
Financial Liberalization & the Islamic Banking System in Sudan: Theoretical Overview

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Abstract

The WORLD TRADE ORGANIZATION (WTO) concluded negotiations on financial services in the context of the General Agreement on Trade in Services (GATS) in December 1997. These services include banking, insurance and other financial services, which have become subject to multilateral trade rules. i.e., any country acceding to the WTO is obliged to open such a sector of strategic importance.

Sudan, a developing economy, practicing Islamic Banking System and has an observer status at the WTO. The economic literature consistently pointed to the crucial role of financial development in a country's economic growth. It is now almost axiomatic to state that a well performing financial sector promotes economic growth through a multitude of channels, well known among which is the enhancement of the rate of accumulation and efficiency of capital.

By 1985, Islamic financial products offered by more than 50 conventional banks around the globe. By 2010, Islamic banking and finance became one of the world's fastest-growing economic sectors that comprise more than 400 institutions with assets under management in excess of \$ one trillion (\$ 1,000 billion), (Dubai Islamic Bank <http://www.dib.ae>). A study by Eltayeb (2005, pp. 1-46) summarizes the

situation for countries adopting Islamic banking practices. The aim of his study was to examine the effectiveness of the Islamic Banks in facing international competition in the context of financial liberalization of the GATS. The study concluded that, the GATS imposed a number of challenges on the Islamic Banks and that these challenges should be faced through adopting an efficient strategy based on offering comprehensive banking services that cope with technological innovations and development and meet international standards while maintaining strong ties with foreign banks particularly those with Islamic windows. In addition, the study recommends the insertion of Islamic Banking Services in the obligations' schedules to gain the maximum benefits from the facilities offered by the GATS agreement.

The aim of this paper is to overview some literature on the GATS, as well as, the Islamic Banking system in Sudan and provide some recommendations to assist this country in its anticipated accession to the WTO.

The paper concluded with some recommendations out of which are:

- It may be useful for Sudan to solve the problems that crippled the production in the agricultural sector, to encourage commercial banks to extend finance to it. The Salam mode of finance should be enhanced.
- The Sudanese commercial banks are recommended to continue increasing the level of their investments in modern banking services technology.
- Commercial banks are also recommended to follow the Central Bank of Sudan instructions for merging, to improve their abilities to compete on the international level.
- Commercial banks should diversify their provided banking services, as well as innovate new banking services to meet the increasing demands of their clients.
- The manpower in these commercial banks should be given more attention through training and skills upgrading, that will enable them to use the modern

technology more efficiently.

Keywords: Financial Liberalization, Islamic Banking System, Sudan.

Introduction

The negotiations on financial services in the context of the General Agreement on Trade in Services (GATS) were concluded in December 1997. The services sector, which includes banking, insurance and other financial services, is now fully subject to multilateral trade rules. Not only did the agreement consolidate the relatively open policies of industrial countries which account for much of world trade in financial services, it also enjoyed wide participation from both developing countries and countries in transition (Mattoo, 2001, pp. 2-3).

Practically speaking, a country acceding to the WTO will be required to open such a sector of strategic importance. In February 2000 the WORLD TRADE ORGANIZATION (WTO) Services Council formally launched a new round of negotiations on services which included negotiations on trade in financial services. The aim was to achieve greater openness and liberalization of trade in financial services between the negotiating parties.

Sudan, a developing economy, has an observer status at the WTO and negotiations for its accession are underway. The banking system in Sudan is the most important part of the financial sector in the country. The early 1990's witnessed the adoption of Islamic banking practices in all banks operating in Sudan. The financial sector reform program in Sudan started in 1992 under the direct supervision of the IMF. It included deregulation, gradual opening up of the financial sector for foreign participation, and privatization of banks and other financial institutions. The term "financial reform" is used interchangeably with the terms "Financial Liberalization", "Financial Deregulation", and "Financial Deeping" (Wilbert O. Bascom, 1994). Liberalization of financial services in Sudan was viewed by the architects of the reform program as

a means to allow for the introduction into the country high quality of financial services from more developed parts of the world. The late 1990s witnessed a substantial opening up of the Sudanese financial sector. Several foreign banks established branches in Sudan and became part of the country's banking sector and financial development.

