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WORLD TRADE ORGANIZATION (WTO) AND THE CARIBBEAN FINANCIAL SERVICE SECTOR

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INTRODUCTION

International trade in both goods and services expanded rapidly in recent years, especially as possibilities for delivering many services from producers to end users increased with advances in telecommunications and computer technology. There are still services however for which the establishment of affiliates outside the home country or the temporary relocation of the services provider remain the dominant modes of delivery.

The General Agreement on Trade in Services (GATS) require receiving or host governments to recognize and permit each of the four modes of delivery ie cross border movement of service product, movement of consumers to the country of provision of the service, the establishment of a commercial presence in the country where the service is to be provided and temporary movement of natural persons to another country in order to provide the services there.

In this more liberalized environment the importance of linkages between financial services and other economic activities within and across economies has become very clear. Also clear is the increasing capacity of international (transborder) financial services providers to impact on the development of the financial services sector and development generally in host countries.

If the liberalization of the financial sector as envisaged under the GATS is implemented by countries of the region it is likely that domestic financial institutions will face a number of challenges in local markets. The impact will however not be the same for all participants in the financial services sector, and some sub sectors will be impacted positively while others negatively.

Opening up the domestic financial markets to services provided directly or indirectly [1] by foreign competitors could also have important

1 indirectly through joint ventures, licensing , management contracts and other agency arrangements.

positive benefits for exporters of goods and other services.

The divergence between a dynamic and rapidly expanding banking and financial industry in the advanced industrialized countries and a relatively underdeveloped and inefficient banking and financial industry in the developing countries could provide major competitive advantages for exporters from the latter group of countries however.

Financial institutions perform important functions in the economic development of both developed and developing countries; notwithstanding the fact that there are significant differences between the financial services sector in the developed and the developing countries. Those differences can have implications for the overall impact of the WTO and its provisions relating to trade in services both in the long run and in the short run. Further some developed countries such as the United States of America are able to employ a differentiated strategy - keeping some sub sectors such as domestic banking relatively closed.

The liberalization and globalization of the financial services sector have also been generating certain difficulties which individual countries , even the developed ones are finding difficult to tackle .

This paper looks at the main issues in the General Agreement on Trade in Services (GATS) and the implications for the financial services sector in the region . Particular attention is given to those issues which are considered to be important to the countries of the region, taking into account their present commitment to the Regional integration process and the movement towards a Single Market and Economy . Issues such as:

- control over international capital movements,
- market access ,
- free movement of capital across the region and
- national treatment of foreign agents in the sector.

A number of these issues which are magnified for developing countries relate to ;

- Prudential regulation
- Money laundering and
- speculative capital movement.

These will pose challenges for the weak regulatory and supervisory framework in CARICOM countries and the narrow capital bases of most financial institutions in the region.

In the paper emphasis will be on the provisions relating to the extension of most favoured nation principles, restrictive business practices and prudential regulation of banks and other financial institutions.

The Uruguay Round of trade negotiations in effect forces countries to be aware of the competitive challenges facing their economies. Whether or not a specific agreement has been agreed to in the area of services and in particular trade in financial services it is likely that they will be affected either directly or indirectly by the liberalization agreed to in the GATS.

Section one of the paper is an introduction to the paper and sets the background for the study. Section two looks briefly at the development of financial system in the Caribbean and the services which they offer. Section three is a brief overview of the GATS and the provisions relating to trade in financial services while section four contains an assessment of the impact of liberalization on the economies of the region. The section also contains the observations, conclusions and recommendations.

SECTION TWO

THE FINANCIAL SECTOR IN THE CARIBBEAN

The financial sector in the Caribbean is relatively underdeveloped and segmented with the most important institutions being:

CENTRAL BANKS

These exist in all countries with one central bank serving the countries of the Eastern Caribbean

The Central Bank is expected to be a public sector autonomous institution whose principal duties are those of managing the country's international reserve, money supply, bank credit and price levels and acting as the financial agent of the government. The above is true for the Central Banks of Barbados, Belize, Guyana, Jamaica , Suriname and Trinidad and Tobago and for the Eastern Caribbean Central Bank (ECCB), which covers six countries of the Organization of Eastern Caribbean States (OECS) For the latter , the role is somewhat greater.

