**Measuring the Barriers to Trade in Banking and Financial Services in BRICS Economies**

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### **Abstract**

The study aims to measure barriers to trade in Banking and financial services[[1]](#footnote-1) in BRICS Economies including both trade and domestic restrictions. The analysis is focused on the computation of aggregate and modal service trade restrictiveness indices (STRIs) by sector, drawing on information gathered based on detailed questionnaires. The conclusions highlight that while significant regulatory reforms have taken place in this sector over the last decade, a broad range of restrictions still remain. The most significant change in these service sectors has been the lifting or softening of the constraints imposed on foreign equity participation. Interestingly, the economies in terms of regulatory reforms are more open to non-BRICS economies and not so much open to each other. However, reforms have had varying degrees of impact on market structure depending on the country and the sector. This paper also looked at the barriers placed in practice in BRICS countries. We have found that South Africa is most open followed by China, Brazil, Russia and India is most restricted nation among other BRICS nation based on barriers placed in practice.

### **Keywords**

*Trade in services, BRICS region, trade in financial services, restrictiveness, trade reform, service trade restrictive-ness index (STRI)*

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# I

# Introduction

The service sector has witnessed moderate to high rate of liberalization in several economies during the last decade. The prime factor behind such a phenomenon is the removal of several trade and investment barriers by both developed and the emerging economies (Goldsmith 1969). However, despite the WTO commitments, the liberalization of services trade has witnessed only moderate progress among the emerging and Lesser Developed Countries (LDCs). The BRICS economies – an acronym for Brazil, Russia, India, China and South Africa – are the leading emerging economies of the twenty-first century. All these countries are members of the World Trade Organization (WTO) and are committed to multilateral liberalization in services trade. They have committed to the rules and principles of the General Agreement on Trade in Services (GATS), where Article V of GATS permits the liberalizing of trade in services between or among the parties to an economic integration agreement.

Some authors like Hoekman and Mattoo (2008) have argued, that the key sector responsible for the overall growth of an economy is none other than the service sector. In BRICS economies too, the service sector has emerged as an important sector that has been driving economic growth and creating employment opportunities. Within the service sector, the trade in financial services such as banking and insurance has in particular received considerable amount of interest in the recent years. This observation is clearly consistent with the empirical evidences (Kono et al, 1997) which clearly shows that all the major economic activities are increasingly becoming dependent on access to financial services.

Available evidence suggests that the existing barriers in trade in financial services across nations are considered as key impediments to development. Rugiero (1998) show that there is positive impact of financial services liberalization on economic efficiency. Banik and Bhaumik, (2010) suggests that, a competitive and well-regulated financial sector leads to the efficient transformation of savings into an investment which is one of the essential features of growth to occur. Five BRICS economies are quite relevant here, as in 2015, the five economies represent over 3.6 billion people, or half of the world population; all five members are in the [top 25 of the world by population](https://en.wikipedia.org/wiki/List_of_countries_by_population), and four are in the top 10. The five nations have a combined nominal [GDP](https://en.wikipedia.org/wiki/Gross_domestic_product) of US$16.6 trillion, equivalent to approximately 22 per cent of the [gross world product](https://en.wikipedia.org/wiki/Gross_world_product), combined GDP (PPP) of around US$37 trillion and an estimated US$ 4 trillion in combined foreign reserves. Overall the BRICS are forecasted to expand 4.6 percent in 2016, from an estimated growth of 3.9 percent (GoI, 2016).

It seems imperative to mention here that barriers to trade in services are unlike tariffs. They are typically regulatory barriers, rather than explicit taxes. However, measuring restrictions on trade in services is more difficult than measuring restrictions on trade in goods. International trade in goods involves the exchange of a product between a producer and consumer, and restrictions on such trade usually take the form of a tariff. The effect of trade restrictions on the price of goods can be measured relatively easily by the amount of the tariff. In contrast, trade in services involves a less tangible exchange between the producer and the consumer, and restrictions usually take the form of government regulations (McGuire, 2008). Therefore, the main purpose of the study is aimed at assessing the barriers to trade in financial services in BRICS economies such as India, China, Brazil, Russia and South Africa.