The purpose of this paper is to overview some literature on the GATS, as well as, the Banking system in Sudan in order to be able to provide some recommendations that may assist this country in its anticipated accession to the WTO.

1. The Nature of Services Covered by GATS

The term services encompasses a heterogeneous group of activities spanning financial services (e.g. banking and insurance), transportation (e.g. Sea and Air), telecommunications, consulting services, retail and wholesale trade, and several others. Much of these activities perform the economic function of intermediation either through time or space, Melvin (1989, pp.1-195). Services are commonly called producer services. They are inputs into production process and against which trade protection operates with tariff-like instruments. The GATS classifies services into 155 service type, and differentiates between four modes of supply (Whalley, 2004, pp. 1223-1253). The modes provide a device for facilitating the making of commitments in negotiation. No attempt is made here to provide a comprehensive picture of the GATS and how it works. Rather, brief mention is made of those features of the agreement that are relevant to the discussion that follows. The GATS covers all measures taken by members affecting trade in services and all service sectors.

The agreement is unusual in taking a wide view of what constitutes trade, and defines trade in services as the supply of a service through any one of the four following modes:

Mode 1: Cross –Border Supply:

This is where a service is supplied directly to a consumer's country of residence from a supplier's country of residence which is analogous to international trade in goods. In Mode 1 a product (service) crosses a national frontier; e.g. the taking of a loan or the purchase of insurance cover by a consumer from a financial institution located abroad, legal advice given by letter or telephone and international telephone calls.

Mode 2: Consumption Abroad:

This is where consumers or firms making use of a service in another country (e.g. a visit to a Law office abroad and Tourism, or when a consumer's property alone moves abroad, as in the case of ships being repaired abroad). This creates some fuzziness in the distinction between Modes 1 and 2.

Mode 3: Commercial Presence:

Mode 3 is of crucial significance, and entails the commercial presence of a supplier of one member in the jurisdiction of another Member, e.g. when a foreign bank or other financial institution establishes a branch or subsidiary in the territory of a country and supplies financial services. By defining trade to include sales through commercial presence, GATS includes in its domain foreign direct investment (FDI), which accounts for a large share of all services transactions, particularly in financial services.

Mode 4: Presence of Natural Persons:

This is where a service is supplied by the (typically temporary) movement of a service provider to the consumer's country of residence (e.g. labor mobility of the service provider). The GATS definition of mode 4 is "the supply of a service by a service supplier of one Member, through presence of natural persons of a Member

in the territory of any other Member. For instance, independent financial consultants or bank managers, of one member in the territory of another member.

2. Basic Principles Under the WTO

(A) The Most Favoured Nation Principle (MFN):

Favor one, favor all. Which means treating one's trading partners equally on the principle of non-discrimination. Under GATS, if a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. (This applies even if the country has made no specific commitment to provide foreign companies access to its markets under the WTO.)

MFN applies to all services, but some special temporary exemptions have been allowed. When GATS came into force, a number of countries already had preferential agreements in services that they had signed with trading partners, either bilaterally or in small groups. WTO members felt it was necessary to maintain these preferences temporarily. They gave themselves the right to continue giving more favorable treatment to particular countries in particular services activities by listing "MFN exemptions" alongside their first sets of commitments. In order to protect the general MFN principle, the exemptions could only be made once; nothing can be added to the lists. They are currently being reviewed as mandated, and will normally last no more than ten years.

In the case of financial services, a number of MFN exemptions had been maintained when the preceding round of negotiations were concluded in mid-1995, some of which reserved the right to apply reciprocity as a basis for granting market access. Among them was the MFN exemption of the United States, which reserved the right to discriminate between trading partners with respect to new entry or the expansion of existing activities, in order to "protect existing activities of United

States service suppliers abroad and to ensure substantially full market access and national treatment in international financial markets.”. One of the key objectives of the extended negotiations was to achieve the removal of such exemptions and reach a full MFN-based result (Matto, 2001, pp.2-37).

