education services.
- *Commercial presence (Mode 3)*: services that require commercial presence in the form of foreign direct investment. An example is a bank or insurance company owned by citizens of one country establishing a branch in another country.
- *Presence of natural persons (Mode 4)*: services that require the temporary cross-border movement of workers. An example is the foreign employees of a foreign bank providing services on a temporary basis in a country.

A country's financial services sector consists of users and providers of financial services and the government agencies that regulate them. Financial services are defined in the

GATS Annex on Financial Services to include two broad categories of services: (i) insurance and insurance-related services and (ii) banking and other financial services, such as financial trading, asset management, brokerages, settlement and clearing services, provision of financial information, and advisory services.¹

II. LIBERALIZATION OF TRADE IN SERVICES: WHAT ARE THE ISSUES?²

Measuring Restrictiveness

Barriers to trade interfere with the ability of firms from one country to compete with firms from another. This is true of trade in goods, where a tariff or nontariff barrier typically drives a wedge between the price of the good on the world market and its domestic price. This wedge, or tariff-equivalent, provides a convenient and often observable measure of the size of the impediment. In the case of services, however, such a simple measure is often not observable. Nonetheless, the concept of a tariff-equivalent is a useful way of quantifying a barrier to services trade even though it may be much harder to observe.

Since direct price comparisons of domestic and world prices of services are generally not observable, other means of inferring the presence and size of service barriers must be used. Some of these methods are direct, in asking governments or participants in services markets what barriers they impose or face. Though the answers they yield are usually only qualitative, indicating the presence or absence of a particular barrier but not its quantitative size or effect, such qualitative information takes on a quantitative dimension when tabulated by sector, perhaps with subjective weights to indicate severity. The result is a set of frequency measures of barriers to trade, recording what the barriers are and where.

An example of the foregoing type of measure is provided in Gootiiz and Mattoo (2008), who surveyed actual or applied trade policies in services for the World Bank in 2007 covering 32 developing countries and 24 OECD countries and the four modes of supplying financial services (banking and insurance), telecommunications, retail distribution, transport, and professional services.³ For each sector and mode of supply, the openness of policy towards foreign suppliers was mapped on a 5-point scale, ranging from no restrictions to highly restricted. The sector results were aggregated across modes of supply, based on weights reflecting judgments of the relative importance of the

¹ http://www.wto.org/english/tratop_e/serv_e/10-anfin_e.htm.

² This section is adapted in part from Deardorff and Stern (2008), and draws on Gootiiz and Mattoo (2008).

³ The sectors were further disaggregated into banking (retail and merchant), insurance (life, nonlife, and reinsurance), road transport, railway shipping, maritime shipping and auxiliary services, air transport (freight and passengers), accounting, auditing, and legal services.

different modes. Sector restrictiveness indices were then aggregated using sector GDP shares, and country income-group indices were aggregated using GDP weights for the component countries.

The 2007 World Bank survey contained a number of specific questions on the different services and modes.⁴ For example, with regard to financial (banking) services, mode 3 (establishing commercial presence), the survey asked: (i) for greenfield investments, whether foreign banks were permitted to enter as a branch or as a locally incorporated subsidiary; (ii) for entry through acquisition or joint ventures, whether foreign banks could enter the market by acquiring part or all of a local private bank, state-owned bank, or joint venture; the maximum ownership permitted to a single foreign bank; the maximum aggregate foreign investment permitted; and whether a foreign bank could acquire the controlling stake; (iii) if a license was required to establish commercial presence; whether the criteria to obtain a license were publicly available; whether fulfillment of the criteria would ensure that a license was granted; whether the licensing criteria differed between foreign and domestic banks; if the number of licenses was fixed, whether this restriction applied only to foreign banks, and on what basis the licenses would be allocated. Other survey questions that related to banking services addressed regulation, treatment of foreign banks that have a commercial presence, and cross-border trade. A similar set of questions covered the various forms of insurance services.

As of March 2009, the detailed country results were not yet available. But from the aggregated results reported in Gootiiz and Mattoo (2008) it seems that, on the whole, trade in financial services was relatively restricted, particularly in non-OECD countries. Thus, the liberalization of trade in financial services may be disproportionately a developing country/emerging market issue.

Deardorff and Stern (2008) provide illustrations of the specific restrictions applied to banking services and the calculation of restrictiveness indexes for several developing and industrial countries, based on the work of McGuire and Schuele (2000). They also review studies of this type for a number of other sectors and provide a conceptual discussion and illustrations of price-impact and quantity-impact measurements and econometric specifications and estimation, estimates of services barriers based on gravity models, and financial-based measurements. In addition, they discuss how tariff-equivalent and price-impact estimates of services barriers can be incorporated into computational general equilibrium models in order to analyze the economy-wide effects of these barriers. Finally, they set forth a number of principles and recommended empirical procedures for

⁴ The questionnaires are available on the World Bank's website: <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTTRADERESEARHC/0,,contentMDK:20540747~menuPK:791346~pagePK:64168182~piPK:64168060~theSitePK:544849~isCURL:Y,00.html>.

measuring services barriers and for assessing the consequences of their liberalization (Box 2).

The survey work being conducted by the World Bank together with the presentation and illustrations of methodologies for the measurement of services barriers (Deardorff and Stern, 2008) suggest that it would be feasible for Fund staff to undertake the measurement of financial services barriers and/or to carry out econometric analysis of the economic effects of these barriers and the benefits from liberalization for a number of IMF members. Because it would be necessary to construct measures of existing financial services barriers for individual countries, such analysis would be best suited for inclusion in the IMF Selected Issues Papers (SIPs) for its periodic Article IV consultations.

Liberalization of Financial Services and the Capital Account

Liberalizing financial services essentially involves deregulating domestic policies and institutions. There are several dimensions to the regulatory process, including: the withdrawal of government intervention through, for example, privatizing state-owned banks, freeing key prices like interest rates to be market-determined, and removing restrictions on the activities that banks can offer. A further dimension is the strengthening of domestic financial institutions and markets, so as to increase the efficiency with which funds are channeled from depositors and investors to borrowers and issuers.

More particularly, the liberalization of financial services refers to the removal of quantitative or qualitative regulations that limit (domestic or foreign) market entry or foreign commercial presence or that involve relatively high costs of doing business and as a result effectively make foreign entry unprofitable. Changes in host-country regulations that liberalize domestic financial markets can facilitate greater cross-border trade in financial services and the entry of foreign financial services providers under modes 1-4 as applied to financial services.

Box 2. Principles and Recommended Procedures for Measuring Services Barriers and for Assessing the Consequences of their Liberalization¹

Principles:

1. Most barriers to trade and investment in services take the form of domestic regulations, rather than measures at the border.
2. No single methodology is sufficient for documenting and measuring barriers to trade in services. Instead, investigators need to draw upon all available information, including both direct observation of particular barriers and indirect inference of barriers using data on prices and quantities.
3. Because of the special role of incumbent firms in many service industries, regulations do not need to be explicitly discriminatory against foreign firms in order to have discriminatory effects.