The remainder of the paper is organized as follows. In section two we discuss the background of the study. The third section presents a detailed methodology and the data obtained. The fourth section analyzes the indices based on sources published by WTO. Conclusions and policy recommendations are drawn in the fifth section.

# II

# Background

*Concept of Trade in Services and Financial Services*

Financial services are defined as those services which are of financial nature offered by financials service supplier. Trade in financial services defined in terms of four modes of supply. Mode 1 deals with cross border supply of services, Mode 2 involves consumption abroad, including the movement of consumers to the territory of suppliers; e.g. availing the financial services such as withdrawing the money from a financial institution or purchase of financial services by consumers while travelling abroad. Mode 3 deals with commercial presence of supplier of financial services of one member in the jurisdiction of another member; e.g. when an insurance company or other financial institution establishes a branch or subsidiary in territory of a country and supplies its services. Mode 4 covers the supply of services through the presence of natural persons, e.g. independent financial consultants or bank managers, of one member.

Most of the commitments in financial services cover insurance, banking, and securities with the commitments being greatest in the banking segment. Mattoo, (1998) shows that over half of the countries considered in his study committed to direct insurance services, with country participation being highest in Eastern Europe followed by Asia, Latin America, and then Africa. Similarly, Mattoo (1999) has analyzed the results of financial services negotiations under the WTO – GATS. This study reveals that the negotiations have contributed to more stable and transparent policy regime in many developing and transition economies and that commitment in no way have compromised the country’s ability to pursue sound macroeconomic and regulatory policies. However, the study reveals that about less emphasis being paid to the introduction of competition by allowing foreign equity participation and protecting the position of incumbents. Francois (1995 has demonstrated how trade in financial services offered several benefits by expanding the economy’s opportunity set, and he argued that the efficiency and structure of financial sector is important for maintenance and augmentation of the capital stock, economic activity and economic growth.

The export of financial services in the BRICS countries has been growing in recent years and it now constitutes to a rising share of their total services exports. In the recent years, several banks in these countries have been gradually expanding their presence overseas mostly through branches, representative offices, and subsidiaries. The major activities carried out by these entities include, acceptance of deposits, lending, financial leasing, payment and money transmission services, money market instruments, trading in foreign exchange, derivatives, and other negotiable instruments and financial assets, money broking, asset management, advisory and auxiliary financial services, settlement and clearing services for financial instruments (Chanda, 2005).

Over the last few decades, the role of the financial services sector has grown in BRICS economies mainly due to the growth of the banking and non -banking segments. Internationalization of financial services has mainly been driven by the liberalization of this sector around the world, which includes domestic financial deregulation, capital account liberalization, and opening up to foreign competition. In addition, technological advances have also made possible a wider range of services and competitors in this industry.

*Barriers to Trade in Services and Financial Services*

Services restrictions are designed in the form of government regulations applied to the different modes of services transactions. For example regulations may affect the entry and operations of both domestic and foreign suppliers of services and in turn can increase the price and cost of the services involved. Restrictions limit the free flow of international trade. Therefore services barriers are more like to Non-tariff barriers than to tariff. The impact of these barriers will depend upon how the government regulation is designed and administered. Barriers in services trade can be impose by two ways: firstly barriers in entry and establishment of firms and their operations; secondly, regulation that are discriminatory, means treating Foreign Service suppliers less favorably than domestic service suppliers. Non-discriminatory restrictions treat domestic and Foreign Service suppliers equally. For example, a restriction that prohibits the entry of Foreign Service suppliers into a market is discriminatory. A restriction that prohibits the entry of all service suppliers is non- discriminatory when it is placed on a market where there is a monopoly supplier**.**

Key (2000) compared financial services sector with other sectors of the economy and found that financial sector having an elaborate and intensively used network. The negotiations on financial services liberalization in the GATS focused mainly on reducing or removing discriminatory barriers and other barriers that in economic terms have a similar effect. For example a host country might discriminate against foreign financial firms by refusing grant licenses for their branches or subsidiaries, imposing barriers on their aggregate market share or prohibiting them from engaging in other activities that are permissible for domestic counterpart.