The Central Bank operates as part of the financial system mainly to regulate the economy through the use of monetary policy. It seeks to maintain stable prices, and in conjunction with fiscal policy assist in macroeconomic management.

The role of the central bank in a liberalized financial environment is an important issue. The area of prudential supervision will become even more important in a liberalized setting. The Central Banks in such an environment would be expected to be concerned about the capacity of the institutions to protect depositors resources. Concerns about the ability of particular financial institutions to survive in a competitive setting could however lead to questions of restraint on other potential entrants to the market.

COMMERCIAL BANKS

In the Caribbean there are a number of commercial banks. These include *private commercial banks, government-owned banks, semi* private banks and branches of foreign commercial banks.

The 1990s saw radical changes in the operations of commercial banks throughout the region, the most radical being the willingness of national banks to operate cross border. In cross border operations local banks are treated in the same way as branch banks of foreign owned commercial banks.

Table 1

Local Banks that have exported their services include:

Country or Region	Banks	Operate in	Nature of the operation
Jamaica	National Commercial Bank Ja. Ltd	Cayman Islands	commercial banking activities
	Eagle Commercial Bank	Cayman Islands,	offshore banking
		USA (Miami)	representative office operates with restrictions
	Citizens Bank Ltd		commercial banking
		Guyana, USA (Miami)	full service banking with restriction on accepting deposit from USA corporations
Trinidad and Tobago	Republic Bank Ltd	Cayman Islands	private offshore banking activity[3]
		Barbados	commercial banking
		Grenada	commercial banking
		Venezuela[2]	
	Royal Bank of Trinidad and Tobago	St Marteen, St. Lucia, Antigua and Barbuda, St Vincent and the Grenadines, St Kitts / Nevis	
The Organization of Eastern Caribbean states	Antigua Commercial Bank, National commercial bank of Dominica, St Kitts Nevis Anguilla National bank	Grenada	commercial banking and credit card facility

Competition in the banking industry has been growing both among local institutions and in relation to foreign banks with their network of branches throughout the region. The local banks have been extending their range of financial services in order to meet the growing need of their customers.

Liberalization of the financial markets in the region has accelerated

[2] This a joint venture arrangement owned by FINCOR in partnership with Grupo Acedo-Mendoza a Venezuelan group. Activities are in the area of international trade and include: trade financing, sourcing of products and markets for clients and acting as agents on behalf of importers and exporters.

[3] Republic Bank Trinidad and Tobago (Cayman)ltd offers a wide range of private off shore banking services including Certificate of deposits, money market accounts, stand by letters of credit , chequing accounts documentary bills discounted and loan facilities. The subsidiary also has a trust division which offers the following services: investment trusts, investment management services, settlement trusts.

branches throughout the region. The local banks have been extending their range of financial services in order to meet the growing need of their customers.

Liberalization of the financial markets in the region has accelerated the competitiveness of the local banks which in order to remain competitive have been increasingly applying modern technology to the delivery of their product. By opening up the sector to competition from other commercial banks in the Region, the banks have increased the number of products and have been increasingly modernizing their services in order to remain competitive. Liberalization in the financial sector in the region has been influenced by the general environment of liberalization and the multilateral financial institutions.

Performance in the financial sector has given some support to the theoretical argument for liberalization of financial markets in that it leads to:-

- more developed financial market
- greater personnel skills
- inflow of foreign investment in the sector
- transfer of technology
- cost reduction for the provision of services
- better services to existing customers
- easy access to information

It has also supported some of the expected disadvantages such as:

- dependence on foreign service suppliers
- development of two distinct banking sectors
- increasing difficulty of prudential supervision.

