Strengthening Financial Services Trade in Low- and Middle-Income Countries Through WTO GATS: Lessons for World Bank Support.

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Brendan Chukwuebuka Ugwu

Founder & Lead, Trade Law & Policy Research.
Young African Policy Research Hub (YAPORH)

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ABOUT
THE POLICY PAPER

The policy paper titled **"Strengthening Financial Services Trade in Low- and Middle-Income Countries Through WTO GATS: Lessons for World Bank Support"** by Brendan Chukwuebuka Ugwu provides a comprehensive roadmap for how low- and middle-income countries (LMICs) can strategically use the WTO's General Agreement on Trade in Services (GATS) to advance inclusive financial sector development, with the support of the World Bank. It underscores that financial services are critical to economic development, especially for LMICs seeking to deepen financial inclusion, attract foreign direct investment, and improve regulatory frameworks.

The paper explains the architecture of GATS, including its core principles like Most-Favoured-Nation (MFN) treatment, national treatment, and market access. It discusses how GATS' flexible structure especially its Annex on Financial Services allows countries to open financial sectors gradually, while preserving the right to regulate for prudential and developmental reasons. The document presents country case studies Ghana, Senegal, Vietnam, and the Philippines to show how tailored GATS commitments, backed by regulatory reform and World Bank support, have advanced national development goals, from digital finance innovation to regional financial integration.

Further, the policy paper identifies key challenges LMICs face, such as weak regulatory institutions, fragmented legal systems, and limited negotiation capacity. It then proposes using GATS commitments as reform anchors to sequence liberalization, attract investment, and signal credibility. The final sections offer concrete recommendations to the World Bank—emphasizing technical assistance, regulatory capacity building, digital infrastructure support, and enhanced policy coordination with global and regional institutions. In essence, the paper frames GATS not merely as a trade instrument but as a dynamic development tool to guide inclusive, resilient, and innovation-driven financial systems in LMICs. As part of YAPORH's growing portfolio of policy insights, this paper contributes to the broader agenda of inclusive trade and investment reform, empowering African voices in global economic governance.

For inquiries, contact: info@youngafricanpolicyresearch.org
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INTRODUCTION

Financial services are the backbone of modern economies, serving as critical enablers of investment, innovation, and enterprise development. Efficient and accessible financial systems facilitate savings mobilization, credit allocation, insurance coverage, and payment mechanisms, all of which are essential for inclusive economic growth[1]. For low- and middle-income countries (LMICs), a well-functioning financial services sector can expand access to finance for underserved populations, empower small and medium-sized enterprises (SMEs), and catalyze private sector-led development.

Enabler

- Innovation
- Investment
- Enterprise development

Facilitatator

- Savings Mobilisation
- Credit Allocation
- Insurance Coverage
- Payment Mechanism

Globalisation of Financial Services

- Trade and Development
- Advance Technologies
- Diversified products
- Risk Management

Importance if financial services trade for inclusive economic development

Financial services are the backbone of modern economies, serving as critical enablers of investment, innovation, and enterprise development. Efficient and accessible financial systems facilitate savings mobilization, credit allocation, insurance coverage, and payment mechanisms, all of which are essential for inclusive economic growth. For low- and middle-income countries (LMICs), a well-functioning financial services sector can expand access to finance for underserved populations, empower small and medium-sized enterprises (SMEs), and catalyze private sector-led development.

The globalization of financial services through trade and investment can introduce advanced technologies, diversified products, and risk management tools that enhance domestic financial ecosystems. Cross-border financial integration also allows LMICs to benefit from international capital flows and knowledge transfer. However, realizing these benefits requires coherent regulatory frameworks and strategic participation in international trade agreements that govern the liberalization and regulation of services trade.

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[1] World Trade Organization. (2024). World Trade Report 2024 - Trade and inclusiveness. Retrieved January 5, 2025, from https://www.wto.org/english/res_e/booksp_e/wtr24_e/wtr24_e.pdf

1.1 OVERVIEW OF THE WTO GATS FRAMEWORK

The General Agreement on Trade in Services (GATS), adopted in 1995 as part of the World Trade Organization (WTO) framework, represents the first multilateral and legally binding agreement dedicated to the liberalization of trade in services. GATS covers all service sectors—including financial services—and is structured around three key pillars: (i) general obligations and disciplines (e.g., Most-Favoured-Nation treatment); (ii) specific commitments relating to market access and national treatment; and (iii) annexes dealing with sector-specific concerns.[2] One of the core features of GATS is its **positive list approach**, whereby Members choose which service sectors and modes of supply to liberalize, along with any limitations. This flexibility enables Members to calibrate commitments based on their regulatory objectives, institutional capacity, and development priorities. The GATS also includes an **Annex on Financial Services**, which recognizes the sensitive nature of the sector and provides safeguards to preserve Members' right to regulate for prudential reasons.

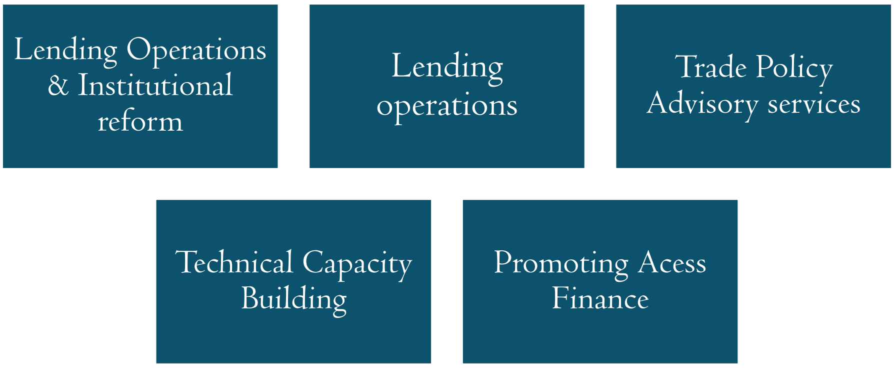
1.3 STRATEGIC RELEVANCE OF GATS FOR LMICS

For LMICs, GATS offers a structured and rules-based platform to gradually open their financial services markets while maintaining critical policy space. The agreement facilitates transparency, predictability, and legal certainty, which are essential for attracting responsible foreign investment and building investor confidence. GATS commitments can also serve as reform anchors signaling policy direction and aligning domestic regulatory

[2] World Trade Organization. (1995). *General Agreement on Trade in Services*. Retrieved from https://www.wto.org/english/docs_e/legal_e/26-gats.pdf

reforms with international best practices. Countries such as Ghana, Senegal, Vietnam, and the Philippines have used GATS commitments as part of broader financial sector liberalization strategies, often accompanied by reforms in banking supervision, capital market development, and consumer protection. Strategically leveraging GATS, LMICs can deepen financial inclusion, promote financial innovation (including digital finance), and enhance their integration into regional and global value chains.

1.4 THE ROLE OF THE WORLD BANK IN SUPPORTING SERVICES TRADE REFORM



The World Bank plays a vital role in supporting LMICs to leverage the GATS framework and broader services trade reform. Through lending operations, advisory services, technical assistance, and knowledge products, the Bank has helped countries strengthen legal and institutional frameworks governing financial services. Its support spans a wide range of areas, including financial sector diagnostics, trade policy advice, digital financial infrastructure, and regulatory capacity building. Importantly, the Bank has also contributed to the development of tools and assessments that help countries identify policy bottlenecks and prioritize reforms. Instruments such as the Services Trade Restrictiveness Index (STRI), Doing Business Indicators (now evolved into B-Ready), and Financial Sector Assessment Programs (FSAPs) provide actionable insights to guide policy formulation and implementation. In the context of WTO negotiations and implementation, the World Bank can support LMICs to analyze the implications of their GATS commitments, prepare negotiating positions, and design phased liberalization strategies. Technical support can be tailored to reinforce prudential regulation, enhance financial inclusion, and promote competitive neutrality in service provision. As countries seek to build resilient, inclusive, and innovation-driven financial systems, the strategic use of GATS, supported by the World Bank's expertise and resources, offers a promising policy blueprint.