**Barriers in Trade in Financial Services Based On Commitments[[2]](#footnote-2) Made by India to The GATS**

*Barriers in Trade in Financial Services in India*

The most important market restriction in India’s financial services sector is in the form of FDI ceiling and the type of foreign commercial presence/form of legal entity permitted, both of which limit the scope of entry by foreign players. Only minority participation is allowed and wholly owned subsidiaries are not permitted in the insurance business. However, recently in banking sector fully owned subsidiary has been increased to 100 percent. This is a good sign in opening the economy and a step towards integration to the world. Moreover, licenses can be denied to foreign bank branches if the share of total assets owned by foreign banks in the banking system exceeds 15 percent. In other segments as well, FDI restrictions and/or stipulations on the form of commercial presence, such as in venture capital, mutual funds, asset management, and equity markets constitute the main market entry barriers. Apart from such market access barriers, policies also create an uneven playing field between countries.

Burange, Chaddha and Kapoor (2009), have analyses services trade in India, its composition, revealed comparative advantage of various sectors of services and compares their growth in the pre and post liberalization period. Results suggest that services exports in the post-reform period have witnessed tremendous growth in all the three categories. But it is the Other Commercial Services (ocs) category which has led India’s success. However, India needs to spruce up exports in other categories as well, since computer services form a small portion of world exports. The development in the Indian service sector is not a result of a well-planned program or a policy. The change in the global scene and other economic and political factors are responsible for propelling the growth in India’s service sector. India definitely has the right elements for becoming the preferred service provider. This growth has helped India gain economic stability, confidence and respect at the international level. To minimise the effect of the slowdown of developed economies on the service sector, focused attention is required to develop other sectors of services.

*Measuring Services Trade Barriers: Literature Review*

The different methodologies for measuring barriers to services trade as proposed by Deardoff and Stern (1998) are based on three types of measurement: frequency measures, quantity-based measures and price-based measures. However, these methods need to be adapted to capture the special characteristics of services trade. Restrictions on trade in services are usually measured by using an index, that is, a system of scores and weights that converts qualitative information into quantitative measures based on the number and severity of restrictions. Table 1 portrays the various methodologies adopted by researchers in this context.

# *Data and Methodology*

It is useful to identify two explanatory factors that may explain inadequate literature in measuring the General Agreement on Trade in Services (GATS) mode-wise services trade barriers : one, the area is less understood, and two, paucity of comprehensive, compatible and good quality data. One attractive feature of the existing literature is that it enables us to adopt the most appropriate approach in order to measure trade in services. Indeed, three main approaches, namely, the stakeholder approach, the econometric approach and the expert judgement approach are considered as powerful tools for analytical purposes. The first approach deals with the key stakeholders who are the potential importers or exporters of services. This approach is very informative, but subjective in nature. The econometric approach, on the other hand, is to select a large number of potential barriers a priori and to test their impact (individually and aggregately) on trade in services in a cross-country framework. This may allow researchers to identify the impediments to trade in services. Interestingly, data if available on trade in services are often aggregated (for example, balance of payments (BoP) data) and reliable data on trade in individual services is just not available in the context of developing countries.

The third and final approach, the expert opinion approach, is often used to identify the relevant restrictions according to the judgement of sectoral experts. While inherently subjective, this method pioneered by the Australian Productivity Commission has been the most popular amongst trade in services experts. A few studies in this context are quite useful for effective policy formulation such as the Organisation for Economic Co-operation and Development (OECD) (Dihel and Shepherd, 2007) and non-OECD work (Marouani and Munro, 2009; McGuire and Schuele, 2001; World Bank, 2007).

