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## BOOK REVIEWS

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***Barriers to Trade in Banking and Financial Services.* By Ingo Walter.** Thames Essay No. 41. London: Trade Policy Research Centre, 1985. Pp. 136.

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This is a readable and clearly-written account of the variety of protectionist measures in international financial services in the world today. Each of the six chapters in the book deals with a different aspect of this topic. Chapter 1 points out that “unlike international trade in goods, trade in services generally, and financial services in particular, tend to be directed towards taking the product directly to the customer and this usually requires a supplier’s presence in the host country” (p. 21). As a result, “there is a natural predisposition in financial services to serve foreign markets by foreign direct investment rather than seeking to provide services from the firm’s home base” (p. 19). The book therefore concerns itself almost exclusively with protectionist measures aimed at foreign firms providing financial services in a domestic market rather than with trade in financial services in the strictest sense of the term.

After describing the various types of international financial services, Chapter 2 goes on to discuss the forms and motives for international market penetration — why do firms go international in providing financial services to foreign markets? Five reasons are given: customer following; customer leading; seeking local markets; horizontal integration; and vertical integration. The comparative advantage of these firms

could be due to transactions efficiency, access to information, financial technology, economies of scale, entrepreneurial behaviour, human resources, diversification, access to protected markets, tax advantages, speed of response, adaptability, cross-subsidization, or packaging function. These in turn are based on other underlying differences which enable the home country to have a comparative advantage in financial services *vis-à-vis* the host country — greater endowment of human and physical capital, banking and financial service technologies, economies of scale and a domestic or readily accessible client base that promotes learning by doing.

Chapter 3 focuses on the distortions in international competition. There are two broad categories of protectionist measures. The first is barriers to entry, the numerous forms of which are listed in detail. The second is operating restrictions applicable to foreign firms, such as market delineations, growth limits, funding limits, and nuisance measures. These distortions hinder foreign firms from competing on equal terms with domestic firms in the domestic market.

The market for financial services has one unique characteristic, that is, there exists a substantially free offshore market which can act as a basis for comparison with protected onshore markets. Chapter 4 discusses briefly the international offshore markets, its formation, and operations.

Chapter 5 deals with specific examples of domestic financial markets — the United States, the United Kingdom, Australia, Brazil, and

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Taiwan. The main conclusion here is that countries which enjoy a comparative advantage in international financial services are likely to be more liberal in their home markets towards foreign-based firms. On the other hand, countries which do not have an international comparative advantage are more likely to be protectionist. However, with economic development the costs of protectionism and the benefits of international competition and specialization become increasingly obvious and pressures for liberalization develop in these countries.

Chapter 6 sums up the preceding analysis and concludes by discussing the policy initiatives which would seem appropriate today. First, the principles of comparative advantage apply to financial services just as they do to any other industry; there is therefore no greater justification for protectionism in financial services. Second, the principle of "national treatment" should be universally accepted as governing international trade in financial services. This means that there would be no distinction between the treatment of foreign and indigenous firms. It is likely that this principle will become the main objective of trade liberalization in the financial services sector.

On the whole, the book provides an insightful discussion on a complex topic and introduces plenty of empirical details. It falls short only in the lack of a more conceptual framework and of a more cogent and explicit policy stance.

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***How Commodity Futures Markets Work.*** By Basil S. Yamey, Richard L. Sandor and Brian Hindley. Thames Essay No. 42. London: Trade Policy Research Centre, 1985. Pp. ix, 71.

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Governments have been increasingly concerned about the instability of primary commodity prices since the end of World War I. The periodic collapses in commodity prices, such as occurred

in the early 1920s and during the Great Depression, have typically precipitated discussions on the establishment of international control schemes; and to-date there have been seventeen major agreements on nine commodities. The volatility of commodity prices in the early 1970s, coupled with the success of OPEC in raising the price of oil in 1973, has once again awakened interest in such proposals.

It was during the fourth session of UNCTAD held in Nairobi in May 1976 that resolutions calling for the establishment of an Integrated Programme for Commodities (IPC) were passed. Among other resolutions, the IPC proposed the setting up of buffer stocks to stabilize the prices of ten "core" commodities identified by UNCTAD as suitable for stockpiling. However, in all these deliberations not much attention was paid to futures markets. On the contrary, much confusion was created with regard to the role of futures markets in the context of commodity price stabilization. It was only when the debate on the IPC began to wane that attention was once again focused on futures markets. This development prompted the Trade Policy Research Centre to commission a paper on futures trading. The paper by Basil Yamey has since been revised and forms the core chapter (Chapter 2) of this Thames Essay. The establishment of the plywood futures market is the focus of Richard Sandor's contribution in Chapter 3. In Chapter 1, Brian Hindley introduces the discussion from a policy perspective by relating futures trading to the debate on the IPC, and to which we now turn.

Hindley discusses the economic consequences of commodity price stabilization, by means of buffer stock schemes, on futures trading, and on the economic functions that futures trading facilitates. The single most important purpose for the futures market is to provide price insurance to producers, handlers, and users of storable commodities. These market participants are subject to the risk of price changes while they hold stocks of the commodity or have uncovered commitments to supply the commodity or its products. One way of minimizing the risk of loss