2. THE ROLE OF GATS IN FINANCIAL SERVICES LIBERALIZATION

The General Agreement on Trade in Services (GATS), as part of the World Trade Organization (WTO) framework, plays a critical role in shaping the global rules for services trade, including financial services. Its architecture provides a multilateral platform for promoting liberalization while preserving national policy space. For low- and middle-income countries (LMICs), the GATS offers a rules-based mechanism to attract investment, build institutional credibility, and foster inclusive development through strategic reforms in the financial sector.

2.1 Overview of GATS Architecture and Legal Principles

The GATS is the first multilateral agreement to cover trade in services comprehensively. Adopted in 1995, its primary objective is to liberalize trade in services progressively, under conditions of transparency, predictability, and fairness[3]. The agreement applies to all services sectors ranging from telecommunications to healthcare and financial services across all levels of government and modes of supply.

[3] General Agreement on Trade in Services. (1995). World Trade Organization. Retrieved from https://en.wikipedia.org/wiki/General_Agreement_on_Trade_in_Services

GATS is structure around three Key Components:

General obligations & Disciplines	• **Most-Favoured-Nation (MFN) treatment obligation and transparency requirements.**
Specific Commitments	• Market Access (Article XVI) And National Treatment (Article XVII)
Annexes	• Sensitve Sectors such as financial services, telecommunications, and air transport.

- **General obligations and disciplines**, which apply to all services regardless of commitments made by a Member. This includes the Most-Favoured-Nation (MFN) treatment obligation and transparency requirements.
- **Specific commitments**, which are inscribed in Members' schedules and relate to market access (Article XVI)[4] and national treatment (Article XVII)[5], applying only to those sectors and modes where commitments have been explicitly made.
- **Annexes**, which clarify and adapt rules for certain sensitive sectors, including financial services, telecommunications, and air transport.

[4] This article outlines the obligations of WTO Members regarding **market access** in sectors where they have made specific commitments. It prohibits certain restrictive measures unless explicitly stated in a Member's Schedule. These prohibited restrictions include:

- Limits on the number of service providers (e.g., quotas or monopolies)
- Limits on the total value or quantity of service transactions
- Limits on the number of people employed for service delivery
- Restrictions on the type of legal entity (e.g., requiring joint ventures)
- Caps on foreign investment or ownership

[5] This article requires Members to treat foreign services and service providers no less favorably than domestic ones in sectors where national treatment commitments are made. It covers:

- Equal competitive conditions for foreign and domestic providers
- Treatment can be formally identical or different, but must not disadvantage foreign services
- Any measure that distorts competition in favor of domestic providers breaches this obligation

GATs Approach

The agreement is based on a **positive list approach**, meaning Members are not automatically bound to liberalize all services sectors but only those they list in their schedules. This approach allows LMICs to open selected sub-sectors gradually, aligning liberalization with domestic policy goals and capacity. The GATS legal framework is further supported by principles of **progressive liberalization** (Article XIX)[6], recognition of **developmental needs** (Article IV)[7], and the use of **flexibilities** such as prudential safeguards, temporary restrictions, and exceptions for public order and national security.

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[6] This article introduces the concept of **progressive liberalization** of service markets through successive negotiation rounds. It affirms that:

- Liberalization should take place **gradually** and **respect national policy objectives**.
- Members have flexibility in **when and how** to open their service sectors.
- Special consideration must be given to **developmental goals** and the **special economic situation of developing countries**.

[7] This provision emphasizes the importance of ensuring that **developing countries**, especially **least-developed countries (LDCs)**, benefit from global trade in services.
WTO Members are encouraged to:

- Strengthen service exports from developing countries.
- Enhance the participation of their service suppliers in global markets.
- Provide access to technology and distribution channels.
- Support capacity building and institutional development in services.

2.2 Structure and Principles of GATS (MFN, National Treatment, Market Access)

GATS is grounded in several core legal principles that shape Members' commitments and conduct in services trade.

Most-Favoured-Nation (MFN) Treatment – Article II

MFN requires that any advantage granted to a service or service supplier of one WTO Member must be extended to all Members. This ensures non-discrimination across trading partners. However, GATS permits **temporary MFN exemptions** upon accession or through specific notification. These allow countries to preserve preferential arrangements with regional partners or traditional allies. MFN creates a baseline of fairness and predictability in service trade relationships. For example, if Ghana allows a Canadian financial institution to offer insurance services via Mode 1, it must extend the same access to all other WTO Members—unless an MFN exemption applies, such as through ECOWAS regional preferences.

Market Access – Article XVI

Market access provisions define the conditions under which foreign service providers may enter and operate in a domestic market. A country's schedule may include **limitations** on:

- The number of service suppliers;
- The value of transactions;
- Foreign equity participation;

- Legal form of business establishment;
- Number of employees.

In the absence of such limitations, full market access is presumed.

Implication for LMICs: Market access commitments offer a clear, predictable investment climate. For instance, if Senegal commits to allowing foreign banks to establish subsidiaries (Mode 3) without equity caps, it signals openness to FDI. However, LMICs can still limit access in strategic areas to allow for gradual reform and domestic institution-building.

National Treatment – Article XVII

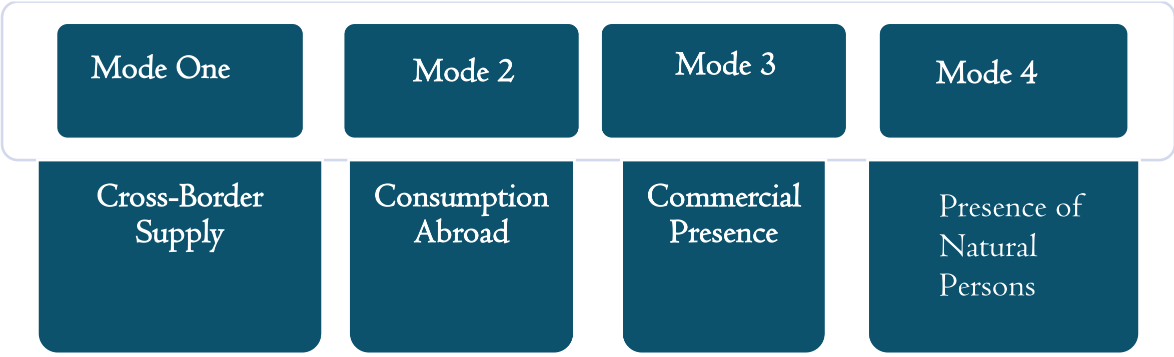
National treatment obligates Members to treat foreign service suppliers no less favorably than domestic suppliers in "like circumstances." This applies to laws, regulations, licensing, subsidies, and administrative procedures.

Implication for LMICs: By committing to national treatment, LMICs can increase investor confidence by reducing risks of discrimination or arbitrary treatment. However, they retain the ability to **schedule limitations**—for example, offering subsidies only to domestic microfinance institutions or requiring residency for certain insurance services. This allows them to maintain policy space while still engaging in liberalization.

Together, these principles offer LMICs both a **roadmap for reform** and the **legal tools to sequence and manage liberalization** according to national development priorities.

2.3 Modes of Supply and Relevance to Financial Services

GATS defines services trade through four modes of supply. Each mode has distinct regulatory, investment, and development implications in the context of financial services.



