Current Issues

in

Financial Integration

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Outline

- Concept of Financial Integration, Financial Liberalization, and Trade Liberalization in Financial Services Sector
  - Financial Integration
  - Financial Liberalization and Trade Liberalization in Financial Services
  - Financial Integration in ASEAN Perspective
- Issue on Financial Integration: Trade Negotiation in Financial Services Liberalization
  - Thailand's Current Status on FTAs in Financial Services
  - How to Liberalize Financial Services (Positive List Approach/GATS Approach)

Concept of Financial Integration, Financial Liberalization, and Trade Liberalization in Financial Services

Financial Integration as a part of Economic Integration

- 5 stages of economic integration:

(1) **<u>Preferential Trading Arrangements</u>** = **reduce tariff** for certain goods to preference countries

e.g. GSP (Generalized System of Preferences)

(2) **<u>Free Trade Area</u> = no barrier to trade (in goods, <u>services</u>, investment)** among members

e.g. AFTA (ASEAN Free Trade Area) EFTA (European Free Trade Area), NAFTA (North-American Free Trade Agreement), and other Free Trade Agreements (FTAs)

(3) **<u>Customs Union</u>** = Free trade area + **common external trade policies (e.g. tariff) to non-members**

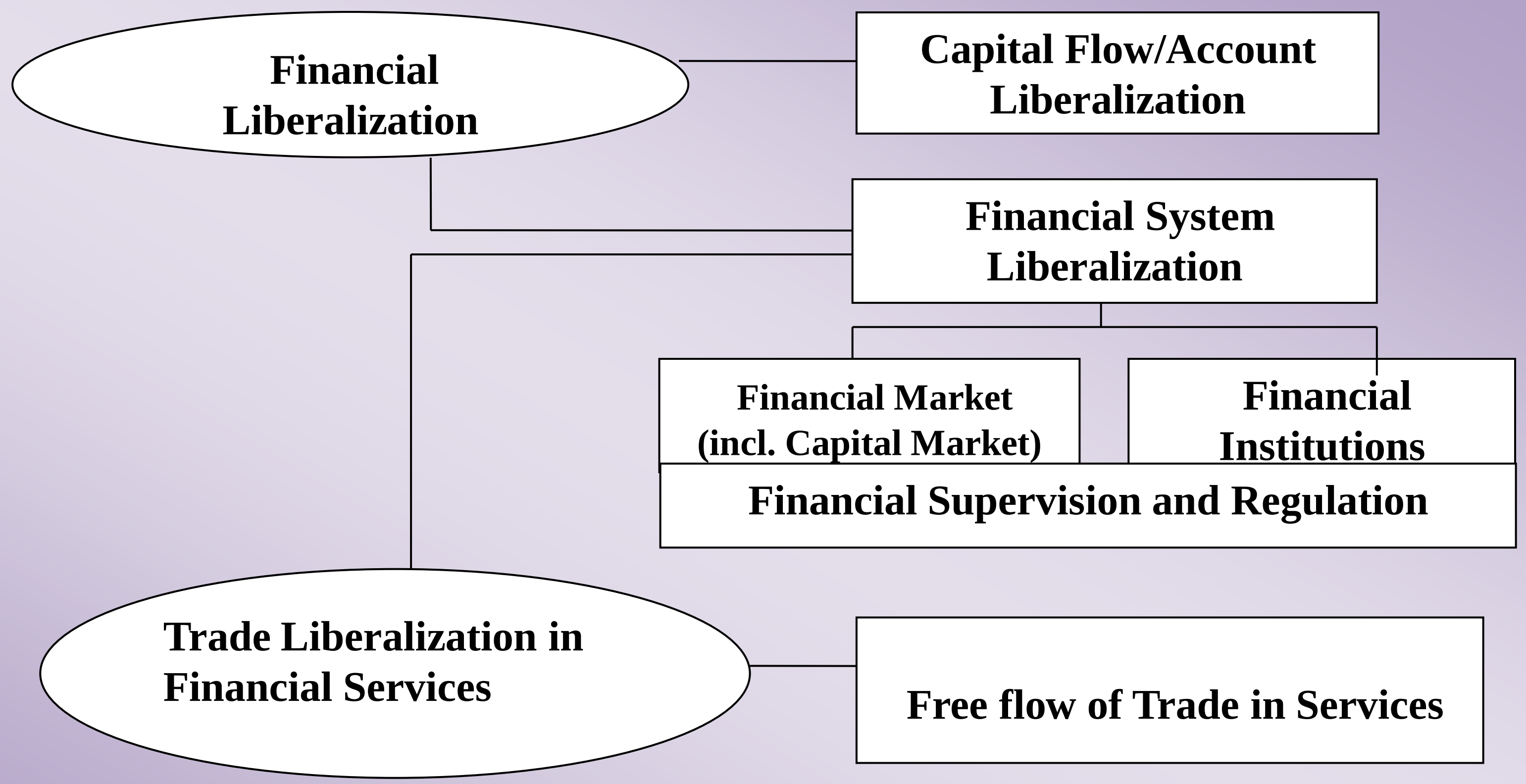
(4) **<u>Common Market</u>** = Customs union + **free movement of all factors of production (labor, capital)**