The disadvantage of small banks in the region in the openly competitive environment relate to other areas such as the absence of a network of branches in third countries, the high effective cost of cross border operations and the absence of an infrastructure to permit the easy and cheap movement of capital and other transfers are beginning to emerge.

There are initiatives by the local commercial banks and even central banks on how to overcome some of these constraints but it is believed that although the local banks have grown in size they are not yet in a position to effectively compete in a fully liberalized market.

Banks in the region, because they lack key links, have traditionally relied on their network of correspondent banks mainly in the developed countries for a number of important services. Such services include the easy access to modern technology and product improvements, development and delivery. These institutions have also been followers in a number of areas crucial for increased competitiveness.

The competitive disadvantage of many of the commercial banks in the region has also been magnified by their very narrow capital bases when compared to banks in other regions of the world including Latin America, and North America.

Table 2
Assets and Capital of Indigenous Commercial Banks in CARICOM 1995

Institution	Total asset US$'mn[4]	Capital US$mn[5]
Caribbean Commercial Bank Anguilla ltd	$35.79	$3.81
Antigua Barbuda Investment Bank	$35.23	$2.60
Barbados National Bank	$312.68	$6.25
Caribbean Commercial Bank	$74.12	$13.54
The Mutual Bank of the Caribbean inc	$72.05	$11.40
Belize Bank ltd	$147.81	$10.47
Cayman National Bank	$352.94	$28.32
N.C.B. Dominica	$88.23	$3.70
Grenada Cooperative Bank	$30.04	$0.56
Grenada Bank of Commerce	$62.62	$6.56
NCB of Grenada	$81.17	$6.14
Guyana Bank for Trade and Industry	$104.14	$5.71
National Bank for Industry and Commerce	$160.35	$0.43
Demerara Bank Ltd	$16.85	$3.15
Guyana National Cooperative Bank	$82.51	$0.11
Citizens Bank ltd	$377.65	$8.57
National Commercial Bank Ja Ltd	$991.80	$46.47
Mutual Security Bank	$450.09	$2.16
Workers Savings and Loan Bank	$237.68	$2.37

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Table 2 (cont'd)
Assets and Capital of Indigenous Commercial Banks in CARICOM 1995

Institution	Total asset US$'mn[6]	Capital US$mn[7]
Bank of Montserrat	$16.57	$1.50
Bank of Nevis	$11.89	$0.71
Nevis Cooperative Bank	$9.63	$0.11
St Kits Nevis Anguilla National Bank	$135.77	$1.67
NCB St Lucia	$121.35	$1.85
St Lucia Cooperative Bank	$51.23	$4.79
Caribbean Banking Corporation	$97.52	$4.02
NCB St Vincent	$101.17	$7.16
Republic Bank ltd	$1,251.42	$80.72
First Citizens Bank	$586.40	$61.82
Royal Bank	$1,244.36	$82.31

A look at Table 2 showed that both the capital and assets of the commercial banks are small when compared to that of other banks and financial institutions in other parts of the world.

Banks and other financial institutions have been at the forefront in the application of new technologies to the delivery of their services. As a result the world's major financial institutions have undergone profound transformation over the past few years. Resulting from those changes and developments, banks have been able to deliver services to customers in distant locations and away from the location of the production facility. This could shift the nature of the competition in the commercial banking sector from direct competition to competition from other modes for the provision of the service.

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7.

THE STOCK MARKET/EXCHANGE

The stock market, as part of the financial system is very important to the current discussions concerning liberalized trade in financial services.

Many factors determine the volume of securities trading and in general, the role of the stock exchange in the overall financial structure of a country. These factors are directly or indirectly related to the economic, financial and social considerations and the level of development of the individual countries. Therefore, when examining the operational efficiency of the Stock Exchange (Barbados, Jamaica and Trinidad and Tobago)in a liberalized financial market it will be necessary to bear in mind the socio-economic framework within which they function.

Presently the number of shares listed on the three stock exchanges in the region is very small (See table 3).