Mode 1: Cross-Border Supply

This refers to services supplied from the territory of one Member to another without the movement of persons—e.g., international money transfers, insurance underwriting, or digital lending platforms. Mode 1 is increasingly important as digital financial services expand. LMICs like the Philippines and Ghana are witnessing significant growth in fintech offerings, including remittances and micro-insurance, supplied across borders. Commitments in Mode 1 can support fintech growth while requiring strong data protection and consumer safeguards.

Mode 2: Consumption Abroad

Consumers travel to another country to obtain services, such as when students open bank accounts abroad or purchase health insurance overseas. This mode is modest in financial services volume but relevant for diaspora-targeted products. LMICs can develop portable insurance and banking services tailored to their expatriate populations.

Mode 3: Commercial Presence

This is the most important mode for financial services. It refers to the establishment of foreign financial institutions in a host country via subsidiaries, branches, or joint ventures. Mode 3 liberalization has driven financial deepening in many LMICs. Ghana's licensing of foreign commercial banks has enhanced competition and innovation. Vietnam's phased

Mode 3 commitments have facilitated banking sector modernization, supported by technical assistance from the World Bank and international donors.

Mode 4: Presence of Natural Persons

This involves the temporary entry of foreign individuals to provide services—e.g., bank executives, actuaries, or compliance consultants. Though rarely liberalized, Mode 4 is crucial for skills transfer and capacity building. Countries like Senegal and the Philippines can use Mode 4 to attract international financial expertise, while managing labor market sensitivities through tailored commitments and qualification recognition protocols. The GATS framework, built on these principles and modes of supply, allows LMICs to liberalize strategically while maintaining safeguards for systemic stability, inclusion, and national development. Properly leveraging these provisions enables countries to attract investment, integrate into global financial networks, and promote inclusive growth—all while retaining the ability to sequence reforms and adapt regulatory frameworks.

2.4 THE GATS ANNEX ON FINANCIAL SERVICES: SAFEGUARDS AND FLEXIBILITIES

The Annex on Financial Services under GATS acknowledges the distinctive nature of the financial sector and the necessity of maintaining regulatory autonomy, especially in safeguarding economic and systemic stability. It introduces key flexibilities that enable WTO Members—particularly LMICs—to balance liberalization objectives with national development priorities and financial prudence.

- Prudential Carve-Outs (Paragraph 2(a)
- Balance-of-Payments Safeguards (GATS Article XII)
- Balance-of-Payments Safeguards (GATS Article XII)

Prudential Carve-Outs (Paragraph 2(a)[8]: The prudential carve-out allows Members to adopt measures for prudential reasons, including the protection of depositors, investors, and policyholders, and the preservation of the integrity and stability of the financial system. These measures are permissible even when they may contravene GATS market access or national treatment provisions, provided they are not used to circumvent specific commitments. For LMICs, this flexibility is essential. It allows central banks and financial regulators to impose risk-based capital requirements, liquidity ratios, and supervisory standards tailored to domestic vulnerabilities. Ghana's banking sector reforms and the Philippines' tiered risk-based capital rules for rural banks illustrate how this provision is used to maintain sectoral stability while liberalizing progressively.

Balance-of-Payments Safeguards (GATS Article XII)[9]: This provision permits Members to temporarily restrict service-related payments and transfers during serious balance-of-payments or external financial crises. These restrictions must be

[8] The Prudential Carve-Out under GATS Annex on Financial Services allows WTO Members to adopt measures for protecting financial system integrity, even if they conflict with GATS commitments. However, such measures must genuinely serve prudential purposes and not be used to bypass obligations or disguise trade restrictions.

[9] GATS Article XII allows Members to apply temporary restrictions on trade in services to safeguard their balance of payments. These measures must be non-discriminatory, limited to what's strictly necessary, and progressively relaxed. They should not be used to protect specific industries or circumvent general GATS obligations.

nondiscriminatory and transparent, and are subject to notification and review by the WTO. For countries such as Senegal and Vietnam—both of which have experienced external shocks—this safeguard provides legal coverage to manage capital account pressures without breaching WTO obligations.

Development Flexibilities (Articles IV and XIX)[10]: Articles IV[11] and XIX[12] of GATS commit to progressive liberalization, recognizing that developing countries may liberalize fewer sectors, types of transactions, or modes of supply, in line with their development situation. These provisions are crucial for ensuring that LMICs can sequence reforms, gradually expand commitments, and build institutional capacity before opening sensitive sub-sectors. They also encourage technical cooperation and capacity building from more advanced Members, creating space for the World Bank and other partners to support financial sector modernization. Collectively, the GATS Annex on Financial Services and related provisions ensure that LMICs are not locked into rigid liberalization paths but can instead pursue financial openness that is tailored, inclusive, and development-oriented.

[10] Articles IV and XIX of GATS provide development flexibilities by allowing developing countries to liberalize trade in services gradually.
[11] Article IV promotes their increased participation through capacity building and technology access,
[12] Article XIX supports progressive liberalization at each country's own pace, considering national development objectives and economic conditions.

2.5 COUNTRY CASE STUDIES: SPECIFIC COMMITMENTS AND THEIR DEVELOPMENT IMPLICATIONS


GHANA: Deepening Financial Inclusion and Foreign Participation


SENEGAL: Regional Integration and Regulatory Modernization


VIETNAM: Sequencing Liberalization for Global Integration


PHILIPINES:Digital Innovation and Financial Sector Resilience

This section examines how selected LMICs—Ghana, Senegal, Vietnam, and the Philippines—have leveraged GATS commitments in the financial sector to advance distinct development goals. Each case illustrates a different policy trajectory reflecting national contexts, reform priorities, and institutional capacities.

2.5.1 GHANA: DEEPENING FINANCIAL INCLUSION AND FOREIGN PARTICIPATION

Ghana's approach to financial services liberalization reflects a broader commitment to improving access to finance, enhancing competition, and aligning regulatory frameworks with international standards. Under GATS, Ghana has undertaken commitments in banking and insurance services, particularly under Modes 1 and 3. These commitments permit foreign commercial presence without significant equity restrictions, fostering foreign bank entry into the domestic market[13]. The presence of international banks such as Standard Chartered and Ecobank has strengthened the capital base of the banking

[13] International Monetary Fund. (1997). *The GATS Agreement on Financial Services*. Retrieved from https://www.imf.org/external/pubs/ft/wp/wp9755.pdf

sector, introduced innovation, and expanded geographic outreach[14]. At the same time, Ghana has retained sufficient regulatory control through prudential safeguards under the GATS Annex to manage risks, as seen in the 2017–2019 financial sector cleanup, where undercapitalized institutions were removed from the marke[15]t. In addition, Ghana's liberalization efforts have been complemented by national initiatives such as the Financial Sector Development Strategy (FSDS) and the Digital Financial Services Policy, which aim to expand financial inclusion through mobile money, agent banking, and fintech ecosystems. GATS commitments have thus served as both a legal anchor and a confidence-building signal to investors, while domestic reforms have deepened access and inclusion.

2.5.2 SENEGAL: REGIONAL INTEGRATION AND REGULATORY MODERNIZATION

As a member of the West African Economic and Monetary Union (WAEMU), Senegal operates under a regional financial regulatory framework coordinated by the Central Bank of West African States (BCEAO)[16]. Its GATS commitments reflect this regional context, covering banking, insurance, and securities services under Mode 3, with limitations on foreign ownership removed in many cases.