e.g. EC (European Community) AEC (ASEAN Economic Community

(5) **<u>Economic Union</u>** = common market + **<u>unify monetary</u>**, fiscal, and socioeconomic policies

e.g. EU (European Union)

Financial Liberalization and Trade Liberalization in Financial Services Sector



Financial Integration in ASEAN Perspectives: ASEAN Finance Ministers' Meeting (AFMM) on Roadmap for Menetary and Financial Integration of ASEAN (RIA-Fin)

1) **Roadmap on <u>Capital Market Development</u>**

2) **Roadmap on <u>Liberalization of Financial Services</u>**

3) **Roadmap on <u>Capital Account Liberalization</u>**

4) **Roadmap on <u>ASEAN Currency Cooperation</u>**

Roadmap for Monetary and Financial Integration (RIA-Fin)

- Endorsed by the AFMM in Manila in 2003, RIA-Fin consists of steps, timelines and indicators of activities in four areas: (a) Capital Market Development, (b) Liberalisation of Financial Services, (c) Capital Account Liberalisation and (d) ASEAN Currency Cooperation, with the ultimate goal of greater economic integration in ASEAN by 2020.
- **Capital Market Development:** Intended to build capacity and lay the long-term infrastructure for development of ASEAN capital markets.
- **Financial Services Liberalisation:** Intended to achieve free flow of financial services by 2020 and to support ASEAN Economic Community Blueprint (AEC Blueprint)
- **Capital Account Liberalisation:** Intended to achieve freer flow of capital by 2020 and to support AEC Blueprint.
- **ASEAN Currency Cooperation:** Intended to explore ways that could further facilitate intra-regional trade and investment and economic integration, including through some forms of currency arrangements. As preconditions for closer currency cooperation, efforts would be made toward maintaining appropriate macroeconomic policies and foster greater macroeconomic convergence.

Issue on Financial Integration: Trade Negotiation in Financial Services Liberalization

Current Status of Thailand FTAs (including trade in financial services) (as of March 2015)

Multilateral

WTO (GATS: General Agreement on Trade in Services)

Regional

- **Intra ASEAN→ AEC**
- **ASEAN-CH (ACFTA)**
- **ASEAN-KOR (AKFTA)**
- **ASEAN–ANZ (AANZFTA)**
- **ASEAN – India (AIFTA)**
- **RCEP (or ASEAN+6)**
- **ASEAN-Hong Kong**

Bilateral

- **TH – Japan (JTEPA)**
- **TH – Australia (TAFTA)**
- **TH – New Zealand (TNZCEP)**
- **TH – Chile**
- **TH – Peru *(waiting for internal process)***
- **TH – India (ITFTA)***
- **TH – USA****
- **TH – EFTA****

