Liberalising Trade in Financial Services: 
Global and Regional Economic Effects

George Verikios and Xiao-guang Zhang
Productivity Commission, Australia

Abstract

This paper applies a global general equilibrium model to quantify the impact on the global and regional economies of liberalising trade in financial services. The paper uses recent estimates of trade barriers for financial services in both developed and developing countries. The simulation results indicate that liberalising trade in financial services would benefit the world as a whole in terms of increased real income. Most regions are projected to gain as well, although the distribution of gains among regions is not even. In general, regions with the highest barriers, such as developing countries, benefit most. The analysis demonstrates that commercial presence of foreign firms via foreign direct investment (FDI) is a major source of gains from services trade liberalisation.

* JEL Classifications: C68, D58, F21.

* Key words: Trade in services, Financial services, Foreign direct investment, International

*Corresponding Address: Xiao-guang Zhang, Productivity Commission, Locked Bag 2, Collins Street East, Melbourne, Victoria 8003, Australia. Tel: +61-3-9653-2192, Fax: +61-3-9653-2302 Email: xzhang@pc.gov.au George Verikios, Tel: +61-3-9653-2100, Fax: +61-3-9653-2302, Email: gverikios@pc.gov.au
I. Introduction

Since the General Agreement on Trade in Services (GATS) was reached in 1993, progress has been made among WTO members to open up their trade in some key services sectors. Despite the agreement reached, barriers to trade in many services sectors remain significant in most countries. This means potentially large gains for many countries are possible from further liberalisation in services trade. However, unlike trade in goods, trade liberalisation in services is more complicated and requires careful assessment. Empirical investigation into the economic effects of multilateral services trade liberalisation has been hampered by lack of reliable data on services trade flows and barrier estimates, as well as a proper analytical framework. A small literature has emerged in recent years in which services trade liberalisation is analysed within a general equilibrium framework.¹ Most of these studies, however, treat services trade as a whole, despite that trade liberalisation under the GATS is conducted on a sector by sector basis. This study contributes to this literature by providing a sectoral analysis of multilateral liberalisation of trade in services. It focuses on a key sector: financial services. Despite the fact that WTO members have already reached an agreement on liberalising trade in banking and financial services, the current scheduled commitments of WTO members represent only a