Table 3
Number of listed companies 1991-1995

stock exchange	1991	1992	1993	1994	1995
Barbados	14	15	16	19	18
Jamaica	44	48	50	50	51
Trinidad and Tobago	29	28	26	27	27
total	87	91	92	96	96

Source: complied from stock exchange reports

Coupled with that the capitalization of the markets are also considered small by international standards. Stock brokerage operations are also small and relatively unsophisticated. One challenge in a liberalized situation is whether or not these exchanges can operate with the level of efficiency and supervision demanded to deal with rapid inflows of portfolio investments or the other types of investments that are envisaged under the WTO arrangements governing trade in financial services?

Table 4
Market capitalization end of period 1991-1995
US$'bn

Market	1991	1992	1993	1994	1995
Barbados	0	0	0	0	0
Jamaica	1	3	1	2	1
Trinidad and Tobago	0	0	0	0	1
Total	2	4	2	3	3

Source: compiled from information supplied by the individual stock exchanges

MERCHANT BANKS/INVESTMENT BANKS

In the Caribbean, Jamaica has a relatively well developed Merchant Banking sector and one is emerging in Trinidad and Tobago. These institutions provide a number of functions of which the more important are:

(i) mobilization of long-term and short-term capital for investment projects;

(ii) underwriting of new issues;

(iii) trading in the secondary market;

(iv) investment and portfolio management.

Trust Companies

The operations of trust companies are ancillary to those of the commercial banks to which most are closely related. This is more so in the larger territories of the Caribbean where they undertake the medium- and long-term borrowing and lending of the commercial banks.

Trust companies cater to larger savers and attract medium-term finance from other financial institutions.
They also provide long-term financing to the productive sectors. There are a number of foreign financial institutions operating in the offshore banking sector that do provide this kind of service to the domestic consumer therefore there is already some amount of competition in this area.

Mortgage Banks

This term is used broadly to cover all institutions that exist for the sole purpose of granting mortgages for the purchase of real estate.

Where the mortgage bank exists as in the case of Jamaica, they provide mortgage financing to recognized institutions such as building societies and will also service the primary mortgage market as well as the secondary mortgage market. Other mortgage institutions provide finance directly for that purpose. In the OECS the Home Mortgage Bank has just recently started operations.

Insurance Companies

Traditionally insurance in the Caribbean was dominated by firms from the developed countries. However there are a number of local insurance companies throughout the region and some of them now have operations in other territories.

The insurance industry plays an important role in the financial system of the Region. This is even moreso in the larger territories where the industry is relatively more advanced and well developed. The industry is important in the mobilization of household savings and transfers a large part of those savings into various long-term investment projects. Insurance companies are an important source of medium- and long-term domestic finance and as such play a crucial role in the local financial system. There is a view that the region, especially the small OECS Subregion is currently over supplied with insurance providers. Many of the operations are however small, with weak capital bases. One issue is whether such operations can survive global competition , especially from large companies which could provide the service from external locations.

SECTION THREE
THE GENERAL AGREEMENTS ON TRADE IN SERVICES
THE MULTILATERAL FRAMEWORK

National treatment and market access are the key policy elements of the WTO and GATS .

The General Agreement on trade in Services establish a multilateral framework of rules for trade in services similar to that which applies to trade in goods. However the rules have been modified to take into account the differences between goods and services .

Under the agreement, trade in services is defined to include services supplied to a country through:

- cross border supply by non resident suppliers
- consumption abroad by residents
- commercial presence of foreign service suppliers
- the presence of natural persons for the supply of services by foreign service suppliers.

Within the GATS there are a number of articles and principles, some of which are quite similar to those relating to trade in goods. One such principle is the Most-favoured nation clause which prohibits discrimination between and among parties to the agreement. This general principle is considered the corner stone of the WTO and the GATS. Under this clause all contracting parties who are receiving states are expected to extend equal treatment to service and services providers of other contracting parties.

A second principle is the requirement for transparency with respect to rules, regulations and procedures which affect trade in services. Under the transparency requirement contracting parties are expected to make public all relevant domestic laws, regulations, administrative guidelines, or other measures of general applications and international treaties that will affect their obligations under the GATS.