Senegal's financial services liberalization strategy is closely tied to regional integration goals. WAEMU-level regulations facilitate the free movement of capital and financial services across member states, aligning well with GATS disciplines on commercial presence and non-discrimination[17]. The country has benefited from foreign participation,

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[14] Oxford Business Group. (2020). Ghana's banking sector clean-up has created a more sustainable industry. Retrieved from https://oxfordbusinessgroup.com/reports/ghana/2020-report/economy/restoring-confidence-a-sector-clean-up-led-by-regulators-has-resulted-in-a-smaller-but-more-sustainable-industry

[15] Adams, S., & Agbemade, J. (2012). Financial liberalization and banking sector performance in Ghana. *African Journal of Business Management*, 6(47), 11638-11646. Retrieved from https://www.researchgate.net/publication/304184941_Financial_liberalization_and_banking_sector_performance_in_Ghana

[16] **WTO Trade Policy Review – Senegal (GATS Commitments & WAEMU Framework):**
World Trade Organization. (2019). *Trade Policy Review: Senegal – Report by the Secretariat* (WT/TPR/S/387). Retrieved from
https://www.wto.org/english/tratop_e/tpr_e/s387_e.pdf

[17] **World Bank – Financial Inclusion and Digital Finance in WAEMU:**
World Bank. (2023). *Financial Inclusion and Digital Financial Services in WAEMU: Achievements and Challenges.* Retrieved from
https://documents1.worldbank.org/curated/en/099755005052330771/pdf/SECBOS05b2c92b0ac0b3ea004562a26270c.pdf

particularly from pan-African and French banks, which has enhanced the competitiveness of the sector. Concurrently, Senegal has undertaken regulatory modernization efforts, including the adoption of Basel II/III standards and the digitization of payment systems. With support from the World Bank and BCEAO, reforms have aimed to improve risk management, strengthen supervision, and expand access to underserved areas[18]. The GATS framework provides Senegal with the legal flexibility to maintain macroprudential tools, while regional coordination enhances regulatory coherence and market integration.

2.5.3 VIETNAM: SEQUENCING LIBERALIZATION FOR GLOBAL INTEGRATION

Vietnam presents a textbook example of phased financial services liberalization aligned with broader economic transition and WTO accession.[19] Upon joining the WTO in 2007, Vietnam made significant GATS commitments in banking, insurance, and capital markets, with time-bound liberalization schedules[20]. Initially, equity caps and licensing thresholds were maintained for foreign banks, but these were gradually relaxed.

The phased approach allowed Vietnam to build domestic supervisory capacity and undertake structural reforms, including banking sector recapitalization, anti-corruption enforcement, and the introduction of International Financial Reporting Standards (IFRS). GATS commitments served as a catalyst for policy reforms, particularly in aligning prudential regulations with international norms.

Today, foreign banks operate in Vietnam under both joint ventures and wholly-owned subsidiaries. The country has also adopted digital finance strategies to promote

[18] **World Bank – Senegal Financial Sector and Basel Standards Reform:**
World Bank. (2019). *Senegal - Third Multi-Sectoral Structural Reforms Development Policy Financing* (Report No. PGD83). Retrieved from https://documents1.worldbank.org/curated/en/331641576983717851/pdf/Senegal-Third-Multi-Sectoral-Structural-Reforms-Development-Policy-Financing.pdf
[19] **U.S. International Trade Commission – Overview of Vietnamese Service Sector:**
U.S. International Trade Commission. (2010). *An Overview and Examination of the Vietnamese Service Sector*. Retrieved from https://www.usitc.gov/publications/332/Vietnam_working_Paper_final2a.pdf
[20] **WTO Case Study – Vietnam's Banking Sector Preparation for WTO Accession:**
World Trade Organization. (n.d.). *Preparation by Viet Nam's Banking Sector for WTO Accession*. Retrieved from https://www.wto.org/english/res_e/booksp_e/casestudies_e/case45_e.htm

innovation, competition, and financial literacy[21]. GATS Modes 1 and 3 remain particularly relevant in facilitating the entry of global payment platforms and digital financial service providers.

Vietnam's experience demonstrates that well-sequenced liberalization anchored in GATS but supported by institutional reform and World Bank technical assistance can enhance financial sector resilience and global competitiveness.

2.5.4 PHILIPPINES: DIGITAL INNOVATION AND FINANCIAL SECTOR RESILIENCE

The Philippines has embraced digital financial services as a means to drive financial inclusion, especially in its geographically dispersed archipelago. Its GATS commitments in financial services include banking, insurance, and asset management services, primarily under Mode 3, with commercial presence liberalized subject to licensing and capital requirements.

Digital innovation has been central to the country's financial sector strategy. The Bangko Sentralng Pilipinas (BSP) has implemented an enabling regulatory environment that supports electronic money issuers, virtual asset service providers, and open banking[22] GATS Mode 1 has become increasingly relevant with the expansion of cross-border payment platforms, online insurance, and mobile banking services.

Crucially, the Philippines has leveraged the GATS Annex on Financial Services to maintain strong prudential regulation while supporting fintech growth.[23] It has introduced risk-based supervision, cybersecurity frameworks, and digital identity systems, many with support from the World Bank and the International Finance Corporation (IFC). The country's Financial Inclusion Strategy and Digital Payments Transformation Roadmap

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[21] **ASEAN+3 Macroeconomic Research Office – Vietnam's Financial Digital Transformation:**
ASEAN+3 Macroeconomic Research Office. (2021). *How Vietnam is Succeeding in Financial Digital Transformation.* Retrieved from https://amro-asia.org/how-vietnam-is-succeeding-in-financial-digital-transformation/

[22] **Bangko Sentral ng Pilipinas. (2020).** *Digital Payments Transformation Roadmap 2020-2023.* Retrieved fromhttps://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf

[23] **World Trade Organization. (n.d.).** *Schedule of Specific Commitments: The Philippines.* Retrieved from https://wtocenter.vn/file/17618/schedule-of-the-republic-of-the-philippines.pdf

are further evidence of how WTO commitments can align with domestic priorities to promote inclusive and resilient financial development.

3. OPPORTUNITIES AND BENEFITS OF FINANCIAL SERVICES TRADE LIBERALIZATION FOR DEVELOPMENT

Financial services trade liberalization, especially under the framework of the WTO's General Agreement on Trade in Services (GATS), offers a transformative avenue for low- and middle-income countries (LMICs) to unlock development gains. By strategically engaging in financial sector liberalization, LMICs can benefit from enhanced access, improved efficiency, regulatory sophistication, and technological innovation. These gains are primarily realized through three critical pathways: access and innovation, macroeconomic and regulatory enhancement, and technology and knowledge transfer—particularly via Mode 3 (commercial presence).

- **Enhancing Access, Efficiency, and Innovation**
- **Enhancing Macroeconomic Stability and Regulatory Frameworks**
- **Technology and Knowledge Transfer via Mode 3**

3.1 ENHANCING ACCESS, EFFICIENCY, AND INNOVATION

Liberalizing financial services trade improves accessibility to a broader array of financial products, spurs competition among providers, and fosters innovation—especially in digital finance. Increased foreign entry under GATS commitments introduces new financial actors, products, and business models, ultimately enhancing consumer choice and financial inclusion. LMICs like Ghana and the Philippines have experienced substantial growth in mobile money platforms, digital payments, and fintech innovations through both cross-border services (Mode 1) and foreign commercial presence (Mode 3). In Ghana, GATS commitments enabled entry of foreign banks which, in tandem with the national Digital Financial Services Policy, have promoted widespread use of mobile banking and agent networks, extending financial services into previously underserved areas. Furthermore, competition from foreign providers incentivizes domestic institutions to upgrade service quality, reduce costs, and adopt more customer-centric practices. This not only accelerates the digitalization of financial services but also narrows the financial inclusion gap, particularly among women, rural populations, and micro, small, and medium-sized enterprises (MSMEs).