Procedures:

1. Collect the details of domestic regulations and related policies affecting services firms in the countries, including the manner in which they apply to foreign versus domestic firms, plus quantitative details of their application, such as any percentage or dollar limits that they impose. (Ideally, this information should be collected by systematic surveys of governments and/or firms. However, it may also be possible to infer it less directly from documents prepared for other purposes, such as the commitments that governments made to the GATS in the Uruguay Round and subsequent negotiations.)
2. For each type of regulation or policy, define degrees of restrictiveness and assign scores to each, ranging from zero for least restrictive to one for most restrictive.
3. Construct a measure of restrictiveness by weighting the scores from step 2 based on judgments of the relative importance of each policy using a statistical methodology such as factor analysis to identify the weights or by designing proxy measures, such as dummy variables, to represent particular restrictions. The resulting measures can then be used for reporting the presence and importance of barriers across industries and countries, as well as for providing an input to subsequent analysis.
4. Convert the measures of restrictiveness from step 3 into a set of tariff-equivalents by one or more of the following methods:
 - (a) Assign judgmental tariff-equivalent values to each of the component measures, representing the percentage taxes on foreign suppliers to which each component is thought to correspond at their most restrictive levels.
 - (b) Use data on prices and their determinants as the basis for a regression model that includes an index or other measures of restrictiveness and that estimates the effect on prices.
 - (c) Use data on quantities produced or traded as the basis for a regression model that includes an index or other measures of restrictiveness and that estimates the effect on quantities. This estimate can then be converted to tariff-equivalents using an assumed or estimated price elasticity of demand.
5. Use an index or other measures of restrictiveness or the tariff equivalents constructed above as inputs into a model of production and trade in order to ascertain the effects of changes in the barriers to which they correspond. The appropriate model for this purpose depends on whether sectoral or economy-wide policy changes are to be analyzed. For economy-wide policy changes, the model should be a general equilibrium one, incorporating the full effects of barriers across sectors and countries.

¹Source: Deardorff and Stern (2008).

Trade in financial services also entails certain GATS obligations with regard to ensuring transparency of regulatory measures, adhering to nondiscrimination according to the most favored nation principle; and making commitments to provide for market access and national treatment for foreign services providers. GATS commitments are not intended to compromise the ability of governments to pursue sound regulatory and macroeconomic

policies. In particular, GATS commitments allow considerable freedom to achieve such domestic economic objectives as prudential regulation and macroeconomic policy.

Once a country has made formal commitments with regard to liberalizing trade in financial services, the IMF is constrained to avoid advising the country authorities to liberalize slower or less (except for prudential reasons) though the IMF can advise the authorities to liberalize faster or more. Country commitments under the GATS may constrain IMF options for advising member countries on liberalization of trade in financial services. Such constraints will depend on the extent to which individual countries may have limited the opening of their financial sectors in the context of the liberalization that was to be undertaken in the Uruguay Round. Also, countries engaged in the process of WTO accession are often requested by other WTO members to implement liberalization covering various aspects of their financial services at different intervals of time. The WTO accession process may therefore constrain the advice on financial liberalization that the IMF may offer to member countries.

Policy reforms that free up the cross-border supply of financial services and market entry for foreign financial services providers are likely eventually to require loosening of restrictions on at least some forms of capital flows. This interrelationship often raises fears about the impact of increased competition, loss of autonomy, and the potential increased volatility of capital flows.⁵ The interaction between capital controls and opening the market to foreign financial services providers arises when domestic financial services transactions involve international capital account transactions. While it is possible for some international transactions in financial services to take place without cross-border capital flows, the presence of capital controls may substantially reduce the freedom of firms and households to buy financial services more cheaply from more diversified sources of funds. This may in turn discourage foreign services providers from entering an economy. Opening the capital account, therefore, although a distinct issue from that of financial services policy reform, will sooner or later become an issue to be faced.

In principle, domestic regulatory reform and services liberalization can be seen as precursors of capital account liberalization. A sound and diverse financial system will better intermediate volatile international capital flows. But there may not be a one-size-fits-all approach to sequencing financial services liberalization and capital account liberalization.⁶ It is important in any event to note that GATS commitments may not

⁵ See Ocampo and Stiglitz (2008) and the IMF publications and working papers in Stern (2009, Annex Tables A1.3 and A3.1) for discussion of the liberalization experiences of a number of emerging market economies.

⁶ If a country fully liberalizes its capital account in an atmosphere of macroeconomic instability and/or poor banking regulation and supervision, it may be more vulnerable to crises. Conversely, if a country uses capital controls to achieve prudential regulation, its financial system may remain weak. Argentina and Thailand are examples of countries that fully liberalized their financial systems, including their capital

oblige a country to allow international capital mobility, and the Fund may wish to exercise caution in pressing for open capital accounts in view of the potential volatility of capital flows.

Benefits and Costs of Financial Liberalization

While the current international financial turmoil strongly suggests some serious problems in the functioning and efficacy of financial institutions in many countries, it is important not to lose sight of the potential benefits that may be realized from financial services liberalization. These costs and benefits have been identified in a growing literature, which is provided in Stern (2009, Annex 3, Table A3.2). The following discussion summarizes salient conclusions pertinent to IMF objectives.

Some of the benefits of liberalization of trade in financial services involve macroeconomic outcomes and overall financial sector issues that fall within the purview of the IMF:⁷

- The prospect of financial liberalization may provide a catalyst for domestic reform by creating a constituency for improved regulation and supervision, better disclosure rules, and an improved legal and regulatory framework that can be put into place before foreign institutions are permitted to operate in the country.
- The prospect of financial liberalization may also provide a catalyst for greater regulatory transparency and strong prudential supervision by making information about laws, regulations, and administrative guidelines more readily available to all current and prospective market participants, including both domestic and foreign financial institutions.
- The robustness of the domestic financial system to shocks may be enhanced by foreign banks that can draw on their parent organizations if additional funding and capital are needed.
- Access to international capital may be facilitated and the amount of saving available for productive investment augmented.

accounts, in an atmosphere of macroeconomic instability (Argentina) and poor bank regulation and supervision (Thailand). In contrast, India has demonstrated a cautious, phased approach to capital account liberalization.

⁷ Several IMF publications pick up on many of these issues, including IMF (2000a) especially Chapter VI (“The Role of Foreign Banks in Emerging Markets”); IMF (2007a) especially Chapter III (“The Globalization of Financial Institutions and Its Implications for Financial Stability”); and IMF (2007b) especially Chapter 3 (“Sustaining Financial Development in Emerging Europe”). Also see Stern (2009, Annexes 1 and 3).

