Abstract

The focus of this dissertation maintains three parts. The first contribution is mainly to improve and modify the approach to measuring the financial liberalization index based on the financial services commitments which have submitted to the WTO. These improvements include further scoring for partial commitments, covering four modes of supply on trade in services and all activities listed in the *Annex on Financial Services,* and assigning weights to four modes of supply. The second purpose of this dissertation attempts to investigate the effect of financial liberalization on economic growth by employing our newly constructed financial liberalization index under the WTO. The third aim is concerned with the examination of what determines a country's level of commitments in financial services under the WTO.

Our newly calculated financial liberalization index displays that the degree of financial liberalization is positively correlated with income level under modes 1, mode 2, and mode 3, but not mode 4. We also detect that East Asian and Pacific, and Latin American and Caribbean countries are inclined to accept more liberal commitments on mode 3 compared to other modes, whereas European and Central Asian, and North American countries tend to approve a smaller degree of liberalization on mode 3 as compared with mode 1 and mode 2. In addition, the liberalization in relation to market access and national treatment is highly correlated. Furthermore, a member country with a high degree of liberalization in one of the two financial subsectors, insurance and banking, tends to also have a high degree of liberalization in the other subsector.

There are two main empirical results. First, we find that there is a positive relationship between banking sector competition and our new measure of liberalization index of banking services, and between economic growth and banking industry competition. The commitment of a country to a more liberal banking sector does serve to increase its growth rate. This positive effect of banking liberalization on growth is reinforced when a government has more supervisory power and is more effective. This positive effect, however, is alleviated when there are more stringent requirements

regarding capital regulations and higher level of institutional environment quality. In addition, the positive effects are assuaged when the liberalization is implemented in East Asian and Pacific, and Latin American and Caribbean countries. Furthermore, we detect that the relationship between economic growth and overall liberalization of financial services trade is better described as the form of a U-shaped curve.

Our second empirical result is that European and Central Asian countries, high-income countries, higher per capita GDP, higher financial trade size, greater control of corruption, lower degree of corruption, more power of the legal system, higher quality of bureaucracy, lower level of perceived corruption, and more liberal trade and financial policy altogether contribute to the explanation of greater degree of liberalization in banking services commitments, whereas Latin American and Caribbean countries, countries with membership in either Cairns Group or so-called MFA group, higher volatility of inflation rate, and more restriction on bank’s activities in securities, insurance, real estate, and nonfinancial firms entirely play a role in the determination of lower level of banking services commitments.