The structure of the GATS is such that a distinction is made between general and specific obligations. The general obligations apply to all measures related to trade in services i.e. unconditional most favoured nation treatment. Here each contracting party accords all foreign suppliers treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its schedule. The second requires national treatment for foreign suppliers ie treatment no less favourable that accorded to like domestic services and services suppliers. However in the trade in financial services national treatment is not considered a general principle but a specific one related to what the country has actually negotiated. Each GATS member in its national schedule negotiates those services which will be subject to market access and national treatment disciplines and what measures will be kept in place for that sector. At least annually members must inform the council for trade in services of the introduction of new or changes to existing laws regulations or administrative guidelines which significantly affect trade in services covered by their specific commitments.

WHY SPECIAL NEGOTIATIONS ON FINANCIAL SERVICES

Negotiations on trade in financial services were completed in July 1995.The WTO Focus reporting in August of that year said;

> In welcoming the agreement Director General of the World Trade Organization stressed that seldom has the cause of multilateralism so evidently succeeded." "The commitments that have been made are substantial. They will bring new opportunities and greater security and predictability for investors in banking, insurance and other activities in the financial service sector. They will help promote merchandise as well as services trade where access to and the functioning of financial services is critical and they will help facilitate new financial flows to developing countries and transition economies" [8]

[8]WTO Focus newsletter no 5 August - September 1995

At the end of the Uruguay Round sixty eight countries who are members of the WTO had commitments on financial services in their schedules of initial commitments. Of this group, twenty nine countries including the European Union but excluding the USA made improved commitments in the area of financial services. However, there was a view among some industrial countries that the commitments in the schedules of at least some members were not sufficiently forthcoming to warrant a final statement. In particular the United States of America announced that it would take an MFN exemption on some aspects of financial services unless the schedules were improved. In effect this meant that the USA would discriminate among foreign financial services providers, offering more access to those trading partners who opened their markets on a reciprocal basis.

At the end of 1995 after several rounds of intensive negotiations, the USA announced that it remained dissatisfied with the results obtained . As a consequence it would remove most of its offer on financial services and take a MFN exemption for the whole of financial services sector- while safeguarding the position of financial services companies already operating in the USA.

THE PROVISIONS OF THE GATS

The GATS aims at the progressive lowering of barriers to trade and expanded access to markets. Here the GATS recognized that not all countries are equal and so negotiate from different starting points. Countries that have not yet started negotiations can enter the negotiations when they reopen in four years time.

THE DEAL

The WTO suggests that, concerning the liberalization of trade in financial services "The most evident practical change in many countries will be:

- the appearance of more foreign banks, securities firms and insurance companies in the market,

- the availability of banking, securities and insurance services sold cross border by overseas companies and other financial services by wholly or partially foreign owned companies.

The other side is that for countries which are actual or potential exporters of financial services, opportunities for their banks, securities firms and insurance companies are going to be considerably enhanced through this agreement.

For those already present in overseas markets, the conditions under which they do business may be improved or their ability to offer new financial products and services enhanced .

The nature of the commitments include , in some cases:

- improvements in the number of licences available for the establishment of foreign financial institutions,

- guaranteed levels of foreign equity participation in branches, subsidiaries or affiliates of banks and insurance companies,

- removal or liberalization of nationality or residence requirements for members of the boards of financial institutions, and

- the participation of foreign owned banks in cheque clearing and settlement systems."

While the emphasis in the schedule of commitments is on opening up markets and binding entry conditions, the WTO services agreement recognizes the need for adequate prudential regulation of all banking and insurance service providers.

The WTO Secretariat has divided service activities into 12 areas. However, for this paper we will focus only on that dealing with financial services which include banking and insurance services. The annex to the

GATS on financial services are integral to the agreements and lays down the rights of government to :

- take prudential measures including those for the protection of investors, deposit holders, and policy holders

- ensure the integrity and stability of the financial system.