(B) National Treatment Principle:

National Treatment under the GATS is defined as, treatment no less favorable than that accorded to like domestic services and service suppliers. Members may inscribe limitations on national treatment in their schedules with respect to each of GATS’ four modes of supply.

Any limitations on national treatment (whether some rights granted to local companies will not be granted to foreign companies). If it also says foreign banks are only allowed at one branch while domestic banks are allowed numerous branches, that is an exception to the national treatment principle. A government may not want to make a commitment to the level of foreign competition in a given sector, because it considers the sector to be a core governmental function or indeed for any other reason. In this case, the government’s only obligations are minimal, for example to be transparent in regulating the sector, and not to discriminate between foreign suppliers. Governmental services (not supplied commercially) are explicitly carved out of the agreement and there is nothing in GATS that force the government to privatize service industries. In fact, the word “privatize” does not even appear in GATS. Nor does it outlaw the government or even private monopolies. That was intended to allow publicly funded services in core areas of their responsibility.

(C) Market Access Principle:

Commitments of the individual country to open markets in specific services sectors— and the extent of openness of those markets will appear in "schedules"

that list the sectors being opened, the extent of market access being given in those sectors (e.g. whether there are any restrictions on foreign ownership). If a government commits itself to allow foreign banks to operate in its domestic market, that is a market-access commitment. And if the government limits the number of licenses it will issue, then that is a market-access limitation.

The market access principle under the GATS prohibits six types of limitations, unless they have been inscribed by a member in its schedule. These are: (1) limitations on the number of suppliers; (2) limitations on the total value of service transactions or assets; (3) limitations on the total number of service operations or on the total quantity of service output; (4) limitations on the total number of natural persons that may be employed; (5) measures which restrict or require specific types of legal entity or joint venture; and (6) limitations on the participation of foreign capital. In scheduled sectors, the existence of any of these limitations has to be indicated with respect to each of the four modes of supply, described above. In fact, there are several markets where conditions of access are more liberal than those bound under the GATS. It is worth mentioning that GATS commitments are guarantees and the absence of such guarantees need not mean that access to a Particular market is denied. (Matto, 2001, pp. 2-37).

(D) Transparency Principle:

The transparency principle under the GATS states that, governments must publish all relevant laws and regulations, and set up enquiry points within their bureaucracies. Foreign companies and governments can then use these inquiry points to obtain information about regulations in any service sector. And they have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

(E) Regulations Principle:

The regulations principle obliges governments to regulate services reasonably, objectively and impartially. When a government makes an administrative decision that affects a service, it should also provide an impartial means for reviewing the decision (for example a tribunal). The GATS does not require any service to be deregulated. Commitments to liberalize do not affect governments' right to set levels of quality, safety, or price, or to introduce regulations to pursue any other policy objective they see fit. A commitment to national treatment, for example, would only mean that the same regulations would apply to foreign suppliers as to nationals. Governments naturally retain their right to set qualification requirements for doctors or lawyers, and to set standards to ensure consumer health and safety.

(F) Recognition Principle:

When two (or more) governments have agreements recognizing each other's qualifications (for example, the licensing or certification of service suppliers), GATS say other members must also be given a chance to negotiate comparable pacts. The recognition of other countries' qualifications must not be discriminatory, and it must not amount to protectionism in disguise. These recognition agreements have to be notified to the WTO.

(G) International Payments and Transfers Principle:

Once a government has made a commitment to open a service sector to foreign competition, it must not normally restrict money being transferred out of the country as payment for services supplied (current transactions) in that sector. The only exception is when there are balance-of-payments difficulties, and even then, the restrictions must be temporary and subject to other limits and conditions.

(H) Progressive Liberalization:

The UR was only the beginning. GATS require more negotiations, which began in early 2000 and are now part of the Doha Development Agenda. The goal is to take the liberalization process further by increasing the level of commitments in schedules.

(I) Reciprocity Principle:

According to this principle a member country of the WTO can take trade measures and procedures against another member country that had previously taken the same measures and procedures against it.