*On going
**Pending

How to Liberalize Trade in Financial Services (Positive List Approach/GATS Approach)

1) Sub-sectors coverage
2) Modes of Supply of Services
3) Market Access Limitation
4) National Treatment Limitation

1) 12 tradable services

(1) Business services

(2) Communication services

(3) Construction and related engineering services

(4) Distribution services

(5) Educational services

(6)Environmental services

(7) <u>Financial services</u>

(8) Health related and social services

(9) Tourism and travel related services

(10) Recreational, cultural and sporting services

(11) Transport services

(12) Other services [Spa, Massage]

16 Financial Services Sub-sectors

- ***Insurance and insurance-related services***

(1) Direct Insurance (Life, Non-Life)

(2) Reinsurance and Retrocession

(3) Insurance Intermediation (such as Brokerage and Agency)

(4) Services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services.

- ***Banking and other financial services* (excluding insurance)**

(5) Acceptance of deposits and other repayable funds from the public

(6) Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction

(7) Financial leasing

(8) All payment and money transmission services, including credit, charge and debit cards, travellers cheques and bankers drafts

(9) Guarantees and commitments

16 Financial Services Sub-sectors

(10) Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following: (A) money market instruments (including cheques, bills, certificates of deposits); (B) foreign exchange; (C) derivative products including, but not limited to, futures and options; (D) exchange rate and interest rate instruments, including products such as swaps, forward rate agreements; (E) transferable securities; (F) other negotiable instruments and financial assets, including bullion.

(11) Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues

(12) Money broking

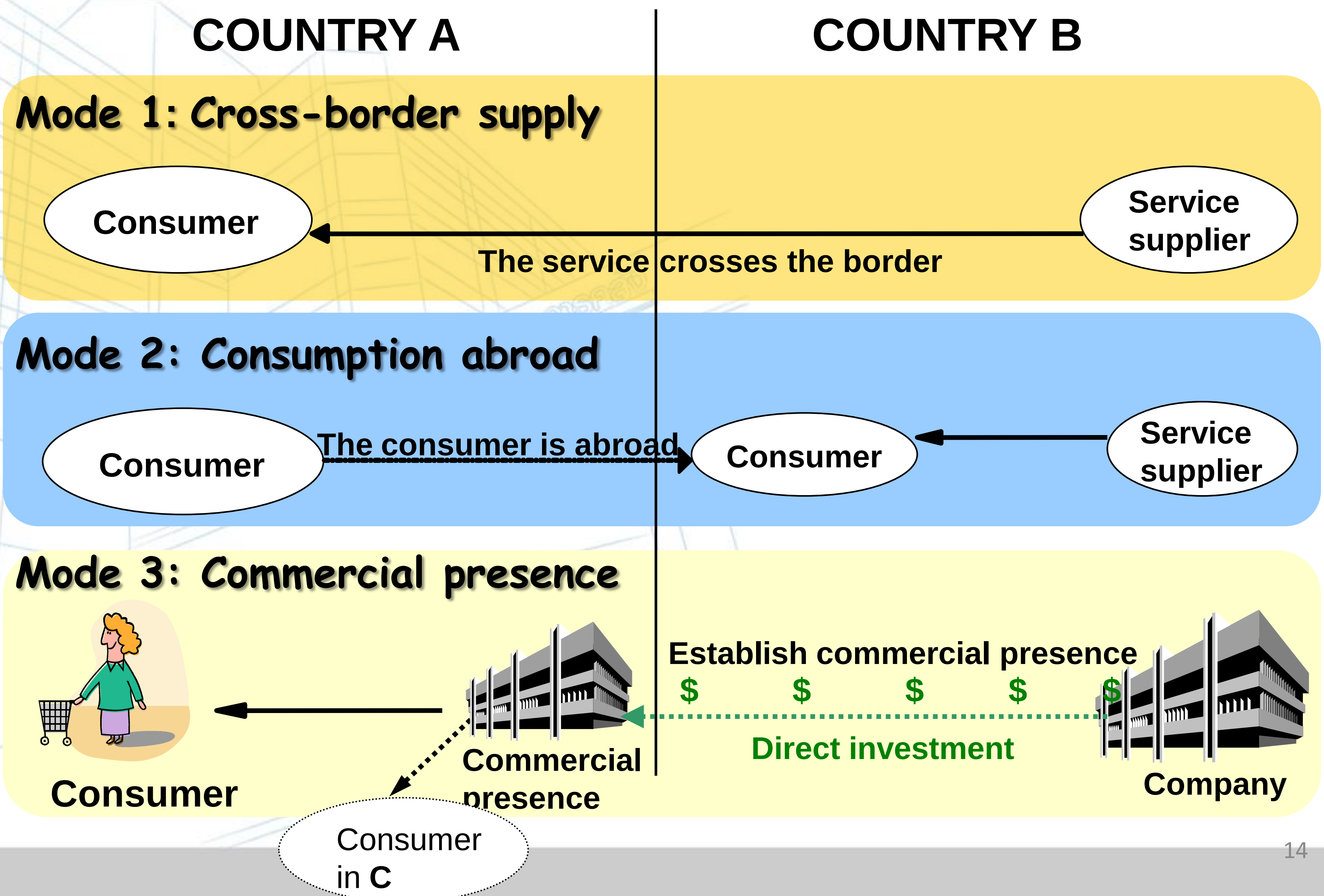
(13) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services