The Appendix iv of the GATS deals with financial services under specific areas of activities as follows:

FINANCIAL SERVICES

- all insurance and insurance related services

  - life accident and health insurance services
  - non life insurance services
  - reinsurance and retrocession
  - services auxiliary to insurance

- Banking and other financial services (excluding insurance)
- Acceptance of deposits and other repayable funds from the public
- Lending of all type
- Leasing
- All payment and money transmission services
- Guarantees and commitments
- Trading for own account or for account of customers whether on an exchange, in an otc market or otherwise the following:
  - money market instruments
  - foreign exchange
  - derivative products including, but not limited to, futures and options
  - exchange rate and interest rate instruments, including products such as swaps, forward rate agreements
  - transferable securities
  - other negotiable instruments and financial assets

- Participation in issues of all kinds of securities, including underwriting and placement as agent
- Money broking
- Asset management
- Settlement and clearing services for financial assets
- Advisory and other auxiliary financial services
- Provision and transfer of financial information and financial data processing and related software by providers of other financial services.

Each country has a different socioeconomic environment . There is also in each country; different regulatory and legal environment, different commercial practices, accounting standards and risk characteristics. On the other hand each financial institution operating in that environment has different objectives, management practices and market strengths and weaknesses.

That trade in services and especially cross border must be done within the context of differences that exist was recognized in the GATS and provisions made accordingly. For example each member is required to have national schedules with specific commitments relating to market access, limitations which the country wishes to maintain in the sector and to specify the timeframe for implementation and date of entry into force.

HOW DOES THE FINANCIAL SERVICES AGREEMENT WORK

The annexes to the GATS are integral to the agreement on financial services and define such services as any service of a financial nature offered by a financial service supplier of a member.

In effect the agreement means that the best offers negotiated with the exception of the USA will be implemented for an initial period up to November 1st 1997. At that point, members will again have an opportunity to modify or improve their offers on financial services schedules and to take MFN exemptions in the sector. It may well be that new negotiations on financial services will take place at that time.

CARICOM COUNTRIES COMMITMENTS

Negotiations on financial services ended in July 1995 and no CARICOM country participated in those negotiations. Despite this however, the new commitments will be applied to all members of the WTO, except in those cases where an MFN exemption has been entered. Jamaica made commitments during the Uruguay Round but did not revise those commitments.

Countries that are members of the WTO are committed to the various obligations in the agreement. On a whole CARICOM countries never participated in the negotiations to open up their service sector in the Uruguay round. Developing countries that have taken part in the negotiations include: Brazil, Chile, Dominican Republic, Egypt, India, Indonesia Malaysia, Pakistan, Philippines, Singapore, Thailand, Venezuela , Colombia.

CARICOM countries, as well as other members of the WTO will therefore need to examine the new schedules of commitments to determine whether any market access benefits have been created by the negotiations.

SECTION 4
CARICOM FINANCIAL SERVICES AND THE GATS

Financial services is the largest sector covered by the General Agreements on Trade in Services. The OECD exports of banking services alone amounted to US$40 bn in 1992. In negotiating the area it was felt that all countries would benefit from a liberalized financial service sector whether or not they have consented to the liberalization of their market or not .

Having looked basically in Section two at the institutions that exist in the financial system in the Caribbean and the provisions of the GATS in Section three it might be useful at this point to see whether or not Caribbean countries should make national commitments on the liberalization of the financial services sector as negotiated in the Uruguay Round of trade negotiations and the form that involvement should take bearing in mind the level of development of the countries and their narrow financial structures.

In spite of the growth in the number of institutions in the financial sector in the region and the number of innovations that have taken place in the last few years an important question which must be addressed is, can the region's financial system survive in a competitive environment ? Another important question is, how can the institutions in the region become part of the global system .

The process of globalization has intensified and small developing economies will of necessity become more directly involved .However that participation has to be managed and sequenced in order to achieve the maximum benefits .