3. Financial Services Under the GATS

Financial services under GATS consist of insurance, banking and other financial services. Insurance services encompass direct insurance (life and non-life), reinsurance, insurance remediation, and auxiliary insurance services (including consultancy, actuarial, risk assessment and claim settlement services). Whereas, banking and other financial services are defined under the GATS to include a wide range of services such as; acceptance of deposits, lending, financial leasing, payment and money transmission services, guarantees and commitments, trading (in money market instruments, foreign exchange, derivative products, exchange rate and interest rate instruments, transferable securities, and other negotiable instruments and financial assets), participation in issues of securities, money broking, asset management, settlement and clearing services, provision and transfer of financial information (including data processing), and advisory and intermediation services (Matto, 2001, pp. 2-37).

Liberalization of financial services trade is expected to benefit emerging economies through two channels. First, it has been argued that competition with foreign banks raises the level of efficiency in the domestic banking sector. Second, liberalization

may trigger much needed capital inflows. Benefits are likely to be higher for multilateral than for regional liberalization, but that multilateral liberalization may also carry higher risks in terms of macroeconomic volatility (Jansen and Vennes, 2006, pp. 38-58). The types of financial services agreed upon in the UR concerning trade in Services were classified as follows:

(A) Insurance Services:

These includes direct insurance, reinsurance, intermediation and brokers and consulting services.

(B) Banking Services:

Banking services' comprises acceptance of deposits, credit, lease finance, payment, transfers, credit card, trading in stocks and derivatives, bond issuing, assets management and various types of collective investment. Liberalization of banking services is measured in two different ways: the first one is the change in the share of foreign banks in the total number of banks; the second is the change in the share of foreign bank assets in total bank assets. It turns out that foreign banks' market share (Share in assets) does not have a significant effect on domestic bank operations, while the number of foreign banks has (Claessens and Jansen, 2000). This research infer from this that the number of foreign banks, rather than their market size determine competitive conditions in national banking markets.

Ryan (1990, pp. 349-366) and Ryan (1992, pp. 92-118) shows that banks do not directly provide utility, but instead facilitate intermediation between borrowers and lenders. However, he also maintains that liberalization of trade in banking services can reduce GDP, and even welfare in developing countries. The reason he gives is that the economic gains from liberalization will be automatically shared between developed and developing countries. But it is obvious that this conclusion reflects the use of specific formulations and parameter values and

functional forms and hence it cannot be generalized. In fact, openness of markets (liberalization) in the field of banking services is expected to have positive as well as negative impacts. Examples of the Positive impacts are:

1. Improvement in the efficiency of the sector.
2. Provision of incentives for restructuring financial institutions and facilitating provision of universal services by these institutions.
3. Creating opportunities for penetration of external markets and support of financial presence abroad. While the adverse impacts include the following (Aql, 2003, pp.291-303):
 - A. Lack of fair competition in the presence of strong competitors who enjoy high comparative advantages in terms of financial, human and technological resources.
 - B. The possibility of siphoning off national savings by foreign financial institutions which invest them in their countries of origin where low – risk investment opportunities tend to be abundant.
 - C. Influencing the monetary policies adopted by the host country given the climate of freedom enjoyed by these financial institutions.

4.Negotiations Under GATS

Negotiations under GATS aim to further liberalize international trade in services started in early 2000 as mandated by GATS (Article 19). The first phase of the negotiations ended successfully in March 2001 when members agreed on the guidelines and procedures for the negotiations. By agreeing with these guidelines, members set the objectives, scope and method for the negotiations in a clear and balanced manner (WTO Website).

The members also endorsed some of GATS' fundamental principles — i.e. members' right to regulate and to introduce new regulations on the supply of services that

commensurate with the national policy objectives; their right to specify which services they wish to open to foreign suppliers and under which conditions; and the overarching principle of flexibility for developing and least-developed countries. The guidelines are therefore sensitive to public policy concerns in important sectors such as health-care, public education and cultural industries, while stressing the importance of liberalization in general, and ensuring Foreign Service providers have effective access to domestic markets. The 2001 Doha Ministerial Declaration incorporated these negotiations into the “single undertaking” of the Doha Development Agenda. Since July 2002, a process of bilateral negotiations on market access has been underway.

