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Policy makers' perspective on services liberalization:
Financial services in CLMV

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Multilateralism vs regionalism

Multilateralism:

- Greater welfare gains than regionalism: non-discriminatory market opening
- Greater economies of scale and knowledge spillovers
- Avoid trade diversion effect as service industries are characterized by high location-specific sunk costs

CLMV in GATS

- Cambodia and Vietnam accepted far-reaching in financial services in the course of their accessions
- Lao PDR would be expected to give equivalent level of commitments
- Myanmar as the founding member of the GATT has not made any commitment in financial services.

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Financial crisis

- Global financial crisis originated from the US in late 2008 then spread to Europe and rest of the world.
- Causes: defaults on securitized sub-prime mortgages as a real estate market bubble burst
- Unlike late 1990 crisis, the current episode is rooted in industrial countries' financial systems and is affecting both developed and developing countries.

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Weaknesses in existing approaches to financial sector regulation

- tension between rules-based and discretionary regulation,
- ability to regulate effectively over the business cycle.
- Policymakers need to address weaknesses in corporate governance and risk management systems within financial institutions

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Financial crisis: the impacts

- Older members of ASEAN (Indonesia, Malaysia, the Philippines and Thailand) seem to withstand the financial turbulence well, because of lessons of the 1997 crisis
- Little direct impacts to CLMV financial system due to their underdeveloped financial markets and limited links with global financial system
- Yet, impacts are channeled indirectly through slow exports, tourist revenue and liquidity problem in the banking sector.

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Financial integration, competition and regulation

- It requires policy coherence among three complementary activities: trade policy reform; domestic financial reform; and capital account opening.
- Trade policy reform “market opening” involves the open up of domestic markets to cross-border trade and allowing entry by foreign providers.
- domestic financial reform leads to deregulation of financial markets by withdrawing government intervention (eg, privatize state-owned banks, allow interest rates to be market-determined) and easing restrictions on services
- This inter-relationship sometimes raises fears about the impact of increased competition, loss of autonomy and increased volatility of capital flows.

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- Financial services liberalization to be pro-development -- to be supported by appropriately designed policies to achieve macroeconomic, prudential, regulatory, supervisory soundness.
- Regulations: objective, fair, transparent, non-discriminatory, proportionate, increasingly convergent and not act as barriers to trade.

Types of regulation

- Prudential: to ensure viability, integrity & stability;
- Technical: to ensure that liabilities can be met;
- Competition-oriented;
- Instrument of social policy.