**Table 1.** Measuring the Barriers to Services Trade: Review of Methodologies

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Author(s) | Year of Study | Region Considered | Sector | Methodology | Findings |
| Hoekman | 1995 | Select countries | 155 non-overlapping | Three sectoral coverage indicators (Hoekman | Barriers are addressed and quantified |
|  |  | that are made | service sectors | indices). The first is calculated as the number |  |
|  |  | commitments in |  | of commitments divided by the 620 maximum |  |
|  |  | its GATS Schedule |  | possible.The second, which Hoekman calls |  |
|  |  |  |  | ‘average’, is equal to the sectors/Modes listed |  |
|  |  |  |  | as a share of maximum possible, weighted by |  |
|  |  |  |  | the openness/ binding factors.The third is also |  |
|  |  |  |  | a frequency ratio. It is the share of ‘no |  |
|  |  |  |  | restriction’ commitments in either (*a*) a |  |
|  |  |  |  | member’s total commitments; or (*b*) relative |  |
|  |  |  |  | to the 155 possible factors. |  |
| Hardin and | 1997 | APEC countries | Barriers to FDI | Frequency indices to measure the size of | Most protected countries the Republic |
| Holmes Deardoff | 1998 | – | across industries– | barriers to FDI across industries. Frequency measures, Quantity based | of Korea, Indonesia,Thailand and China Special characteristics of service trade |
| and Stern |  |  |  | measures, and Price-based measures |  |
| Kalirajan | 2000 | 38 countries | Wholesale, retail, | Trade Restrictive indices | The restrictions were classified into |
| McGuire | 2001 | 38 countries | and sales Wholesale, retail, | Trade Restrictive indices | 12 categories, and weights/scores The restrictions were classified into |
| et al. McGuire and | 2001 | 38 countries | and sales Wholesale, retail, | Trade Restrictive indices | 12 categories, and weights/scores The restrictions were classified into |
| Schuele Nguyen- | 2000 | APEC countries | and salesLegal, accountancy, | Trade Restrictive indices; domestic and | 12 categories, and weights/scores Domestic and foreign indices were |
| Hong |  |  | architectural, and | foreign indices are calculated | Calculated |
|  |  |  | engineering services |  |  |
|  |  |  |  |  |  |

 *(Table 1 continued)*

*(Table 1 continued)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Author(s) | Year of Study | Region Considered | Sector | Methodology | Findings |
| Mattoo | 1998 | WTO 73 member | Financial services | Frequency measure to gauge the | More elaborate scoring system for |
| Colecchia | 2000 | countries Four countries | Accountancy | commitments by member countries Restrictive indices | commitments on commercial presence UK is the most open, USA is the |
|  |  | (UK, France, | services |  | most restrictive to the provision of |
| Mattoo et al. | 2006 | Australia, USA) 60 countries | Telecommunications | Econometric exercises | accountancy servicesCountries with fully open telecom |
|  |  | during 1990–1999 | and financial services |  | and financial services sectors grow |
|  |  |  |  |  | up to 1.5 percentage points faster |
| McGuire | 2008 | Countries in | Banking financial | Trade restrictive index | than other countriesThe price and cost effect measures can |
|  |  | Asia, Europe, | services, distribution, |  | show the benefits of removing certain |
|  |  | North America | Maritime transport, |  | types of restrictions-discriminatory |
|  |  | and South | telecommunications |  | and non-discriminatory |
|  |  | America |  |  |  |

**Source:** Based on authors’ estimates.

**III**

**Data and Methodology**

*Barriers Index for Financial Services in India: Based on Commitments*

Restrictions on trade in services are usually measured by using an index that is a system of scores and weights that converts qualitative information into quantitative measures based on the number of severity of restrictions. As regards data , we have collected from the WTO website in accordance with specific commitments made by countries to the GATS (WTO. As regards Indices and their weights , we have followed the methodology adopted by Mattoo, (1999 ) and Banik and Bhaumik( 2010).It is useful to mention here that Matto *ibid* assigned the score differently for the first two modes and commercial presence. In our study we have adopted uniform approach for all the modes.