Other potential benefits appear to fit more into the mandate of the World Bank:

- Increased domestic competition may improve the quality of services and widen the range of choice, in the form of access to new services channels, faster access to services, better credit assessment procedures and information gathering techniques, wider choice of products and vendors, and easier and more effective diversification of risk.
- New skills, products, and technologies may be diffused into the domestic financial system, assisting its modernization.

By the same token, financial-services liberalization may entail certain economic risks and uncertainties:⁸

- Liberalization may not yield a more stable source of credit for domestic borrowers. If foreign bank entry is accompanied by reduced barriers to capital outflows, banks may use funds raised in the domestic market to undertake external lending so that domestic borrowers may not have the same degree of access to domestic savings as before liberalization. Another risk is that foreign banks might shift funds abruptly from one market to another as they perceive changes in risk-adjusted returns. In particular, internet banking may be a source of instability as financial turmoil in one country may have significant spillover effects in other countries.
- Especially in the early stages of liberalization, foreign banks may “cherry-pick” the most desirable markets and customers, leaving the domestic banks with higher-risk assets and customers. Foreign banks may only service profitable market segments, leaving aside retail banking in rural areas
- Foreign banks are perhaps more likely to “cut and run” during financial crises.
- Depending on the banking structure, foreign banks may encourage the development of oligopolistic, rather than competitive, banking structures.
- Foreign banks may not guarantee safety and soundness, especially if they have questionable ownership links with other international banks and are not subject to close monitoring in the host country.
- Establishing clarity in how foreign banks or banking service providers are supervised is highly complex owing to differing supervision practices for foreign-

⁸ In addition to considering the potential economic benefits and costs of foreign banking, it is important to consider their social impact. Foreign banks may not give priority to issues of poverty alleviation and the access of low-income and rural-based savers and borrowers to financial services.

owned subsidiaries, branches of foreign banks, and banking services provided by foreign banks. These differences create scope for regulatory arbitrage, regulatory overlap, and imprecise boundaries between the domestic and foreign accounts and activities of banks.

Fund Guidance and Advising for Financial Liberalization

The foregoing discussion suggests that the IMF needs to consider a number of key issues when countries are planning to reduce or remove barriers to trade in financial services or when financial services markets may already be open to varying degrees:

- The adequacy and transparency of existing and prospective regulation of the financial sector.
- The stability of sources of credit to host-country financial institutions and residents, including in times of crisis.
- Effects of financial liberalization on the structure, stability, and efficiency of banking or the financial sector more generally.
- The risks that foreign institutions may cherry-pick the most desirable markets and customers.
- The adequacy and clarity of supervision of financial institutions operating across national borders.

There are further considerations that the IMF should take into account in its advisory capacity to member countries:

- The need for adequate data on restrictions on trade in financial services, taking into account difficulties in collecting and interpreting such data.
- The development and implementation of partial and general equilibrium models that take account of the country's major sectoral characteristics. This would require the construction of comprehensive databases; estimation of the pertinent parameters that reflect the responses of economic agents to the reduction and/or elimination of financial services barriers in a global context; and assessment of changes in economic welfare resulting from liberalization of trade in financial services.
- For IMF members that are parties to preferential trade agreements (PTAs) that cover their financial services sectors, modeling efforts should be adapted to reflect the potential impacts of the preferential existence or removal of financial services

barriers, including the effects on financial services trade and associated changes in the economic welfare of PTA members and nonmembers.⁹

III. IMF INVOLVEMENT IN LIBERALIZATION OF FINANCIAL SERVICES TRADE ISSUES

This section addresses the role that the IMF has played in advising on policies related to the liberalization of financial services trade in its bilateral and multilateral surveillance and in conditionality attached to lending programs. The analysis is based on official reports, background papers, and other source materials provided by the IEO evaluation team for a selected set of economies chosen by the IEO. The focus is on the way that IMF missions may have helped countries prepare for liberalization and how good or appropriate the IMF's advice was on the scope and pace of liberalization per se. The country studies are therefore intended to illustrate when the IMF played an appropriate and useful role, and when it fell short of the role it could or should have played. Conclusions will be drawn as to whether the IMF approach to financial services trade liberalization during the evaluation period, 1996 to 2007, seems to have been well thought out and broadly consistent with best practice.

Evolution of Article IV Surveillance of Trade in Financial Services

Before turning to the country studies, it is useful to provide a broad overview of the record of the IMF's advice across its entire membership through bilateral surveillance and program conditionality on financial services trade liberalization. Stern (2009, Annex 1) analyzes systematically the IMF's advice in the area of trade in financial services, based on a review of Article IV staff reports for three years: 1996, 2000, and 2006. The results in Stern (2009, Annex Table A1.1) are intended to serve as proxy to represent the whole evaluation period, 1996 to 2007.

Although IMF Executive Board guidance in 2002 encouraged greater surveillance of trade in services, in view of its increasing significance and the impact of services trade negotiations on the role and mission of the Fund (IMF, 2002a), trade in financial services did not receive a great deal of advisory attention from IMF staff during the evaluation period (Stern, 2009, Annex Table A1.1). Thus, more than four-fifths of the staff reports for the three discrete years 1996, 2000, and 2006 were either silent on issues on trade in financial services or simply provided a factual description without any accompanying staff advice or recommendations. Nonetheless, there is evidence of gradual improvement: though in 1996 almost 90 percent of the staff reports in 1996 contained no reference to issues of trade in financial services, by 2006 this proportion had fallen closer to 80 percent.

⁹ In this connection, see Roy, Marchetti, and Lim (2007); and Hoekman (2008).

The comparative dearth of advice on trade in services in the Article IV surveillance reports may reflect the lack of guidance on the framework for assessing the appropriate pace and scope of financial services trade liberalization and coordination with financial liberalization in general. This contrasts with the rather clear advice and recommendations with regard to the reform of merchandise trade policies. Fund advice on financial services liberalization issued through the Article IV reports mostly related to the encouragement of market competition by means of greater participation of foreign financial institutions but was rarely accompanied by systematic analysis and supporting data.

Country Case Studies

Four country cases are examined below: China, India, Italy, and Tajikistan.¹⁰ These countries were chosen because they undertook a significant liberalization of trade in financial services during the evaluation period. This section examines the role the IMF played in providing advice on their liberalization. The sources provided by the IEO for the country studies consisted primarily of staff reports and SIPs for Article IV consultations; Financial System Stability Assessment (FSSA) reports of Financial Sector Assessment Program (FSAP) missions; staff reports and other documents related to IMF-supported programs; IMF Executive Board minutes; WTO trade policy reviews; and media reports from Factiva.

China

The staff reports, SIPs, and Board minutes for China's Article IV consultations during 1996–2007 concentrated primarily on macroeconomic and related issues, though some attention was also given to issues of trade in financial services. Perhaps the most prominent of these were the terms related to trade in financial services of China's 2001 WTO accession. Reports also considered policies indirectly related to trade in financial services—banking and capital market reforms designed to strengthen supervision, improve the efficiency of banking intermediation, and financial restructuring especially of the large state-owned commercial banks.