3.2 ENHANCING MACROECONOMIC STABILITY AND REGULATORY FRAMEWORKS

Trade liberalization in financial services can support macroeconomic stability by deepening capital markets, diversifying sources of finance, and improving monetary transmission mechanisms. Through GATS, LMICs can attract long-term capital flows and institutional investors, helping stabilize exchange rates, reduce fiscal pressure, and support private sector development. Crucially, liberalization also motivates regulatory strengthening. To attract and manage foreign participation effectively, LMICs often embark on reforms that improve banking supervision, enforce prudential standards, and enhance consumer protection. Vietnam's experience is illustrative its phased commitments under GATS were matched by deep structural reforms, including banking sector recapitalization, adoption of international accounting standards (IFRS), and anti-corruption safeguards. These regulatory improvements increase financial resilience and reduce the risk of systemic crises, even amid greater openness. Moreover, GATS legal safeguards such as the prudential carve-out and balance-of-payments exceptions allow LMICs to pursue liberalization without compromising financial stability. These tools give regulators the confidence to engage in services trade reform while preserving their ability to intervene during shocks or speculative attacks.

3.3 TECHNOLOGY AND KNOWLEDGE TRANSFER VIA MODE 3

Mode 3 (commercial presence) is particularly instrumental in facilitating the transfer of financial technologies, operational know-how, and regulatory expertise to LMICs. When foreign banks, insurance firms, and fintech companies establish subsidiaries or branches in host countries, they introduce global best practices in areas such as risk management, cybersecurity, compliance, and digital platforms. This presence not only strengthens the domestic financial ecosystem but also builds local human capital. For instance, foreign banks often train local staff in international financial reporting standards, IT systems, and customer service protocols. This knowledge transfer enhances workforce capabilities and prepares domestic institutions to compete in a globalized financial landscape. In Vietnam, Mode 3 commitments led to the establishment of foreign banking subsidiaries that introduced new products like structured finance and mobile wallet systems. Similarly, Senegal's integration into the WAEMU financial system allowed it to benefit from cross-border knowledge sharing and supervisory expertise, facilitated by the commercial presence of pan-African and European financial institutions. Technology transfer also promotes interoperability between financial systems, enabling cross-border transactions and supporting regional integration efforts. This is particularly relevant in Africa, where initiatives like the African Continental Free Trade Area (AfCFTA) and regional payment systems benefit from harmonized digital infrastructure and regulatory alignment.

4. CHALLENGES FACING LMICS IN LEVERAGING GATS COMMITMENTS

While the General Agreement on Trade in Services (GATS) offers a framework for progressive liberalization with embedded safeguards, low- and middle-income countries (LMICs) often face a range of structural, institutional, and political constraints that limit their ability to fully leverage these commitments. Without careful sequencing, sufficient capacity, and policy coherence, liberalization can lead to unintended consequences, including systemic risk, regulatory capture, and economic dislocation. This section identifies the principal challenges confronting LMICs in utilizing GATS commitments to advance financial sector development.

4.1 REGULATORY CAPACITY AND SUPERVISORY CONSTRAINTS

One of the most pervasive challenges in LMICs is limited regulatory and supervisory capacity. Effective liberalization requires that financial regulators possess the technical expertise, operational independence, and enforcement mechanisms to manage complex cross-border financial flows and the activities of multinational financial institutions. In many LMICs, supervisory agencies are under-resourced and may lack the tools to conduct risk-based supervision, monitor foreign exchange exposures, or implement international standards such as Basel II/III or Anti-Money Laundering (AML) protocols. As a result, liberalization without corresponding institutional strengthening may exacerbate financial instability rather than foster development. World Bank technical assistance has sought to address these constraints through capacity-building programs, but the demand for such support often exceeds the pace of reform implementation. In Ghana, for example, the 2017–2019 banking sector reforms highlighted both the importance and difficulty of maintaining regulatory oversight during periods of liberalization and sectoral transformation.

4.2 RISKS OF PREMATURE LIBERALIZATION WITHOUT SAFEGUARDS

Another major concern is the risk of premature or unsequenced liberalization—particularly when external pressure to open markets outpaces domestic readiness. Without the use of GATS safeguards, such as prudential carve-outs and balance-of-payments exceptions, LMICs may expose themselves to speculative capital inflows, currency volatility, or financial contagion. For instance, rapid financial sector liberalization in several East Asian economies during the 1990s, without adequate oversight or macroprudential buffers, contributed to systemic crises. LMICs must therefore ensure that liberalization is phased, selective, and supported by robust macroeconomic management frameworks. Although GATS provides mechanisms to apply temporary restrictions and preserve prudential measures, these are often underutilized by LMICs due to weak legal drafting, limited experience with WTO notifications, or fear of investor backlash. Enhanced awareness and technical guidance are needed to ensure that LMICs can exercise these rights confidently and lawfully.

4.3 FRAGMENTED LEGAL FRAMEWORKS AND POLITICAL RESISTANCE

In many LMICs, legal and regulatory frameworks governing financial services are fragmented across multiple institutions—such as central banks, finance ministries, insurance regulators, and capital market authorities. This institutional fragmentation hampers policy coherence, delays the implementation of GATS commitments, and undermines investor confidence.

Moreover, liberalization of financial services often faces political economy challenges. Domestic financial institutions, labor unions, or regulatory bodies may resist opening up to foreign competition, fearing loss of market share, employment displacement, or diminished autonomy. In countries where the financial sector is closely tied to state-owned enterprises or political elites, vested interests can further inhibit reform.

These barriers are particularly evident in cases where GATS commitments require horizontal reforms—such as licensing transparency, competition policy, or public procurement rules—that affect powerful domestic constituencies. Without strong political leadership and stakeholder engagement, even well-intentioned GATS-driven reforms may stall or backslide.

4.4 DATA LIMITATIONS AND INSTITUTIONAL GAPS

Reliable data is essential for assessing the impact of liberalization, designing targeted commitments, and monitoring compliance with international obligations. However, many LMICs lack disaggregated and timely data on financial services trade flows, investment patterns, and service provider performance. For instance, quantifying trade in services by mode of supply remains a major challenge for most WTO Members, and especially for LMICs. This limits the ability of policymakers to identify gaps in market access, evaluate regulatory bottlenecks, or prepare for multilateral or regional negotiations. Moreover, many LMICs lack institutional arrangements for inter-agency coordination on services trade policy, resulting in missed opportunities for cross-sectoral alignment and international engagement. Institutional gaps also extend to the absence of national strategies on services trade, limited stakeholder participation, and weak dispute settlement capacity. Without these foundational elements, LMICs risk underutilizing their GATS commitments or becoming passive participants in the global services economy.

5. STRATEGIC USE OF GATS COMMITMENTS AS REFORM ANCHORS

The GATS framework provides low- and middle-income countries (LMICs) with an adaptable and legally binding structure to guide and support the reform of their financial services sectors. When leveraged strategically, GATS commitments can serve not only as trade instruments but also as **domestic reform anchors**—helping countries sequence liberalization, signal policy credibility, and attract responsible investment while preserving essential regulatory space.

5.1 PROGRESSIVE LIBERALIZATION AND FLEXIBILITY UNDER GATS ARTICLE XIX

Article XIX of the GATS enshrines the principle of **progressive liberalization**, recognizing that services trade opening must reflect national policy objectives and varying levels of development. It allows Members to liberalize selectively—by sector, mode of supply, and type of limitation—and to schedule commitments accordingly. This provision is particularly advantageous for LMICs, which often require policy space to develop supervisory capacity and strengthen legal and institutional frameworks. Rather than liberalize all financial subsectors at once, countries can commit to opening non-sensitive services (e.g., insurance brokerage or financial advisory services) first, while maintaining restrictions on systemic services (e.g., core banking or capital markets). This flexibility is critical to managing risks and ensuring that liberalization is sequenced with broader financial sector development goals. In practice, countries such as Vietnam have adopted this approach, using phased GATS commitments to complement domestic reforms in the banking and insurance sectors. The ability to **adjust commitments over time**—via successive rounds of negotiation—provides LMICs with a dynamic tool to calibrate openness with evolving capacities and market conditions.