Following are the detaile assigned score for each mode of supply and their criteria:

Unbound 0

Restrictions excluding certain sub sectors .25

Restrictions on foreign equity less than 50 .50

Minor restrictions .75

No restriction (None) 1

The above implies that if the figure to zero (0) implies highly restricted and if the figure is closed to one (1) is highly open.According to the GATS document, restrictions can be placed in the services through two ways

1. Market access
2. National treatment

**IV**

**Analyses**

Table 2 reveals the Market access national treatment restrictions on insurance services and banking services and other financial services (mode wise). We have assigned following score based on the above stated criteria

**Table 2: Mode wise restriction placed in financial services based on commitments made to GATS by India**

|  |  |  |
| --- | --- | --- |
| Sector | Mode wise restriction on market access | Mode wise restriction on national treatment |
| **Insurance services** | Mode 1 | Mode 2 | Mode 3 | Mode 4 | Mode 1 | Mode 2 | Mode 3 | Mode 4 |
| 1. Non-life, limited to insurance of freight | 0.25 | 0 | 0 | 0.25 | 0 | 0 | 0 | 0.25 |
| 2. Reinsurance and retrocession | 0.50 | 0.50 | 0 | 0.25 | 0 | 0 | 0 | .25 |
| 3. Insurance intermediation, limited to reinsurance | 0.50 | 0.50 | 0.75 | 0.25 | 0 | 0 | 0 | .25 |
| **Banking and other financial services** |  |  |  |  |  |  |  |  |
| 1. Acceptance of deposits and lending of all types | 0 | 0 | 0.75 | 0.25 | 0 | 0 |  |  |
| 2. Participation in issues of all kinds of securities | 0 | 0 | 0.50 | 0.25 | 0 | 0 | 0.25 | 0.25 |
| 3. Stock broking | 0 | 0 | 0.50 | 0.25 | 0 | 0 | 0.25 | 0.25 |
| 4.Financial consultancy services | 0 | 0 | 0.75 | 0.25 | 0 | 0 | 0.25 | 0.50 |
| 5.Factoring | 0 | 0 | 0.75 | 0.25 | 0 | 0 | 0.25 | 0.25 |
| 6.Financial leasing | 0 | 0 | 0.75 | 0.25 | 0 | 0 | 0.25 | 0.25 |
| 7.Venture capital | 0 | 0 | 0.75 | 0.25 | 0 | 0 | 0.25 | 0.25 |

*Assigning weights*

For assigning the weights we have adopted the method of pair wise comparison adopted by Banik & Bhaumik,( 2014). There are many barriers for any modal trade in services. We have identified seven different parameter under the financial services i.e. Non-life, limited to insurance of freight , Reinsurance and retrocession, insurance intermediation, acceptance of deposits and lending of all types, participation in issues of all kinds of securities, financial consultancy and venture capital. We have used pair-wise comparison for assigning weights. Pair wise comparisons are a kind of divide and conquer problem-solving method. It allows one to determine the relative order (ranking) of a group of items. This is often used a part of process of assigning weights. In this method we have compared the two parameters in terms of its importance in specific mode of supply have assign number zero(0) to the one who has less importance and one(1) who has more importance.

**Table 3: Barriers index for trade in financial services based on commitments made by India to GATS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Mode 1  | Mode 2  | Mode 3  | Mode 4  |
|  Non-life, limited to insurance of freight | 0.04 | 0.00 | 0.00  | 0.00 |
|  Reinsurance and retrocession | 0.12 | 0.05 | 0.00 | 0.01 |
|  Insurance intermediation, limited to reinsurance | 0.10 | 0.05 | 0.11 | 0.02 |
|  Acceptance of deposits and lending of all types | 0.00 | 0.00 | 0.21 | 0.06 |
|  Participation in issues of all kinds of securities | 0.00 | 0.00 | 0.05 | 0.04 |
| financial consultancy services | 0.00 | 0.00 | 0.11 | 0.06 |
| venture capital | 0.00 | 0.00 | 0.18 | 0.06 |
| **Aggregate**  | **0.25** | **0.10** | **0.65** | **0.25** |

 Source: calculated by Author

The Table 3 represents the modelwise service trade restrictive indices ( STRI) placed in financial( banking & insurance) services based on commitments made by India to the GATS(General Agreement on trade in services) in 1998. It is inferred from the above Table that trade in financial services is more open via mode 3(i.e. commercial presence), having attained the maximum index value of 0.65. And trade in financial services has highest restriction on mode 2(i.e consumption abroad), having attained the minimum index value of 0.10. While mode 1(cross border trade) and mode 4(movement of natural person got the equal index value of 0.25.