During the earlier part of the evaluation period, a recurring theme in IMF advice to China on financial sector reforms was the need to enhance competition in the banking sector, including by opening the sector to foreigners. IMF missions suggested gradually increasing access to renminbi business for foreign banks (IMF, 1997b), allowing new entry of foreign and domestic banks (subject to appropriate safeguards), and allowing outside (including foreign) investors to purchase shares in state-owned commercial banks (IMF, 1998b; 1999b). The Chinese authorities responded that an extension of the role of foreign banks was under consideration in the WTO accession negotiations (IMF, 1999b). They considered—and IMF staff concurred—that the WTO agreement would provide an

¹⁰ Country case studies for Algeria, Thailand, Ukraine, and Vietnam are available on request.

impetus to domestic commercial banks to accelerate their restructuring efforts and enhance competition in the banking system (IMF, 2000c).¹¹ A 2000 SIP (Robinson, Dorsey, and Zebregs, 2000) on the potential sectoral impact of China's WTO accession noted that for the financial sector, the reforms represented "potentially enormous changes": foreign financial institutions would be permitted to provide services without client restrictions for foreign currency business upon accession, local currency services to Chinese companies within two years, and services to all Chinese clients within five years. The paper noted that the main risk to domestic banks was that their best borrowers would migrate to foreign banks but that on the other hand—based on the experience of transition economies in Eastern Europe—liberalization had the potential to give foreign banks access to domestic currency and Chinese banks access to foreign bank know-how and additional capital.

After China acceded to the WTO in 2001, the Chinese authorities and the IMF missions turned their attention to banking reforms for ensuring future financial stability and creating sound domestic banks that would be able to adequately compete after 2006 when the banking sector was to be fully open to foreign participation. IMF staff welcomed the authorities' increased attention to bank supervision, recommended additional steps to improve the internal operations of (domestic) banks such as improving risk management and controls and upgrading accounting systems (IMF, 2003b), and reiterated the point that "[d]iversifying bank ownership, for example by allowing qualified foreign financial institutions to take strategic stakes... could bring much needed technical expertise and better governance" (IMF, 2005c; and IMF, 2004a; 2006c).¹²

In the years leading up to the 2006 liberalization, IMF staff noted that the state-owned commercial banks continued to be the major part of the banking system, while the share of foreign-funded banks was comparatively small, with foreign ownership shares being limited and foreign management control practically nonexistent (Podpiera, 2005). China's financial sector operations thus contrasted with those of several other former centrally planned economies that had carried out major financial sector reforms involving

¹¹ Outside the Fund staff, Langlois (2001), and Crosby (2008) review China's banking reforms and WTO accession commitments on financial services. While both authors view China's WTO commitments in a positive and promising light in permitting greater foreign bank entry, they note that there may be significant impediments to foreign entry, depending on how the Chinese authorities view their WTO commitments and the manner in which disagreements and disputes about entry are addressed by China and other WTO members.

¹² A 2004 SIP (Baldwin and Barnett, 2004) reviewed the international experience of bank restructuring with reference especially to reform of China's state-owned commercial banks and drew four main lessons: "(i) time-bound restructuring plans are essential for ensuring successful bank reforms; (ii) banks should have a strong commercial orientation, sound corporate governance framework, and freedom from political interference; (iii) reform should be guided by a comprehensive bank restructuring strategy that, among other things, identifies which agency will lead the reform program; and (iv) the market environment should be conducive to sound banking practices, which may require complementary legal, tax, and corporate sector reforms." No reference was made to the potential role of foreign bank entry in the process of reform.

sharply reduced state control over banks during the mid- to late-1990s, selling majority stakes to foreign private owners (Aitken, 2005).

A 2006 SIP (Leigh and Podpiera, 2006) addressed the contribution of foreign investors to improving banking services in China. While foreign banks' direct participation in China (through their own branches and subsidiaries) was relatively small, their indirect participation as minority shareholders had grown rapidly, to the point that almost all major Chinese banks now had a foreign strategic investor. The paper concluded that the overall contribution of foreign investors in improving the core operations of China's banks had been limited as foreign investors lacked sufficient incentives and opportunities—their ownership shares were relatively small and their management involvement minimal.¹³ As this form of foreign investor entry into the banking sector (with foreign banks taking only a minority stake in domestic banks rather than taking a controlling stake or entering as fully-owned subsidiaries) was “fairly unique” to China, the paper noted that it was difficult to extrapolate from international experience what effects foreign investors may eventually have on the performance of Chinese banks.¹⁴

In summary, the evolution of the opening of China's financial sector to the entry of foreign banks was largely predetermined by China's WTO accession commitments, while the IMF documents reviewed focused primarily on macroeconomic and related issues, including financial sector reforms more broadly. The IMF did point out the potential benefits to China of foreign bank entry, but this recognition was mainly qualitative, drawing in general terms on the experiences of other former centrally planned and emerging market economies. None of the issues mentioned in Section II above that might have guided the Fund's advice on financial liberalization was addressed systematically, no studies identified and measured the specific barriers to China's financial liberalization were prepared, and no assessment was presented of the potential economic benefits to be derived from the reduction or removal of existing financial sector barriers. Potentially much could have been gained if Fund staff had carried out explicit analysis of the terms and potential economic effects of China's WTO accession agreements.

India

Following India's unilateral policy reforms in 1991–92, the process of allowing private domestic and foreign banks to enter or expand operations in the state-bank-dominated

¹³ Foreign investors had: (i) increased bank capital, even though some of the investment went to the State Administration of Foreign Exchange as foreign investors partly bought existing shares; (ii) provided credibility needed to launch relatively large initial public offerings; (iii) induced improvements in corporate governance and management, with some board seats and management positions going to the foreign investors; and (iv) provided limited technical assistance (Leigh and Podpiera, 2006).

¹⁴ The paper included a summary of the literature on the impact of foreign bank entry and a brief survey of selected country experience with foreign investment in domestic banks (Malaysia, Korea, Central and Eastern Europe, and Latin America).

Indian market was slow. It was official Indian government policy to give Indian public banks more breathing room vis-à-vis foreign banks until 2009 when full national treatment for wholly owned foreign banks would take effect.

IMF surveillance missions quite consistently pointed to the potential benefits of privatization and foreign entry into India's financial sector, stressing that "increasing the private sector's role in bank management offered the best prospects for achieving a fundamental improvement in the banks' operating efficiency" (IMF, 1997c) and that a "much greater private sector opening" was urgently needed "to avoid further burdening the public debt outlook, as well as to improving bank governance and market discipline" (IMF, 1998c). The Indian authorities were hesitant, noting that "obtaining private capital—including foreign equity—will require far-reaching changes in management and public control" (IMF, 1998c). However, they agreed to continue licensing new domestic private banks and foreign banks, and to consider allowing foreign banks to compete on a level playing field with domestic banks (IMF, 1998c). A 1998 SIP (Callen, 1998) noted that some private and foreign banks had entered the sector between 1993 and 1998 and cited evidence that these banks were more profitable and less concentrated than India's public sector banks.