5.2 ALIGNING GATS COMMITMENTS WITH NATIONAL FINANCIAL SECTOR STRATEGIES

To maximize the developmental impact of GATS, LMICs should align their commitments with national financial sector development strategies. GATS offers an international framework that can reinforce domestic reform plans, such as financial inclusion roadmaps, capital market master plans, or digital financial services strategies.

For example, Ghana's commitments in commercial banking and insurance services have supported its broader Financial Sector Development Strategy and financial inclusion agenda, helping attract foreign banks and insurance providers while expanding access to underserved populations. Similarly, the Philippines has used its commitments to reinforce its Digital Payments Transformation Roadmap, which emphasizes fintech, interoperability, and inclusive finance.

By ensuring coherence between trade policy and domestic regulatory goals, LMICs can use GATS as a complementary policy tool—one that not only reflects but also reinforces their reform trajectory. This alignment also enables development partners like the World Bank to target technical assistance more effectively, supporting reforms that have both national relevance and multilateral resonance.

5.3 Using GATS to Lock in Reforms and Attract Investment

One of the most significant strategic advantages of GATS is its ability to **"lock in" reforms** through binding and transparent commitments. For LMICs undertaking difficult domestic reforms, this lock-in effect can help ensure policy continuity, discourage backsliding, and build investor confidence. By inscribing liberalization measures in WTO schedules, countries send a strong signal of policy stability and legal certainty to international investors. This is especially valuable in sectors—such as banking, insurance, and capital markets—where long-term investments depend on regulatory predictability. For example, Senegal's Mode 3 commitments in banking, in conjunction with WAEMU regional integration, have helped attract pan-African and European financial institutions seeking reliable and integrated markets. Moreover, the public and legally binding nature of GATS schedules creates **accountability mechanisms** for reform implementation. Governments are less likely to reverse liberalization unilaterally if such actions would violate WTO commitments and undermine international credibility. However, locking in commitments should be approached cautiously. LMICs must first ensure that reforms are well-designed, inclusive, and backed by institutional readiness. The World Bank can assist by conducting policy diagnostics, stakeholder consultations, and readiness assessments before commitments are finalized.

5.4 MANAGING PRUDENTIAL AND BALANCE-OF-PAYMENTS EXCEPTIONS

GATS also offers critical **safeguards** that allow Members to maintain financial stability even after liberalization. Article 2(a) of the GATS Annex on Financial Services permits Members to adopt measures for prudential reasons—such as protecting consumers or ensuring systemic stability—even if these measures are inconsistent with scheduled commitments. Similarly, Article XII of GATS provides a legal basis for imposing **temporary restrictions** on service-related payments and transfers in the event of serious balance-of-payments or external financial difficulties. These provisions are especially important for LMICs, which may face macroeconomic shocks, currency pressures, or capital account vulnerabilities. To manage these safeguards effectively, LMICs must build legal and institutional capacity to design, implement, and communicate such measures in a transparent and WTO-consistent manner. For example, countries should ensure that prudential measures are rooted in statutory mandates, apply equally to domestic and foreign providers, and are not disguised restrictions on trade. When invoking Article XII, transparency and dialogue with WTO Members are essential to maintain trust and avoid disputes. By **proactively embedding these flexibilities into national financial sector strategies**, LMICs can approach liberalization with greater confidence, knowing that their GATS commitments do not preclude policy interventions necessary for stability or resilience.

6. LEVERAGING GATS COMMITMENTS TO GUIDE WORLD BANK LENDING OPERATIONS

The GATS framework provides not only a multilateral rules-based structure for services trade but also a **strategic guide for reform-minded lending**. By leveraging GATS commitments, the World Bank can align its financial sector operations with internationally recognized liberalization benchmarks, while reinforcing the long-term objectives of inclusive growth, financial resilience, and institutional reform in LMICs. This alignment enhances the coherence, sustainability, and credibility of World Bank-supported reforms and supports the integration of LMICs into the global services economy.

6.1 ALIGNING GATS-BASED LIBERALIZATION WITH FINANCIAL SECTOR LENDING GOALS

GATS commitments—particularly those in financial services—can serve as clear reference points for structuring World Bank lending interventions. This includes Development Policy Financing (DPF), Investment Project Financing (IPF), and Program-for-Results (PforR) operations targeting financial deepening, digital inclusion, and institutional development. World Bank programs that aim to enhance market access, modernize supervision, or promote financial innovation can be better anchored when linked to a country's scheduled GATS commitments. For example, if a Member has committed to allowing foreign banks under Mode 3 without equity caps, World Bank operations can support the development of licensing procedures, prudential regulations, and supervisory systems that reflect these obligations. Similarly, in countries that have made GATS commitments in digital financial services (Mode 1), lending can focus on enabling regulatory frameworks (e.g., for e-signatures, cross-border data flows, and consumer protection) to ensure that liberalization is inclusive and secure.

GATS liberalization targets can complement and guide the **policy and results indicators** embedded in World Bank operations. These include goals related to:

- Expanding access to finance for SMEs and vulnerable groups;
- Increasing the share of digital financial transactions;
- Improving supervisory effectiveness and transparency;
- Strengthening cross-border regulatory cooperation and trade facilitation.

Integrating GATS-relevant indicators into project design and monitoring frameworks, the Bank can ensure that **service sector liberalization efforts are not only WTO-consistent** but also **development-oriented**. This dual focus strengthens the accountability and sustainability of reforms. For instance, in Vietnam, the gradual removal of barriers to foreign bank operations under GATS was complemented by a World Bank program supporting the restructuring of state-owned banks and enhancement of credit reporting systems. The alignment of trade and financial sector reform amplified impact and ensured mutual reinforcement.

6.2 INTEGRATING GATS REFORMS INTO COUNTRY PARTNERSHIP FRAMEWORKS (CPFS)

The **Country Partnership Framework (CPF)** serves as the strategic planning document that guides the World Bank's engagement in a given country. Incorporating GATS reforms into CPFs allows for a holistic approach to development cooperation, wherein trade liberalization becomes a cross-cutting enabler of inclusive growth and private sector development. CPFs can explicitly reference GATS-based commitments in financial services as part of broader objectives related to:

- Investment climate reform;
- Regional integration (e.g., under AfCFTA or ASEAN);
- Digital economy transformation;
- Financial inclusion and gender equity in access to services.

For example, in Ghana's CPF (2022–2026), enhancing financial intermediation and competition is a key pillar. By linking this goal to Ghana's GATS commitments in banking and insurance, World Bank-supported programs can more effectively drive evidence-based and rules-based reform in line with international obligations.

6.3 Lending Conditionalities and Financial Inclusion Instruments

The use of **GATS-aligned conditionalities** can reinforce financial sector governance and promote market-based reforms. Conditionalities linked to licensing transparency, non-discriminatory access, or cross-border regulatory coordination can help ensure that recipient countries implement reforms that are both WTO-compliant and beneficial to inclusive development.

Instruments such as the **Financial Inclusion Support Framework (FISF)** or the **Digital Economy for Africa (DE4A)** initiative can integrate GATS dimensions into their policy matrices. For instance:

- Inclusion of measures to liberalize digital payment services under Mode 1;

- Support for open banking regulations that facilitate cross-border service provision;
- Conditions tied to removing discriminatory practices against foreign insurers or credit bureaus.

Such integration ensures that financial inclusion efforts are supported by a predictable, transparent, and internationally aligned policy environment.

6.4 Case Linkages: Ghana and Vietnam in World Bank-Supported Liberalization

Ghana

Ghana's commitments in banking and insurance under GATS, combined with its national financial inclusion and development strategies, have shaped a clear path for liberalization. World Bank lending has supported financial sector cleanup (2017–2019), the expansion of digital finance infrastructure, and improvements in consumer protection. The convergence between GATS liberalization, regional ECOWAS trade goals, and World Bank technical assistance has contributed to enhanced competition and innovation in the financial services sector.