*Barriers based on practice*

Every country maintains precautionary restrictions in financial services, especially in developing countries. Interestingly, Borchert, Gootiiz and Mattoo (2012) finds that some of the fastest growing economies in Asia and the oil rich Gulf States have the most restrictive policies in services whereas some of the poorest countries are remarkably open. In the case of financial services they find that banking and insurance services relatively free of explicit restrictions. More than half of the countries in the sample have no significant restrictions on either cross border delivery or commercial presence. Shifting between the precautionary and protectionist restrictions can be held in financial services because country may hesitate to open certain modes of supply where the incremental benefits in efficiency seem to them smaller than the danger of increased volatility.

It is imperative to mention here that the GATS stipulates six measures which limit market access. These are restrictions on,

 • The number of service suppliers;

• The total number of service transactions or assets;

• The total number of service operations or the total quantity of service output;

 • The total number of natural persons that may be employed in a particular sector;

 • The types of legal entity through which aservice can be supplied; and

• Foreign equity participation in service suppliers

 *Number of Barriers Identified in Banking Services Placed in Practice in India.*

1. *Market entry (Mode1):*This is allowed subject to following condition.
* Under automatic route banks and financial institutions are not eligible to obtain loan. Domestic Corporation can obtain a loan not exceeding USD 500 million in any fiscal year.
* Under the approval route-an additional USD 250 million can be obtained with a 10 year maturity. Prepayment of USD 300 million is allowed without approval of RBI.
* Under the approval route, banks & financial institutions that exclusively deal with infrastructure, steal and textile projects may obtain a loan subject to approval.
1. Market entry (Mode 3):Barriers can be placed on both at market access and national treatment: 5 major barriers have been identified placed in practice as of 2011.
2. *Greenfield subsidiary:*
* Max ownership allowed- 100%
* A foreign bank can have only one type of presence at any one time-either a branch or a wholly owned subsidiary(WOS)
1. *Acquisition with domestic private entity:*
* Max ownership allowed- 74% subject to the condition that at least 26% of the paid up capital are held by residents at all time. The 74% cab includes foreign investment of all types.
1. *Licensing criteria:*
* is different for foreign and domestic applicant
* Foreign banks are required to bring an assigned capital of USD 25 million at the time of opening each branch. Foreign bank should submit their plan for branch expansion annually.
1. *Number of branches:*
* There is limit of 20 licenses for a foreign bank branch per year, which applies regardless of whether a foreign bank is establishing a new branch as its primary vehicle or setting up branches of WOS that is already operating in India
1. *Nationality requirement for board of directors:*
* At least 50% of directors should be Indian national resident in India
1. *Right to appeal in regulatory decision.*
* They have no right to appeal regulation decision

*Number of Barriers Identified in Insurance Services Placed in Practice in India*

* Insurance services mainly constitute of three types:
* Automobile insurance
* Life insurance
* Reinsurance
* Restriction placed on all above type of services is almost same and the parameters identified are as follows:
* *Market entry(Mode 1)*
* Allowed subject to permission from the central government. If the premium is paid out of remittances from India, it becomes mandatory for the policyholder to repatriate the maturity proceeds or any claim due on the policy to India within 7 days of receipt. All remittances should be done through normal banking channel.
* *Market entry(Mode 3):*
1. *Greenfield subsidiary:*
* Ownership allowed – 26%
1. *Acquisition with domestic private entity:*
* maximum ownership by a group of entities- 26 %
1. *Licensing criteria:*
* It is different for foreign and domestic applicant. Foreign applicant may be subject to reciprocal measures that are similar to those faced by Indian insurance companies in their home country*.*
1. *Nationality requirement for board of directors:* NO
2. *Right to appeal regulatory decision-* **NO**

Table 4 depicts the comparison of barriers in banking services in BRICS economies on Mode 3.