Incremental steps toward financial services liberalization were taken in 2001. In January of that year, the Indian authorities released a long-delayed comprehensive program of "second-generation" reforms prepared by the Prime Minister's Economic Advisory Council. The Council's report covered a broad range of recommendations, including financial sector reforms such as opening the insurance sector to private sector entrants—subject to minimum capital requirements and a 26 percent cap on foreign ownership—and introducing legislation to reduce the minimum government shareholding in public sector banks from 51 percent to 33 percent. In the latter regard, according to Towe (2001), the report cautioned that the Indian government's desire to retain the "public sector character of public sector banks" could undermine the benefits that would accrue from increasing competition in the banking sector. The same argument was also made in the IMF's 2000 Article IV consultation report (IMF, 2000b) and in the joint IMF-World Bank FSSA report (IMF, 2001a).¹⁵

Subsequent IMF Article IV missions tracked India's progress in opening its financial sector and reducing the government's ownership and control of public sector banks. A 2002 SIP (Koeva, 2002) presented evidence that the entry of new foreign and domestic

¹⁵ In the staff report for the 2000 Article IV consultation with India, the IMF mission urged the authorities to reduce the minimum government shareholding in public sector banks because it would "facilitate needed improvements in governance and efficiency in the banking sector" and cautioned that "these objectives as well as private sector interest in equity participation, could be undermined by the government's statement that the public sector characteristic of banks and their employees would be protected" (IMF, 2000b). The FSSA report noted: "Introducing private capital participation, while seeking to maintain 'the public sector character' of banks, is a source of concern" (IMF, 2001a).

banks had led to a reduction in banking industry concentration between 1990/91 and 2000/01 and with it, a significant decline in bank intermediation costs and profitability.¹⁶ IMF staff consistently pressed the Indian authorities to do more to relinquish effective control of public sector banks to private shareholders. Besides reducing the government's share in public sector banks, IMF staff urged the Indian authorities to raise the foreign direct investment limit in private banks and to lift the 10 percent limit on voting rights in a bank (IMF, 2003a; 2004b; 2005d).

In early 2005, the Indian authorities announced a few more incremental reforms—foreign banks would be allowed to establish wholly-owned subsidiaries and legislation would be amended to eliminate the 10 percent cap on the voting rights of foreign banks—but stated that they would defer further liberalization considerations to 2009. The 2005 IMF Article IV staff report called for bringing forward the 2009 target date for some liberalization measures. The report noted that foreign presence in the Indian banking system (as captured by balance sheet data) was lower than in some other emerging Asian countries, and significantly lower than in Latin America and Eastern Europe, and cited empirical studies (e.g., IMF, 2000a) on the benefits to be derived from competition by foreign banks (IMF, 2005d). But subsequent IMF missions did not press the issue.

In 2009, as planned, the Indian authorities released a major and comprehensive report on financial sector reform (Government of India, Planning Commission, 2009). This report set out a series of proposals recommending the sale of underperforming public-sector banks, allowing takeovers and mergers between public and private Indian banks and foreign banks, permitting domestic and foreign banks to set up branches and automated teller machines anywhere in the country, and adopting other measures that would bring about competition and improve service and prices of financial services for Indian firms and consumers.

Overall, during most of the evaluation period, the IMF advised in favor of increased financial liberalization in India, including both privatization and the entry of foreign banks. At the same time, the Indian authorities have instituted policy reforms since 1991/92 that resulted in (a slow process of) privatization and entry of foreign banks. The Fund's recommendations for India's financial liberalization were mainly qualitative and with no supporting studies of how the process of liberalization might be best designed and implemented. While it is not clear how much of a role the Fund's advice played in the authorities' 2009 blueprint for the continuing reform measures, the broad thrust of the proposed reforms seems to be in line with the IMF's advice.

¹⁶ An econometric study by staff of the Office of the IMF Executive Director for India concluded that during 1996–2004, the Indian banking industry operated under competitive conditions and earned revenues as if under monopolistic competition and hence that “the competitive nature of the Indian banking system [was] not significantly different from the banking system in other countries” (Prasad and Ghosh, 2005).

Italy

The IMF paid very little attention to trade in financial services issues in Italy in the earlier part of the evaluation period. Article IV staff reports during 1997–99 called for further privatization and increased labor market flexibility to improve performance in the banking sector in the face of intensified competition under the European Monetary Union (IMF, 1997a; 1998a; 1999a), but did not suggest enhancing competition through greater participation in the financial sector by foreign banks.

The IMF’s attention to trade in financial services issues in Italy stepped up beginning in 2003. In that year, the staff report put forth the view that the consolidation, privatization, and improvements in risk management in recent years had helped to strengthen the financial position of banks and insurance firms and that “[s]ecuring additional efficiency gains while maintaining competitive pressures [was] likely to require further consolidation and eventually greater cross-border penetration by financial institutions (in Italy, as elsewhere in Europe)” (IMF, 2003c). A subsequent process of banking consolidation was actively encouraged by the Bank of Italy to establish the basis for greater competition at the EU level. The 2004 staff report noted that this consolidation had indeed significantly changed the characteristics of the banking system: it was now essentially private and the number of banks had fallen by one-third since 1990, though the number of branches had increased by some 80 percent (IMF, 2005a).

The 2004 Article IV mission observed that “competition could be further enhanced through increased involvement of foreign banks, but that—as elsewhere in continental Europe—cross-border mergers and acquisitions had been limited, a fact many analysts attributed to the opposition of the domestic supervisory authorities” (IMF, 2005a). IMF staff also reported that an amendment had been proposed to the draft savings law that would transfer responsibility for banking system competition from the Bank of Italy to the antitrust authority, but that its timing and final content were uncertain (IMF, 2005a).

During 2004-05, a number of media reports observed that Antonio Fazio, the Bank of Italy governor, had “firmly resisted foreign interest in Italian banks, even though there [was] more foreign capital invested in minority stakes in Italian banks than any other European banking system.”¹⁷ Italy’s fragmented banking system led the European Commission to call on Italy’s central bank to declare publicly its commitment to an open and competitive banking sector that did not freeze out foreign players. This underscored growing concerns of the Brussels regulator and some European banks that Italy’s

¹⁷ “Italian banking arrives at brink of a wave.” *Financial Times*, January 27, 2004.

financial sector was not sufficiently open to takeovers and investments from non-Italian banks.¹⁸

An IMF FSAP mission in 2005 also noted that the presence of foreign banks was very limited in retail banking and that foreign takeovers had proven difficult to carry out. It recommended that “[g]reater foreign ownership in the Italian retail banking sector would help strengthen efficiency” (IMF, 2006b).¹⁹ A SIP for the 2005 Article IV consultation (Drummond, Maechler, and Marcelino, 2006) addressed competition in Italy’s banking system and provided evidence that Italy’s banking system remained fragmented, was relatively small, and was less efficient than banking systems of other EU countries.²⁰ However, the Bank of Italy “expressed skepticism about the need for an increased foreign presence in the banking system, noting that the share of the system owned by foreign entities was already comparatively high (albeit consisting only of minority positions)” (IMF, 2006a).