Negotiations in the Doha Round are being conducted on two tracks: bilateral and/or plurilateral negotiations to improve market conditions for trade in services – this mostly involves improving specific commitments on market access and national treatment (i.e. ensuring that privileges given to local companies are also given to foreign companies) and promoting most-favored nation treatment (more equal treatment among WTO members).

Multilateral negotiations among all WTO members to establish any necessary rules and disciplines (such as on domestic regulation, emergency safeguard measures, government procurement and subsidies) which will apply to the whole WTO membership, with certain special provisions for developing and least-developed countries.

Negotiations to liberalize market conditions for trade in services are conducted mainly through a "request-offer" procedure. Members send requests directly to each other indicating what improvements they are seeking for their services and service suppliers; members specify in their initial offers how and to what extent they are willing to take binding commitments in response to these requests. Unlike requests, which are not provided to the WTO Secretariat, offers are circulated to all members

as a WTO document. At the conclusion of the negotiations, final offers become legally binding commitments specifying the conditions under which trade in services is granted. As of end of June 2008, 71 initial offers had been submitted by WTO members.

By the end of June 2008, 31 revised offers had been submitted by WTO members. At the start of the negotiations, WTO members tabled proposals regarding both the structure and the contents of the negotiations. These proposals highlight the main areas of interest for individual members and/or groups of members. Proposals often provide background information and suggestions for improving trade conditions in a particular sector. Currently, there are virtually no new proposals being tabled as work has moved on to the request-offer process. Interested members started to meet in so-called "Friends Groups", including the "Friends of Financial Services".

Members had identified their key negotiating objectives for financial services in the run-up to the Hong Kong Ministerial Conference. Those objectives included the following:

(A) Scope of Commitments (Sectoral or Modal):

- Commitments on "commercial presence" by a foreign company (Mode 3) for all financial services.
- Commitments on Mode 1 (services supplied from one country to another) and Mode 2 (consumers or firms making use of a service in another country) in appropriate sub-sectors (e.g. financial services addressed to sophisticated customers, such as reinsurance, asset management, and securities; marine and energy insurance services; provision and transfer of financial information and financial data processing) (WTO Website).

(B) Limitations and Discriminations:

- Limitations on the right to establish new companies and to acquire existing companies.
- Limitations on legal form.
- Limitations on foreign ownership (i.e. freedom to establish in the form of wholly -owned subsidiaries, joint ventures or branches).
- Non -discriminatory limitations, such as monopolies, numerical quotas or economic needs tests (ENTs — a test using economic criteria to decide whether the entry into the market of a foreign firm is warranted) and mandatory sessions.
- Discrimination in the application of laws and regulations.

(C) Regulatory Issues and Additional Commitments for Negotiations:

Transparency in the development and application of laws and regulations, transparent and speedy licensing procedures.

As of January 2010, 71 offers (initial and revised) have been submitted, representing 95 members. Almost half of them contain improvements to financial services commitments. However, improvements are not significant, and in many cases, fall behind the current and more open regulatory framework.

While continuing with bilateral encounters, members have also been discussing the elements that will guide the services negotiations to completion within the overall context of the Doha Development Agenda. In this connection, the Chair of the services negotiations (Council for Trade in Services in Special Session) issued on 26 May 2008 a report with a draft services text that WTO members, after further discussion, could adopt. The draft, which was based on consultations conducted by the Chair, addressed issues such as participants' level of ambition, their willingness to bind existing and improved levels of market access and national treatment, as

well as specific reference to Modes 1 and 4 with respect to the treatment of sectors and modes of supply of export interest to developing countries.