(14) Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments

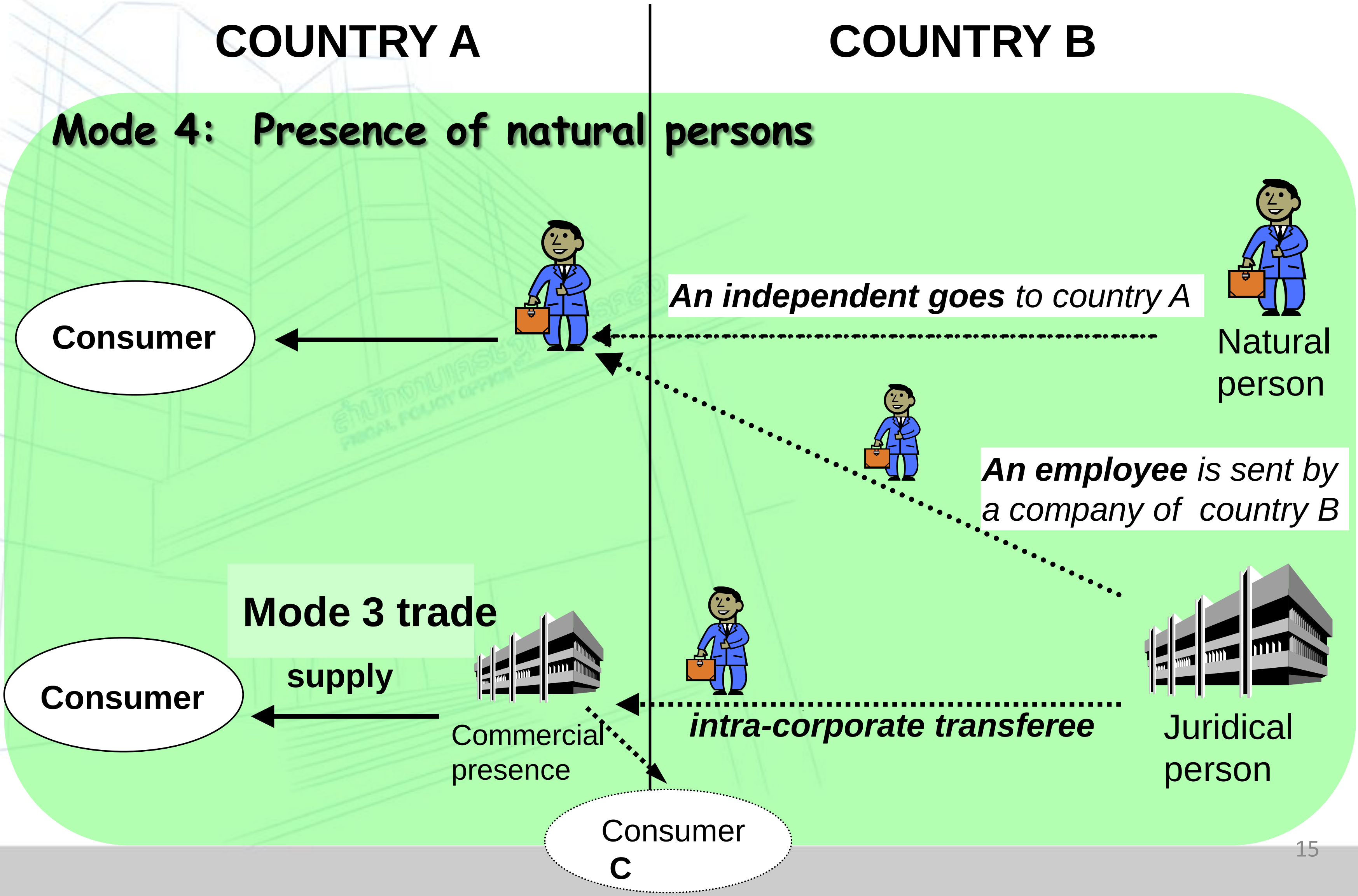
(15) Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services