Noting that recent controversies over the conduct of the Bank of Italy in responding to two cross-border bank takeover bids were negatively affecting perceptions of the contestability of the Italian banking system and eroding confidence in Italian institutional arrangements, IMF staff urged the central bank to shift responsibility for competition to another authority (IMF, 2006a). There was some resistance to this suggestion—Bank of Italy representatives argued that other central banks were also jointly entrusted with responsibility for competition and stability—but in mid-December 2005, the Italian government amended the savings law to give the Bank of Italy and the antitrust authority joint responsibility for bank mergers and acquisitions and to transfer responsibility for other anticompetitive behavior fully to the antitrust authority (IMF, 2006a). Governor Fazio resigned as central bank governor shortly thereafter.

The 2006 Article IV mission noted that appreciable progress had been made in implementing the recommendations of the FSAP, particularly in banking-market

¹⁸ “Commission puts pressure on Italian banks,” *Financial Times*, February 8, 2005; “Italian bank governor denies protectionism,” *Financial Times*, February 18, 2005; “Italy: The kiss of death?” *Economist Intelligence Unit*, August 1, 2005; “Brussels accuses Fazio of violating ‘spirit’ of rules,” *Financial Times*, September 17, 2005; “EU challenges Italy on bank deals,” *The Wall Street Journal*, December 14, 2005.

¹⁹ A FSAP was completed for Italy in July 2005 and the findings were discussed with the Italian authorities during the Article IV consultation in November of that year. The FSSA report concluded that Italy’s financial system was generally sound, that potential conflicts of interest arising from the Bank of Italy’s governance structure had been addressed by a new savings law, and that measures had been taken to help reorient the Italian financial system away from a predominantly relationship-based system that tended to favor incumbents over new entrants (IMF, 2006b).

²⁰ The paper did not find a link between foreign ownership and banks’ efficiency in its six-country sample (France, Germany, Italy, Spain, the United Kingdom, and the United States), suggesting that “foreign penetration in these countries remains too low to significantly modify the dynamics in the respective banking sectors” (Drummond, Maechler, and Marcelino, 2006).

contestability but that further progress was needed in reducing bank costs. It also noted that the new leadership of the Bank of Italy supported banking sector consolidation, with tangible results, and that the new joint oversight of merger activity by the Bank of Italy and the antitrust authority was proceeding smoothly (IMF, 2007c).

Improvements in the business environment, the increasing efficiency of the banking system, and the encouraging attitude of the Bank of Italy may have been a factor in the greater number of mergers in 2006 than in the previous five years. While some of the changes noted may have been in response to Fund advice and recommendations, the pressures from the European Commission and the Italian government were most likely the decisive influences in promoting financial liberalization.

In sum, the IMF's attention to trade in financial services issues in Italy emerged gradually after 2003. Fund surveillance then pointed to the limited pace of cross-border consolidation in the banking system, though it did not give the issue a great deal of prominence. After the change of leadership of the Bank of Italy in 2005, the Fund's activity stepped up with the completion of an FSAP. Some of the subsequent changes in the structure of the banking system may have been in response to Fund advice and recommendations, but it appears that pressures from the EU Commission and Italian Government officials to remove Governor Fazio from the Bank of Italy may have been the decisive influences on the measures undertaken to promote financial liberalization.

Tajikistan

Throughout the evaluation period, Tajikistan's banking system was small and vulnerable, with levels of intermediation and private-sector credit that were low relative to GDP even by regional standards; high interest-rate spreads; and low confidence in the system. By the end of the period, nonperforming loans were relatively high by international standards, and provisioning looked insufficient. Despite amendments to the banking law introduced in 2005 to ease restrictions on foreign bank participation, foreign competition in the banking system remained limited. Tajikistan ranked rather low on the various international indicators of governance, transparency, and doing business.

Banking sector reform was always high on the reform agenda advocated by the IMF. The first IMF-supported program under the Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) (1998–2001) included a number of measures and benchmarks to lay the foundations for the development of an efficient and solvent banking sector. Initial measures focused on strengthening the capital base of the banks to allow them to meet prudential requirements, and included the development of a comprehensive bank restructuring program (IMF, 1998d). Subsequent reform measures inter alia focused on the gradual withdrawal of the central bank from the retail banking business and strengthening of the central bank's banking supervision department (IMF, 1999c; 2000d). In the first review of the third-year ESAF/PRGF program, as a

structural benchmark for end-June 2001, the Tajik authorities agreed to amend legislation to allow average foreign equity ownership of the banking system as a whole to increase to a maximum of 40 percent in 2001 and 50 percent in 2002 (IMF, 2001b).²¹ However, the program went off-track after the second review in June 2001.

The new three-year PRGF-supported program agreed between the IMF and the government of Tajikistan in November 2002 included further banking sector reforms. During the third program review in July 2004, the Tajik authorities indicated their openness to the entry of foreign banks with established expertise, and the central bank requested Fund technical assistance to review the legal framework for impediments (such as limits on foreign ownership) to the entry of more established foreign banks and to address other deficiencies that limited lending opportunities (IMF, 2004c).

During the fourth program review in March 2005, the Tajik authorities committed to relax the remaining restrictions on the entry of foreign banks, in particular by eliminating the ceiling on foreign capital participation and the requirement that Tajik nationals head banks operating in the country (structural benchmark for June 2005) (IMF, 2005e); the benchmark was met. A SIP (Fischer, 2005) prepared for the 2004 Article IV consultation (which coincided with the fourth program review) analyzed Tajikistan's banking sector and recommended a number of reforms to deepen the sector, including opening the banking system to entry by major international banks to obtain access to banking expertise, capital, and increased credibility. The paper cited "substantial cross-country evidence" from La Porta, Lopez-de-Silanes, and Shleifer (2002) associating state ownership of banks with slower subsequent financial development, lower growth of per capita income, and lower growth of productivity in the non-financial sector.²²

During the fifth and sixth reviews of the PRGF-supported program, IMF staff reported that "there was growing interest among foreign banks to operate in Tajikistan" (IMF, 2005f) and opined that the approval of the amendments aimed at eliminating restrictions on foreign competition would help to strengthen the banking system and improve the quality of financial services (IMF, 2006d). But the 2006 Article IV mission found that while the Tajik banking sector was stronger, it remained "small and vulnerable" with limited foreign competition despite the legal changes introduced late in 2005 (IMF, 2007d). A joint IMF-World Bank FSAP mission in 2007 noted that trade in financial services was still at a rudimentary stage—no Tajik banks were established outside the

²¹ Tajikistan is one of the few countries whose IMF-supported program(s) contained conditionality related to trade in financial services. For other examples, see Stern (2009, Annex 2).