On a parallel track, the Chair of the Trade Negotiations Committee (TNC), at the request of WTO members, convened a "signaling conference" for interested ministers as part of the "July 2008" package. At the signaling conference, participating ministers indicated how their governments' current services offers might be improved in response to the requests they had received. The signals were not intended to represent the final outcome of the services negotiations but enabled members to assess the progress made in the request-offer negotiations while preparing new draft schedules for submission. Previous experience in negotiations pertinent to financial services shows that, governments have adopted three different approaches. These are:

- To bind the status quo, which may have been arrived at after liberalization, either unilateral or in the context of the negotiations;
- To make binding commitments that represent less than the status quo in policy terms; and
- To promise future liberalization, this may or may not have been planned prior to the negotiations. These categories are not necessarily mutually exclusive when the set of a country's commitments is taken as a whole, nor is it always easy to determine the precise category in which a policy position should fall. The distinctions are useful, however, in thinking about the relationship between WTO negotiations and domestic liberalization processes.

Governments binding at the status quo signaled that existing market conditions are guaranteed. Even though much greater knowledge of national regimes than is available would be required to make a definitive judgment. Consolidation of the status quo clearly has positive value and it is the easiest thing for governments to do while signaling a positive intent and a commitment to the trading system. The

pervasiveness of status quo bindings has, however, been sometimes held out as evidence of the failure of the GATS to generate meaningful liberalization. But it is important to recognize that in many cases, the status quo itself was reached after recent liberalization, either unilateral or during the course of negotiations (Matto, 2001, pp.2-37).

5. Differences Between Liberalization of Trade in Goods and Liberalization of Trade in Services

International trade in goods is a relatively simple idea to grasp: a product is transported from one country to another. While trade in services is much more diverse. Telephone companies, banks, airlines and accountancy firms provide their services in quite different ways. The GATS annexes reflect some of this diversity. The difference between services trade liberalization and trade in goods liberalization is that, to achieve meaningful liberalization in services trade may require modifications of factor mobility restrictions which may not be needed for goods liberalization. This is recognized in modes 3 and 4 of GATS which effectively relate to capital (FDI) mobility and labour (service provider) mobility.

However, for a number of services, there is no difference distinguishes trade in services from trade in goods. Trade in services is conducted in much the same manner as trade in goods, with the service (say software) produced in one country and supplied cross-border to a consumer in another country. But for many other services, from local phone calls to transportation, the simultaneity of production and consumption implies a need for proximity between the consumer and producer and hence it is necessary for the factors of production (capital and labor) to move to the location of the consumer.

But there is an interesting difference between the two underlined types of trade with relevance to their impact on growth. That can be seen in two distinguishing features

of services liberalization: First, the fact that "imports" of services must be locally produced and that liberalization leads to enhanced competition, both domestic and foreign. Second, barriers to entry in a number of services sectors, ranging from telecommunications to professional services, are maintained not only against foreign suppliers but also against new domestic suppliers. Full liberalization can, therefore, lead to enhanced competition from both domestic and foreign suppliers. Greater foreign factor participation and increased competition together imply a large scale of activity, and hence greater scope for generating the special growth-enhancing effects. In fact, if foreign participation merely substitutes for domestic factors and the sector does not expand, i.e. the degree of competition remains unchanged, then there cannot be a positive growth impact on account of the scale effect. Conversely, a larger scale achieved merely by eliminating domestic barriers to entry and attracting domestic resources from other sectors would suffice to generate larger endogenous growth. It is worth noting that increased trade in goods can also have a generalized positive impact on growth. For example, trade in goods enables a country to employ a larger variety of intermediate goods and capital equipment which could enhance the productivity of its other resources. Furthermore, trade in goods makes it possible for a country to acquire technology developed worldwide, especially in the form of embodied capital goods (Matto, 2001).

6. Sudan's Present Status with the WTO

Sudan is currently in the process of negotiating its accession to the WTO. The WTO describes Sudan's present status as follows: "Working Party on the accession of Sudan to the WTO was established on 25 October 1994. Sudan's Memorandum on its Foreign Trade Regime was circulated in January 1999. The second meeting of the Working Party was held in March 2004. A Factual Summary of Points Raised (summarizing the discussions of the Working Party) was circulated informally in September 2004. Bilateral market access

negotiations are underway on the basis of revised offers on goods and services". According to WTO rules this situation is labeled as "Observer" status, which still stands for Sudan, (December, 2010).