Vietnam

Vietnam's WTO accession in 2007 included a schedule of GATS commitments in financial services, which provided the backbone for its phased liberalization. The World Bank played a central role in sequencing reforms, including the restructuring of state-owned banks, development of capital markets, and implementation of prudential regulations. By aligning lending operations with GATS milestones, Vietnam was able to manage liberalization risks while accelerating financial sector modernization.

6.4 POLICY DIALOGUE AND CROSS-INSTITUTIONAL COORDINATION

Effective implementation of GATS commitments and financial services liberalization requires not only national-level reforms but also robust coordination among international institutions, regional bodies, and development partners. The World Bank's engagement in this space must extend beyond project financing to include **policy dialogue, technical cooperation, and strategic alignment** with other global and regional actors. This cross-institutional coordination is essential for ensuring that liberalization efforts are coherent, development-oriented, and supported by harmonized technical and financial resources.

Coordination with WTO, IMF, Regional Banks, and Donors

The World Bank should strengthen institutional partnerships with relevant multilateral organizations to create synergies that support financial sector liberalization under GATS:

WTO (World Trade Organization): The WTO Secretariat provides legal interpretations, technical briefings, and monitoring functions related to GATS.

The World Bank can coordinate with the WTO to ensure that its technical assistance and lending operations reinforce countries' GATS implementation, reporting obligations, and negotiation preparedness. Joint events, technical workshops, and diagnostic tools can build LMIC capacity in both trade and financial governance.

IMF (International Monetary Fund): The IMF's expertise in macroeconomic stability, monetary policy, and financial system assessments (e.g., FSAPs) complements the World Bank's structural reform agenda. Coordinated engagement can ensure that GATS-related liberalization is implemented without compromising financial stability or macroprudential oversight. This is particularly relevant when countries invoke GATS Article XII on balance-of-payments safeguards.

Regional Development Banks (AfDB, ADB, IDB, etc.): Regional banks are key financiers of digital infrastructure, financial inclusion programs, and cross-border payment systems. Strategic coordination can align GATS-driven reforms with regional economic integration efforts (e.g., AfCFTA in Africa or ASEAN financial cooperation). The World Bank should pursue joint investment planning, co-financing opportunities, and harmonized capacity-building programs with these institutions.

Donors and Bilateral Agencies:

Development agencies (e.g., GIZ, DFID/FCDO, USAID, JICA) often support regulatory reform, financial literacy, and trade facilitation. The World Bank can leverage these partnerships to ensure that aid is complementary and GATS-aware, avoiding duplication and maximizing results.

Ensuring Coherence Across Financial Sector, Trade, and Development Goals

Policy coherence is essential to translate GATS commitments into real development outcomes. Many LMICs face institutional fragmentation, where trade ministries, central banks, finance ministries, and planning commissions operate in silos. The World Bank can serve as a convener—helping countries build inter-agency coordination platforms that integrate:

- **Financial sector strategies** with trade liberalization schedules;
- **Digital economy plans** with Mode 1 and Mode 2 service trade goals;
- **Investment promotion frameworks** with GATS transparency and national treatment principles;
- **Poverty reduction and gender equity programs** with financial inclusion reforms tied to WTO commitments.

For example, in countries like Senegal and the Philippines, the World Bank has supported cross-ministerial working groups on financial inclusion and digital transformation. Expanding these models to include trade agencies and WTO focal points would ensure a holistic approach to services liberalization, grounded in both global obligations and domestic priorities. Furthermore, aligning GATS reforms with **regional integration initiatives**—such as WAEMU, SADC, ASEAN, and AfCFTA—will help LMICs avoid policy incoherence and regulatory fragmentation. The World Bank can facilitate this through its convening power, technical guidance, and regional programming.

7. LESSONS FOR WORLD BANK SUPPORT

As LMICs increasingly leverage the WTO's General Agreement on Trade in Services (GATS) to reform their financial sectors, the World Bank's support becomes indispensable in ensuring that liberalization efforts are both inclusive and sustainable. The World Bank is uniquely positioned to assist countries in translating GATS commitments into real developmental outcomes through tailored technical assistance, institutional strengthening, and infrastructure investments. The following sub-sections highlight the critical areas where World Bank interventions can significantly enhance the developmental dividends of financial services trade liberalization.

7.1 TECHNICAL ASSISTANCE AND CAPACITY BUILDING

Technical assistance remains a cornerstone of effective World Bank engagement in supporting GATS implementation. Many LMICs face acute institutional and human capacity gaps that limit their ability to negotiate, implement, and monitor trade in services commitments. The Bank can fill this void by offering bespoke technical support that aligns with each country's reform trajectory and developmental context. Support could include legal advisory services to assist countries in drafting sound GATS schedules, analytical work to identify liberalization opportunities, and the design of reform compacts that integrate trade, finance, and digital development. Furthermore, capacity-building programs should target regulators, trade officials, parliamentarians, and civil society to ensure a broad-based understanding of the implications of GATS commitments. Embedding this support within broader Country Partnership Frameworks (CPFs) and national financial inclusion strategies, the World Bank can ensure that capacity building reinforces domestic ownership and aligns with both multilateral obligations and local priorities.

7.2 REGULATORY REFORM SUPPORT THROUGH STRENGTHENING REGULATORY INSTITUTIONS AND SUPERVISORY BODIES

For LMICs, the success of financial sector liberalization hinges on the strength and credibility of their regulatory institutions. The World Bank should prioritize the strengthening of supervisory bodies—including central banks, financial services authorities, and insurance commissions—by improving their operational independence, risk-based supervisory tools, and inter-agency coordination mechanisms. Programs could focus on building regulatory frameworks consistent with international standards such as Basel II/III, IFRS, and AML/CFT rules. In Ghana and Vietnam, World Bank support for regulatory reform has been instrumental in enhancing sector resilience, consumer protection, and investor confidence. Moreover, supervisory agencies should be equipped to manage cross-border financial activities, digital finance, and the emergence of non-bank financial institutions (NBFIs). Through diagnostic tools like Financial Sector Assessment Programs (FSAPs) and policy-based lending instruments, the Bank can help countries move from compliance-based to performance-based regulatory systems that support both market efficiency and systemic stability.

7.3 NEGOTIATION TRAINING AND GATS AWARENESS

Given the legal and economic complexities of GATS, negotiation training and awareness-raising are critical for effective participation in WTO processes and informed decision-making at the national level. Many LMIC negotiators remain under-prepared to advocate for their interests or to understand the full implications of scheduling commitments, MFN exemptions, or prudential carve-outs. The World Bank can bridge this knowledge gap by organizing negotiation bootcamps, simulation exercises, and peer-learning workshops in collaboration with the WTO and other international partners. These trainings should also extend to parliamentarians, judiciary members, and policy advisors to build a whole-of-government approach to services trade reform. Additionally, the World Bank should invest in the creation of online learning platforms and toolkits that demystify GATS provisions and provide real-time updates on global trends in financial services trade. Informed negotiators and stakeholders are more likely to design balanced commitments, avoid excessive liberalization, and leverage GATS safeguards appropriately.

7.4 DIGITAL READINESS AND FINANCIAL INFRASTRUCTURE DEVELOPMENT

Digital readiness is an essential precondition for the effective liberalization of financial services under GATS, especially with the rising prominence of Mode 1 (cross-border digital supply). The World Bank should intensify support for the development of digital public infrastructure that enables secure, inclusive, and interoperable financial systems. Key investment areas include national digital ID systems, credit registries, payment gateways, e-KYC platforms, and cybersecurity frameworks. In countries like the Philippines, such infrastructure—developed with World Bank and IFC support—has been foundational to digital financial inclusion and cross-border service expansion. Furthermore, ensuring digital readiness means closing the digital divide, particularly in rural and underserved areas. The Bank's digital economy diagnostics and initiatives such as the Digital Economy for Africa (DE4A) and ID4D can be scaled to support digital transformation aligned with GATS liberalization efforts.