²² An earlier IMF working paper by De Nicolo, Geadah, and Rozhkov (2003) comparing the level of financial development between the Commonwealth of Independent States countries (including Tajikistan) and the more advanced transition economies in Central and Eastern Europe and Baltic states also cited the work of La Porta, Lopez-de-Silanes, and Shleifer (2002). The paper observed that the liberalized entry of "fit-and-proper" financial firms in the latter group of countries had speeded up rationalization in the provision of financial services and increased overall transparency and competition.

country, and only one foreign bank (from Kazakhstan) operated in Tajikistan, with a specialized role serving two embassies. However, the FSSA report predicted that there would be more foreign bank entry and greater competitive pressure in the coming years and advised the central bank to develop the necessary regime to deal with such a scenario, including the ability to effectively supervise foreign banks established in Tajikistan (IMF, 2008).

It seems reasonable to conclude that Fund advice and conditionality in Tajikistan with regard to liberalization of trade in financial services were grounded analytically and empirically in cross-country studies that had been designed to investigate the benefits of financial liberalization and that could be brought to bear on the circumstances and limitations pertinent to the Tajik financial sector. However, there was no direct evidence in the Fund documents on the specific barriers that constrained the entry of foreign banks and the impact that reduction and/or removal of these barriers would have on the structure and efficiency of the Tajik financial sector and the country's economic welfare.

IV. CONCLUSIONS

Based on the broad review of the Fund's Article IV surveillance activities and the four country studies summarized above, it seems reasonable to conclude that the Fund staff were generally aware of the benefits of financial liberalization, based on their apparent knowledge of the literature and the findings of some of the SIPs on financial liberalization carried out in the context of Article IV consultations for individual countries. However, it is doubtful whether the Fund's advice and recommendations on financial liberalization have had much influence. Rather, it appears especially in the case studies that the pace and effects of financial liberalization have been determined to a large extent by unilateral policy initiatives and by the terms and timing of the negotiations for WTO accession. What can be said therefore is that Fund advice in support of liberalization can be best interpreted to be in support of country unilateral policy actions and the dynamics of the WTO accession process.

Barriers to trade in financial services are akin to nontariff barriers as applied to trade in goods. Measurement of the size and economic effects of these barriers therefore poses considerable problems. Since the available international data sources on financial service barriers are limited, the Fund could play a useful role, in the course of its surveillance, by encouraging its members to identify existing financial services barriers and by providing the modeling expertise needed to construct measures of the price and quantity effects of the reducing or removing these barriers. The basis for this role may lie in the collaboration by Fund staff with the survey work on services barriers now being done by Gootiiz and Mattoo at the World Bank and on the methodologies for measuring services barriers that have been developed by Deardorff and Stern (2008). The data and measures of existing barriers can be embedded in partial or general equilibrium modeling

frameworks that can be used to provide a quantitative assessment of the economic effects that may be expected if certain liberalization measures were to be adopted. In this way, Fund advice would become more precise in character as compared to its usually more qualitative and general nature.

References

- Aitken, Brian, 2005, “The Historical Dominance of Banks in China’s Financial System,” Chapter V in *People’s Republic of China—Selected Issues*, SM/05/273 (Washington: International Monetary Fund).
- Baldwin, Barbara, and Steven Barnett, 2004, “Systemic Bank Restructuring: Lessons from International Experience,” Chapter V in *People’s Republic of China—Selected Issues*, SM/04/228 (Washington: International Monetary Fund).
- Callen, Tim, 1998, “The Financial Performance of Public Sector Commercial Banks in India,” Chapter IV in *India—Selected Issues*, SM/98/205 (Washington: International Monetary Fund).
- Crosby, Daniel C., 2008, “Banking on China’s WTO Commitments: ‘Same Bed, Different Dreams’ in China’s Financial Services Sector,” *Journal of International Economic Law*, Vol. 11 (March), pp. 75–105.
- De Nicolo, Gianni, Sami Geadah, and Dmitriy Rozhkov, 2003, “Financial Development in the CIS-7 Countries: Bridging the Great Divide,” IMF Working Paper 03/205 (Washington: International Monetary Fund).
- Deardorff, Alan V., and Robert M. Stern, 2008, “Empirical Analysis of Barriers to International Services Transactions and the Consequences of Liberalization,” in *A Handbook of International Trade in Services*, ed. by Aaditya Mattoo, Robert M. Stern, and Gianni Zanini (New York: Oxford University Press).
- Drummond, Paulo, Andrea M. Maechler, and Sandra Marcelino, 2006, “Italy: Assessing Competition and Efficiency in the Banking System,” Chapter VI in *Italy—Selected Issues*, SM/06/20 (Washington: International Monetary Fund).
- Fischer, Felix, 2005, “Banking Sector Development and Reform,” Chapter VI in *Republic of Tajikistan—Selected Issues and Statistical Appendix*, SM/05/80 (Washington: International Monetary Fund).
- Gootiiz, Batshur, and Aaditya Mattoo, 2008, “Services in Doha: What’s on the Table?” Policy Research Working Paper No. 4903 (Washington: The World Bank).
- Government of India Planning Commission, 2009, *A Hundred Small Steps: Report of the Committee on Financial Sector Reforms* (New Delhi: SAGE Publications).
- Hoekman, Bernard, 2008, “The General Agreement on Trade in Services: Doomed to Fail? Does it Matter?” *Journal of Industry, Competition and Trade*, Vol. 8 (December), pp. 295–318.
- International Monetary Fund (IMF), 1997a, *Italy—Staff Report for the 1997 Article IV Consultation*, SM/97/58 (Washington: International Monetary Fund).

- _____, 1997b, *People's Republic of China—Staff Report for the 1997 Article IV Consultation*, SM/97/137 (Washington: International Monetary Fund).
- _____, 1997c, *India—Staff Report for the 1997 Article IV Consultation*, SM/97/147 (Washington: International Monetary Fund).
- _____, 1998a, *Italy—Staff Report for the 1998 Article IV Consultation*, SM/98/50 (Washington: International Monetary Fund).
- _____, 1998b, *People's Republic of China—Staff Report for the 1998 Article IV Consultation*, SM/98/170 (Washington: International Monetary Fund).
- _____, 1998c, *India—Staff Report for the 1998 Article IV Consultation*, SM/98/197 (Washington: International Monetary Fund).
- _____, 1998d, *Republic of Tajikistan—Request for Arrangements Under the Enhanced Structural Adjustment Facility*, EBS/98/96 (Washington: International Monetary Fund).
- _____, 1999a, *Italy—Staff Report for the 1999 Article IV Consultation*, SM/99/110 (Washington: International Monetary Fund).
- _____, 1999b, *People's Republic of China—Staff Report for the 1999 Article IV Consultation*, SM/99/156 (Washington: International Monetary Fund).
- _____, 1999c, *Republic of Tajikistan—Request for Second Annual Arrangement Under the Enhanced Structural Adjustment Facility*, EBS/99/105 (Washington: International Monetary Fund).
- _____, 2000a, *International Capital Markets: Developments, Prospects, and Key Policy Issues* (Washington: International Monetary Fund).
- _____, 2000b, *India—Staff Report for the 2000 Article IV Consultation*, SM/00/90 (Washington: International Monetary Fund).
- _____, 2000c, *People's Republic of China—Staff Report for the 2000 Article IV Consultation*, SM/00/150 (Washington: International Monetary Fund).
- _____, 2000d, *Republic of Tajikistan—Request for the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Request for Extension of Commitment Period*, EBS/00/206 (Washington: International Monetary Fund).
- _____, 2001a, *India—Financial System Stability Assessment* (unpublished; Washington: International Monetary Fund).
- _____, 2001b, *Republic of Tajikistan—Staff Report for the 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the*

- Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria*, EBS/01/46 (Washington: International Monetary Fund).
- _____, 2002a, *Operational Guidance Note for Staff Following the 2002 Biennial Surveillance Review*, SM/02/292 (Washington: International Monetary Fund).
- _____, 2003a, *India—Staff Report for the 2003 Article IV Consultation*, SM/03/221 (Washington: International Monetary Fund).
- _____, 2003b, *People’s Republic of China—Staff Report for the 2003 Article IV Consultation*, SM/03/316 (Washington: International Monetary Fund).
- _____, 2003c, *Italy—Staff Report for the 2003 Article IV Consultation*, SM/03/358 (Washington: International Monetary Fund).
- _____, 2004a, *People’s Republic of China—Staff Report for the 2004 Article IV Consultation*, SM/04/221 (Washington: International Monetary Fund).
- _____, 2004b, *India—Staff Report for the 2004 Article IV Consultation*, SM/04/431 (Washington: International Monetary Fund).
- _____, 2004c, *Republic of Tajikistan—Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion*, EBS/04/98 (Washington: International Monetary Fund).
- _____, 2005a, *Italy—Staff Report for the 2004 Article IV Consultation*, SM/05/10 (Washington: International Monetary Fund).
- _____, 2005b, *Review of Fund Work on Trade*, SM/05/57 (Washington: International Monetary Fund).
- _____, 2005c, *People’s Republic of China—Staff Report for the 2005 Article IV Consultation*, SM/05/261 (Washington: International Monetary Fund).
- _____, 2005d, *India—Staff Report for the 2005 Article IV Consultation*, SM/05/430 (Washington: International Monetary Fund).
- _____, 2005e, *Republic of Tajikistan—Staff Report for the 2004 Article IV Consultation and Fourth Review Under the Poverty Reduction and Growth Facility*, EBS/05/38 (Washington: International Monetary Fund).
- _____, 2005f, *Republic of Tajikistan—Fifth Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion*, EBS/05/105 (Washington: International Monetary Fund).
- _____, 2006a, *Italy—Staff Report for the 2005 Article IV Consultation*, SM/06/11 (Washington: International Monetary Fund).

- _____, 2006b, *Italy—Financial System Stability Assessment*, SM/06/15 (Washington: International Monetary Fund).
- _____, 2006c, *People’s Republic of China—Staff Report for the 2006 Article IV Consultation*, SM/06/248 (Washington: International Monetary Fund).
- _____, 2006d, *Republic of Tajikistan—Sixth Review Under the Poverty Reduction and Growth Facility*, EBS/06/10 (Washington: International Monetary Fund).
- _____, 2007a, *Global Financial Stability Report: Market Developments and Issues* (Washington: International Monetary Fund).
- _____, 2007b, *Regional Economic Outlook: Europe: Strengthening Financial Systems*. (Washington: International Monetary Fund).
- _____, 2007c, *Italy—Staff Report for the 2006 Article IV Consultation*, SM/07/20 (Washington: International Monetary Fund).
- _____, 2007d, *Republic of Tajikistan—Staff Report for the 2006 Article IV Consultation*, SM/07/94 (Washington: International Monetary Fund).
- _____, 2008, *Republic of Tajikistan—Financial System Stability Assessment*, SM/08/190 (Washington: International Monetary Fund).
- Koeva, Petya, 2002, “The Performance of Indian Banks During Financial Liberalization,” Chapter V in *India—Selected Issues and Statistical Appendix*, SM/02/181 (Washington: International Monetary Fund).
- La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2002, “Government Ownership of Banks,” *Journal of Finance*, Vol. 57(1), pp. 265–301.
- Langlois, John D., Jr., 2001, “The WTO and China’s Financial System,” *The China Quarterly*, Vol. 167 (September), pp. 610–29.
- Leigh, Lamin, and Richard Podpiera, 2006, “The Rise of Foreign investment in China’s Banking System,” Chapter VI in *People’s Republic of China—Selected Issues*, SM/06/249 (Washington: International Monetary Fund).
- McGuire, Greg, and Michael Schuele, 2000, “Restrictiveness of International Trade in Banking Services,” in *Impediments to Trade in Services: Measurement and Policy Implications*, ed. by Christopher Findlay and Tony Warren (London and New York: Routledge).
- Ocampo, Jose Antonio, and Joseph E. Stiglitz, eds., 2008, *Capital Market Liberalization and Development* (New York: Oxford University Press).
- Podpiera, Richard, 2005, “Progress in Banking Reform,” Chapter IV in *People’s Republic of China—Selected Issues*, SM/05/273 (Washington: International Monetary Fund).

- Prasad, A., and Saibal Ghosh, 2005, “Competition in Indian Banking,” IMF Working Paper 05/141 (Washington: International Monetary Fund).
- Robinson, David, Thomas Dorsey, and Harm Zebregs, 2000, “China: A Preliminary Assessment of the Impact of WTO Accession,” Chapter III in *People’s Republic of China—Selected Issues*, SM/00/166 Supplement 1 (Washington: International Monetary Fund).
- Roy, Martin, Juan Marchetti, and Hoe Lim, 2007, “Services Liberalization in the New Generation of Preferential Trade Agreements: How Much Further than the GATS?” *World Trade Review*, Vol. 6 (July), pp. 155–92.
- Towe, Christopher, 2001, “Structural Policies and the Report of the Prime Minister’s Economic Advisory Council,” Chapter VI in *India—Recent Economic Developments and Selected Issues*, SM/01/160 (Washington: International Monetary Fund).
- Stern, Robert M, 2009, “Trade in Financial Services—Has the IMF Been Involved Constructively? IMF Independent Evaluation Office, IEO Background Paper, BP/09/05, http://www.ieo-imf.org/eval/complete/eval_06162009.html
- World Bank, 2007a, *Survey on Impediments to International Integration* (unpublished; Washington: The World Bank).
- _____, 2007b, *Database on Services Trade Restrictions* (unpublished; Washington: The World Bank).