**Table 4: Comparison of barriers placed in banking services in BRICS countries on Mode 3**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Courtiers/ Measures**  | **Brazil**  | **Russia**  | **India**  | **China**  | **South Africa**  |
| Greenfield subsidiary(max ownership)  | 100  | 100  | 100  | 100  | 100  |
| Acquisition domestic private entities(max ownership)  | 100  | 100  | 74  | 100  | 100  |
| Difference in Licensing criteria for foreign and domestic applicant  | No  | NO  | Yes(USD 25 million)  | Yes(USD 10 billion)  | No  |
| Limit on no of branches  | No  | Yes  | Yes (20)  | Yes  | No  |
| Nationality requirement | No  | Yes  | Yes (50%)  | No  | Yes  |
| Right to appeal regulatory decision | Yes  | Yes  | No  | No  | Yes  |

It appears from the above table, that the entire BRICS economies are opened for the Greenfield subsidiaries. While allowing acquisition with domestics entities only India is lagging behind by allowing 74 per cent. If we compare overall, we see that Brazil is most open country among other BRICS nations followed by South Africa, Russia, China and India.

*STRI for BRICS economies*

The mode (except mode 3)wise STRIs are drawn with the help of chart diagrams to compare mode wise restrictions placed in practice by the BRICS economies. The criteria for this index are as follows.

* + Completely open (0)
	+ Virtually open but with minor restrictions (25)
	+ Major restrictions (50)
	+ Virtually closed with limited opportunities to enter and operate (75)

Figure 1 presents the STRIs placed on overall financial services. It appears that South Africa is most open nation among other BRICS countries followed by China, Brazil, Russia and India. As regards mode wise restriction in overall financial services, we see that there is no restriction at all in South Africa while it has highest restriction in China followed by India, Brazil and Russia. In considering Mode 2, South Africa is most open in comparison to other BRICS nations followed by China, Brazil, India and Russia.

**Figure 1: STRI for Financial Services in BRICS Economies for the Year 2011**

*Source: Authors’ estimates*

 **V**

**Conclusion and Future Direction**

This paper had two major objectives. One is to construct the mode wise STRI for financial services (banking and insurance services) based on commitments made by India to the GATS. Secondly, this paper has also compared the restrictions in banking services in BRICS nation based on the barriers placed in practice by the year 2014. Finally, this paper has also made an attempt to compare mode wise barriers placed in financial services based data published by World Bank services trade restrictive database. However this database has only restricted us to cover mode 1 and mode 2 .

In conclusion, on the basis of barriers index for financial services based on commitments made by India to GATS, it is found that India is more open in mode 3 (i.e. commercial presence )of financial services, having attained the maximum index value of 0.65. However, it is more close for mode 2 (i.e. consumption abroad), having attained the minimum index value of 010.

 By comparing the barriers placed in practice in banking services by the BRICS nation by the year 2011, we find that Brazil is the most open country among the other BRICS nations followed by South Africa, China, Russia and India. This is important to mention here is that when we compare mode wise restrictions placed in practice by the BRICS nations based on STRI published by world bank services trade restriction database for the year 2011, we find that South Africa is more open among the other BRICS nations .

The above findings suggest that there is a huge arbitrage opportunity for local professionals in a particular economy due to the demand and supply gap. To achieve greater economic welfare, the barriers have to be removed, defined by Modes 3 and 4. The organization of a BRICS based skills council and the standardization of skills may explored (Banik, 2003; Banik et al., 2006). Once they are identified, then investments may be encouraged and in the process movement of natural persons without barriers such as simplified visa formalities, favourable work permits and dual taxation, among others, may be resolved. This is a kind of win–win situation in the light of economic welfare gains in the BRICS economies

Finally, the sector considered for the study is the driver of growth in BRICS economies. Therefore, adequate reforms may not only remove the barriers to services trade but also generate higher services trade, through which the subject economies may achieve higher income and employment. This, if happens, will ultimately strengthen the overall services trade capacity of the economies, which is remarkably skewed at present.