7.5 DIGITAL INFRASTRUCTURE FOR SERVICES TRADE

As financial services increasingly move online, digital infrastructure becomes a critical enabler of trade in services. The World Bank should provide targeted support to develop and regulate this infrastructure in a manner that is interoperable, secure, and GATS-consistent. This includes supporting the legal recognition of e-signatures, frameworks for cross-border data flows, and open banking regulations. The establishment of regional digital platforms—such as integrated payment systems and cross-border sandboxes—can further enhance the participation of LMICs in the global digital financial ecosystem. Moreover, infrastructure projects should be complemented by policies that promote gender equity, data privacy, and consumer protection—ensuring that liberalization through digital trade is inclusive and trustworthy.

8. CONCLUSION

The liberalization of financial services under the WTO's General Agreement on Trade in Services (GATS) offers a powerful but underutilized lever for financial sector development in low- and middle-income countries (LMICs). When strategically approached, GATS commitments can serve as reform anchors—driving regulatory modernization, facilitating investment, and enhancing inclusion and resilience in domestic financial systems. This policy paper has examined how LMICs can leverage GATS commitments to guide financial services reform and World Bank engagement. Drawing on the experiences of **Ghana, Senegal, Vietnam, and the Philippines**, it is evident that successful liberalization depends not only on legal commitments but also on careful sequencing, institutional capacity, and alignment with broader development goals.

8.1 SUMMARY OF POLICY INSIGHTS FROM THE FOUR COUNTRY CASE STUDIES

Ghana used GATS commitments in banking and insurance to support broader financial inclusion and transparency, reinforced by World Bank-backed sector clean-up and digital finance reforms.

Senegal, operating within the WAEMU framework, illustrates how regional regulatory harmonization can complement GATS liberalization, with foreign participation and prudential regulation mutually reinforcing.

Vietnam demonstrates the importance of sequencing GATS commitments with institutional reform, using WTO accession as a springboard for financial restructuring and capital market development.

The Philippines leveraged GATS to underpin digital finance innovation and financial inclusion, supported by strong prudential safeguards and coordinated donor engagement.

These cases underscore the value of using GATS as a **legal, economic, and institutional guide** to reform particularly when supported by technical assistance, diagnostic tools, and multilateral cooperation.

8.2 RECOMMENDATIONS FOR LMICS

Align GATS commitments with national financial sector strategies, ensuring that liberalization supports domestic priorities such as inclusion, innovation, and financial stability.

1. **Sequence liberalization progressively** by focusing on sectors and modes of supply that match institutional readiness reserving the right to invoke GATS safeguards as needed.
2. **Use GATS commitments to lock in and signal credible reforms**, thereby attracting responsible foreign investment while maintaining the ability to regulate for prudential and developmental reasons.
3. **Invest in regulatory capacity**, especially for cross-border supervision, digital finance oversight, and data governance, using World Bank and partner support.
4. **Embed monitoring and evaluation systems** to track the developmental outcomes of liberalization, leveraging global tools like the STRI and FSAP, and integrating service trade data collection into national statistics.

8.3 Recommendations for World Bank Operational Teams

1. **Integrate GATS-based reforms into Country Partnership Frameworks (CPFs)** and sectoral lending strategies, linking trade liberalization with financial inclusion, governance, and digital economy objectives.
2. **Provide technical assistance on legal drafting, negotiation, and safeguards**, enabling countries to make informed GATS commitments while preserving policy space.
3. **Support data systems and M&E frameworks** for services trade and financial inclusion, including baseline diagnostics and periodic evaluation.

4. **Coordinate with other international organizations** (WTO, IMF, regional development banks) to provide coherent and harmonized support across trade, finance, and regulatory domains.
5. **Promote cross-sectoral collaboration** between World Bank financial, governance, trade, and digital economy units to ensure policy coherence in liberalization support.

8.4 Recommendations for World Bank Programming

To effectively support LMICs in leveraging GATS for inclusive financial development, the World Bank should:

- Launch a **dedicated technical facility on GATS implementation**, supporting countries in liberalization sequencing, safeguards application, and regulatory strengthening.
- Develop **country-specific reform compacts** that align GATS schedules with national priorities and include financing, advisory, and institutional development components.
- Incorporate GATS-related indicators into World Bank project results frameworks, particularly in operations focused on financial systems, investment climate, and digital trade.
- Establish a **GATS and Financial Services Reform Community of Practice**, bringing together policymakers, regulators, researchers, and donors to share lessons, tools, and experiences.

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Appendixes

Appendix A: Matrix of GATS Financial Services Commitments in LMICs

Selected commitments by mode of supply and sectoral coverage

Country	Sector	Mode 1	Mode 2	Mode 3	Mode 4	National Treatment Limitations
Ghana	Banking	Unbound	Unbound	None	Unbound	None (except for residency requirements)
Senegal	Insurance Services	Unbound	Unbound	None (under WAEMU framework)	Unbound	Limited to licensed firms under WAEMU
Vietnam	Financial Advisory	Bound	Bound	Gradual liberalization (100% FDI allowed post-2011)	Limited entry for professionals	Local incorporation required
Philippines	Securities & Asset Management	Unbound	Bound	Limited to 40% foreign equity	Restricted	Subject to nationality and licensing laws

Note: "Unbound" means the country has not undertaken a commitment in that mode or sector. "None" means full liberalization, subject to general domestic regulation.

Appendix B: Profiles of Ghana, Senegal, Vietnam, and the Philippines

Indicator	Ghana	Senegal	Vietnam	Philippines
WTO Accession	1995	1995	2007	1995
Financial Sector Strategy	Financial Sector Dev Strategy II	WAEMU Financial Inclusion Strategy	Financial Sector Development Strategy 2020	Digital Payments Roadmap
GATS Schedule Focus	Banking, Insurance	Banking, Insurance (WAEMU-based)	Banking, Securities, Insurance	Asset Management, Digital Finance
World Bank Support	Financial Sector Cleanup (2017–19), Digital Finance	SME Finance, Regulatory Training	Banking Reform, Capital Markets	Financial Inclusion, Digital ID
Inclusion Indicator (Adults with a bank account)	58% (2021)	42% (2021)	69% (2021)	56% (2021)

Appendix C: Sample Financial Reform Benchmarks for World Bank Lending

Reform Area	Indicative Benchmark
Licensing and Market Entry	Enact a transparent licensing framework aligned with GATS Mode 3 commitments
Prudential Regulation	Adopt Basel II/III standards for commercial banks
Digital Financial Services	Approve regulatory framework for fintech and electronic money providers
National Treatment	Remove discriminatory tax or subsidy practices targeting foreign financial institutions
Financial Inclusion	Increase mobile money penetration in rural areas by 15% over project period
GATS Safeguards Utilization	Institutionalize a protocol for applying Article XII in times of external financial stress

Appendix D: Indicators for Trade in Financial Services Monitoring

Category	**Indicator**
Services Trade Flows	Value of exports/imports in financial services by mode (USD)
Investment in Services	Volume and share of foreign equity in banking/insurance sectors (%)
Inclusion Metrics	Percentage of adults with formal financial access (disaggregated by gender)
Regulatory Performance	Time and cost to obtain a financial services license (days/USD)
Digital Services Growth	Share of digital payments in total transactions (%)

Outcome Metrics	Change in private credit to GDP ratio; reduction in interest rate spread (%)
Category	**Indicator**