(16) Advisory, intermediation and other auxiliary financial services on all the activities listed in subparagraphs (5) through (15) , including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy

2) 4 Modes of Supply of Services



4 Modes of Supply of Services



3) Market Access Limitation

- In principle, do not restrict 6 types of market access (Article 16 GATS)

  1) limitations on **the number of service suppliers** whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test

  2) limitations on **the total value of service transactions or assets** in the form of numerical quotas or the requirement of an economic needs test

  3) limitations on **the total number of service operations or on the total quantity of service output**

  4) limitations on **the total number of natural persons** that may be employed in a particular service sector

  5) measures which **restrict or require specific types of legal entity or joint venture** through which a service supplier may supply a service

  6) limitations on **the participation of foreign capital** in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

- However, we can limit market access as specified in the **Schedule of Specific Commitment (SOC)**

4) National Treatment Limitation

- In principle, each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment **no less favourable than that it accords to its own like services and service suppliers** (Article XVII GATS)
- However, like market access, we can limit the principle of national treatment as specified in the **Schedule of Specific Commitment (SOC)**

example

Protocol to Implement the Fifth Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services

MYANMAR
SCHEDULE OF SPECIFIC COMMITMENTS (SOC)

MYANMAR
SCHEDULE OF HORIZONTAL COMMITMENTS UNDER AFAS

Modes of Supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitation on Market Access	Limitation on National Treatment	Additional Commitments
I. HORIZONTAL COMMITMENTS[1]			
All Sectors; For a service supplier of another Party who is natural person of that Party but is not national of that Party in mode 1, 2, 3, 4: unbound			
	3) (a) Commercial presence of foreign service suppliers and/or providers are permitted in accordance with Myanmar Companies Act 1914 , Partnership Act 1932, Special Company Act (1950) , Union of Myanmar Foreign Investment Law (1988), Union of Myanmar Citizens' Investment Law (1994). Under these laws: (i) 100% Foreign investment , or (ii) Joint Venture with a Myanmar citizen or enterprise with a minimum of 35% equity is permitted. Form of incorporation can be sole proprietorship, partnership or limited company.	3) (a) The Income Tax Law 1974, prescribed that non-resident (foreigner) will be subject to a withholding tax is as follows; **Class of Income** — **Non resident foreigners** ▪ Interest — 15% ▪ Royalties for use of licenses, trademarks, patent rights etc. — 20% ▪ Payments to contractors made by Government Organizations, Municipalities and Co-operative Societies — 3.5 % ▪ Payment for work done to foreign contractors — 3%	