**(**This paper has two major objectives: the first one is to construct STRI in financial services based on commitments made by India to the GATS. The second objective is to find out the barriers in financial services placed in practice in India and compare with other BRICS nations. In this paper we have only compared barriers in banking services placed in practice in BRICS economies)

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**Appendix 1: Commitments in financial services made by India to the GATS**

|  |  |  |
| --- | --- | --- |
| **Parameter**  | **Market access** | **National treatment** |
| **Banking services*** Foreign bank
 | **Mode 1**- unbound\***Mode 2**-unbound**Mode 3:** (i) Only through branch operations of a foreign bank licensed and supervised as a bank in its home country | **Mode 1**- unboundMode 2-unbound**Mode 3-** (i) foreign banks are required to constitute Local Advisory Boards (LAB) consisting inter alia of professionals and persons having expertise in areas such as small scale industry and exports. The chairman and the members of LAB must be resident Indian nationals except for the Chief Executive Officer who may be a foreign national. The appointment of chairman and the member of board requires RBI approval |
| * No. of licenses
 | (ii) A limit of twelve licenses per year both for new entrants and existing banks. |  |
| * ATMs
 | (iii) Banks are allowed to install ATMs at branches and at other places identified by them. Licenses issued for ATMs installed by foreign banks will not be included in the ceiling of 12 licenses. | (ii) public sector enterprises can invests surplus funds in term deposits only with scheduled commercial banks incorporated in India |
| * Investment limits
 | (iv) investment in other financial services companies by branches of foreign banks licensed to do banking business in India individually not to exceed 10 percent of owned funds or 30 percent of the invested company’s capital whichever is lower |  |
|  | (v) licenses for new foreign banks may be denied when the maximum share of assets in India both on and off balance sheet of foreign banking system exceeds 15 percent |  |
|  | Mode 4: unbound except as indicated in the horizontal section | **Mode 4:** unbound except as indicated in the horizontal section |
| **Insurance services*** Non-life, limited to insurance of freight
 | **Mode 1**-Unbound except in the case of insurance of freight**Mode 2**- Unbound**Mode 3**-unbound**Mode 4**- unbound except as indicated in the horizontal section | **Mode 1-**unbound**Mode 2**- Unbound**Mode 3**- Unbound**Mode 4**- Unbound except as indicated in the horizontal section |
| * Reinsurance and retrocession
 | **Mode 1 & mode 2**- reinsurance can be taken with foreign reinsurers to the extent of the residual uncovered risk after obligatory or statutory placements domestically with Indian insurance companies**Mode 3-** unbound**Mode 4**- unbound except as indicated in horizontal section  |  |
| * Insurance intermediation, limited to reinsurance
 | **Mode 1 & Mode 2-** Reinsurance of domestic risks can be placed with foreign reinsurers through overseas brokers, to the extent mentioned under reinsurance and retrocession | **Mode 1**- Unbound **Mode 2-** Unbound**Mode 3**- Unbound |
|  | **Mode 3**- (i) Overseas brokers are allowed to have resident representatives and representative officers who can procure reinsurance business from Indian insurance companies to mention above. They can also place reinsurance business from abroad with the insurance companies. |  |
|  | (ii) Except for the business indicated above, the resident representatives and representatives’ offices cannot undertake any other activity in India. |  |
|  | (iv) All expenses of the resident representatives and representatives’ offices have to be met by remittances from abroad and no income can be received in India from Indian residents.**Mode 4**- Unbound except as indicated in the horizontal section | **Mode 4**- Unbound except as indicated in the horizontal section. |

Note \* **Unbound** means a member wishes to maintain measures inconsistent with market access and national treatment. When there are no limitation on market access and national treatment the entry written as **none**

1. Financial services under the GATS consist of insurance services, banking and other financial services. Insurance services encompass direct insurance (life and non-life), reinsurance and retrocession, insurance intermediation and auxiliary insurance services (including consultancy, actuarial, risk assessment and claim settlement services). Banking and other financial services are defined under GATS to include acceptance of deposits, lending, financial leasing, payment and money transmission services, guarantees and commitments, trading (in money market instruments, foreign exchange, derivative products, exchange rate and interest rate instruments, transferable securities, and other negotiable instruments and financial assets), participation in issues of securities, money broking, asset management, settlement and clearing services, provision and transfer of financial information (including data processing), and advisory and intermediation Services, see Matto, 1999, pp.9-10. [↑](#footnote-ref-1)
2. Commitments in financial services made by India to the GATS have been provided in APPENDIX I. [↑](#footnote-ref-2)