Given the following factors:

- the small size of a number of the financial institutions in the region,
- low level of prudential regulation,

- lack of supporting infrastructure ,
- the existence of structural barriers to operating in some of the larger developed economies, do they have the capacity to withstand global competition in the sector.?

CARICOM's generally small banks have been making inroads in the financial sector cross border. This has been done by establishing a presence in certain markets including the USA, Cayman Islands, St Marteen and Venezuela. Banks from Jamaica and Trinidad are those setting up operations cross border. So far two banks have been able to enter the main market in the USA, that is Eagle commercial bank and Citizens bank both from Jamaica. The fact is that the regulations and rules for establishing commercial banking operations in the USA are very rigorous and non facilitating.

An examination of the indigenous banks in the Caribbean revealed that most of them have narrow capital bases, relatively narrow assets base is also small compared to banks in other regions including those in Latin America. Coupled with those, the financial system in the region does not have the overall support structure to allow them to compete as equals in a completely liberalized and globalized setting.

To be effective in the global environment these banks will need to , as a first attempt substantially increase their capital bases. That will provide the financial strength for increased and sustained competition, as the boundaries between domestic financial markets and foreign ones become integrated into the global economy. The Caribbean is already far behind financial institutions in other regions for example Latin America and South east Asia. In the era of financial liberalization it is felt that banks and other financial institutions in the Region will need to rationalize their operations. At present there are a number of financial institutions, most delivering basically the same services, as a consequence their resources have been spread too thinly and over too many areas. They are therefore too small to be effective and efficient in the global market place.

CARICOM financial institutions ,given their present structure would have difficulty competing effectively with financial institutions from the developed countries and even from institutions in the South should their economies be open to foreign participation of the kind envisaged by the GATS. At the same time regional institutions could also have difficulty effectively penetrating foreign markets; especially in the developed countries especially in light of the prudential requirements of the regulatory authority in those countries.

A strategy of selective liberalization of the financial market might provide the region with its best options as it could stimulate local banks and other financial institutions to strengthen their capital bases and assets to withstand the forces of competition.

Operating in a semi- liberalized environment is not new to Caribbean financial institutions, in fact they have been competing with a number of institutions both foreign and form the region. Competition comes from a number of sources and include:

- offshore financial institutions which although ostensibly acting as offshore centres conduct business which is in direct competition with domestic financial institutions

- the insurance industry also faces competition from the off shore insurance industry.

Prior to making national commitments on trade in financial services under the GATS, countries of the Region would need to explore avenues open and choose those area in which they have competitive strengths. Given the size of the institutions (however measured) one avenue is for the policymakers to perhaps allow foreign participation in niche markets; providing specialized services which might be too expensive for local institutions to provide or where the outlay of domestic assets both human and financial might not be sufficiently rewarding.

Where Countries have decided to progressively open their economies to financial institutions from other countries however the countries will need to ensure that adequate safeguards are in place to protect their depositors and the overall financial health of the country. Efforts will be needed to strengthen prudential regulation not only of commercial banks but of all other institution that might be subject to competition from foreign participation. In particular the region would need to ensure that the regulatory environment is in place to monitor as best as possible the inflow and outflow of portfolio investment especially where economic growth is robust and the country(ies) market become attractive to foreign individuals and institutions.

In the area of prudential regulations there are some weaknesses in this in a number of CARICOM countries. There are impulses arising from other concerns however, such as money laundering, which are forcing the need for strengthened prudential systems.

CONCLUDING REMARKS

The paper explores at a very elementary level the impact of the liberalization of trade in financial services on the financial services sector in the region. Initial focus has been on the banking system because that is the most well developed and the on most likely to be affected by the liberalization.

Liberalization of financial service sector is or can be affected by domestic variables as well as global factors as such policy makers should exercise caution when negotiating the trade in financial services agreement. The present situation in the WTO provides the Caribbean with an opening to assess carefully its financial services sector and develop its strategy for liberalization. There is not much time however.

Caribbean financial institutions cannot afford to be complacent in the face of globalization..

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