[1] The horizontal commitments of Myanmar shall apply only to the new subsector(s) added to her schedule of commitments as an outcome of the negotiations for further liberalization of trade in services under the AFAS, particularly, in the case of financial services, on financial sub-sectors included to her schedule of commitments as an outcome of the fifth round negotiations completed in 31 December 2010 and marked as "(*NS)" in her sector specific commitments. The horizontal commitments made by Myanmar will not affect her commitments for the sectors/subsectors that were made under the General Agreement on Trade in Services under the Uruguay Round and commitments made as an outcome of the earlier rounds of negotiations for financial services liberalization under the AFAS

MYANMAR
SCHEDULE OF SPECIFIC COMMITMENTS FOR FINANCIAL SERVICES UNDER AFAS

Modes of Supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
A. All insurance and insurance related services			
Average and loss adjustment services (CPC 81403)	1) None 2) None 3) None 4) Only senior managerial personnel, specialists and technical assistants with the approval of the Insurance Supervisory Board	1) None 2) None 3) None 4) None	

MYANMAR
SCHEDULE OF SPECIFIC COMMITMENTS FOR FINANCIAL SERVICES UNDER AFAS

Modes of Supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
Actuarial Services	1) None 2) Unbound 3) None 4) None	1) According to the existing laws & regulations and subject to the permission of Myanmar Insurance 2) Unbound 3) According to the existing laws & regulations and subject to the permission of Myanmar Insurance 4) According to the existing laws & regulations and subject to the permission of Myanmar Insurance	
B. Banking and Other Financial Services			
Financial Services Sector (CPC 811) Banking Sector Foreign bank's representative offices services	1) Unbound [1/] 2) Unbound 3) Foreign banks are allowed to open their representative offices in Myanmar [2/]	1) Unbound 2) Unbound 3) Unbound	

MYANMAR
SCHEDULE OF SPECIFIC COMMITMENTS FOR FINANCIAL SERVICES UNDER AFAS

Modes of Supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
	4) Unbound	4) Unbound	
Guarantee and Commitments (CPC 81199) (*NS)	1) Unbound 2) None 3) Approval from the Central Bank of Myanmar is required and subject to existing domestic laws. According to the Union of Myanmar Foreign Investment Law (1988) and Myanmar Companies Act (1914), commercial presence of foreign service suppliers and/or providers is permitted with the recommendation of concerned Ministry. According to Myanmar Companies Act Section 5 and Section 17(A), Representative Office/Branch of foreign bank can be established obtaining prior sanction of the Central Bank. 4) Presence of natural persons is allowed temporarily if there is a commercial presence, and subject to the approval from the Central Bank of	1) Unbound 2) None 3) Approval from the Central Bank of Myanmar is required and subject to existing domestic laws. According to the Union of Myanmar Foreign Investment Law (1988) and Myanmar Companies Act (1914) commercial presence of foreign service suppliers and/or providers is permitted with the recommendation of concerned Ministry. According to Myanmar Companies Act Section 5 and Section 17(A), Representative Office/ Branch of foreign bank can be established obtaining prior sanction of the Central Bank. 4) Presence of natural persons is allowed temporarily if there is a commercial presence, and subject to the approval from the Central Bank of	

MYANMAR
SCHEDULE OF SPECIFIC COMMITMENTS FOR FINANCIAL SERVICES UNDER AFAS

Modes of Supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector or Subsector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
	Myanmar according to existing domestic laws.	Myanmar according to existing domestic laws.	
Provision of financial information, and financial data processing and related software by suppliers of other financial services (CPC 8131)	1) Unbound 2) None 3) Approval from the Central Bank of Myanmar is required and subject to existing domestic laws 4) Presence of natural person is allowed temporarily if there is a commercial presence, and subject to the approval from the Central Bank of Myanmar according to existing domestic laws	1) Unbound 2) None 3) Approval from the Central Bank of Myanmar is required and subject to existing domestic laws 4) Presence of natural person is allowed temporarily if there is a commercial presence, and subject to the approval from the Central Bank of Myanmar according to existing domestic laws	