The delay in Sudan's accession to the WTO has induced some writers like Mosoti (2004, pp.269-282) to suggest that, Sudan should forge links with least developed countries (LDCs) and other WTO members and seek support during the negotiations. The successful conclusion of negotiations and the accession of Nepal and Cambodia, both LDCs, at the fifth Ministerial Conference in September 2003 should provide a positive impetus and lessons for other countries such as Sudan that are in the process of negotiating accession. In the same context and relevant to the subject matter of this research, a study by Eltayeb (2005, pp.1-46), recommends the necessary insertion of Islamic Banking Services in the obligations' schedules and benefit from the facilities offered by the GATS. Moreover, it recommends creating giant banking institutions able to face the international competition.

Sudan's general viewpoint with regard to the WTO has been demonstrated by the Advisor to the Presidency of the Republic and National Chief Negotiator for the Accession of Sudan to the WTO, when he addressed the Ministerial Conference, Fourth Session (WTO, 2001) as follows: "It is unfortunate that the benefits of global markets integration are accruing to the powerful. Smaller and poorer countries share little and, in most cases, encounter net losses. The potential benefits of such process on the issues of growth and equity are yet to be vigorously demonstrated. We feel assured by the fact that GATT had always been in its practice following the view of application of its articles and reinterpreting them in the light of experience. In this context, we seek to affirm that developing and LDCs will not be required to undertake any commitment and concession inconsistent with their individual development, financial and trading needs. We also seek flexible application of the right to special and differential treatment.

Sudan is pursuing vigorously market-based economic reforms that involve deep process of economic restructuring, upholding private property rights, due process of law and access to judicial review. We are opening our economy to partners in trade and development from all over the globe."

Demonstrating Sudan's efforts towards the accession to the WTO, particularly with regard to the financial sector (banking services), the above mentioned Advisor has stated in another professional presentation that " Sudan's record in economic reform, trade liberalization, and compliance with WTO rules, reflects impressive gains on banking and capital markets reforms, attained during 2005 and early 2006. Inspired by the Comprehensive Peace Agreement (CPA) a dual banking regime that entails both an Islamic and a secular banking system has been adopted. Article (2002)-2 of the new interim national constitution conferred full independence on the Central Bank of Sudan (CBoS), in pursuing monetary policy, and implementing banking regulatory regime. The government has introduced a new currency, the Sudanese pound, in January 2007, in order to harness a sense of togetherness. Several previous restrictions on the operations of foreign banks have been removed, such as:

- A. The ban on foreign banks from opening local currency accounts to customers other than exporters, Sudanese nationals working abroad and foreign companies has been abolished.
- B. Branches of foreign banks are no longer restricted to Khartoum and Port Sudan.
- C. Appointment of banks general managers is no longer restricted to Sudanese nationals.

Current account operations have been fully liberalized pursuant to Article VIII of the IMF agreement. An IMF visiting mission in December 2005 noted in its official visit report that..." Sudan exchange system has been substantially liberalized over the last several years, and payments and transfers for all current international transactions

are now freely permitted in practice."

The financial services reforms previously undertaken in Sudan were studied by Kireyev (2001, pp.1-52) who concluded that, Progress achieved by Sudan in financial reforms has been substantial. Although it is still not sufficient to ensure removing the constraint on economic development emanating from the banking sector. It is to be noted that, the CBoS has largely completed the liberalization of the financial system, introduced instruments of indirect monetary control, improved bank supervision and prudential regulation, and accelerated institutional reform. These efforts supplemented broader macroeconomic stabilization policies of the government and resulted in higher growth, reduced inflation, exchange rate stability, and larger financial deepening. The trend of growing velocity of money has been reversed, and main monetary aggregates started rising in real terms; real rates of returns became positive, which stimulated growth in private sector deposits with commercial banks. Finally, the independence of the CBoS has been strengthened, which allowed it to shift the priorities of its monetary policy from financing government deficits to price stability. At the same time, the financial reforms are far from being complete; the banking sector remains inherently weak, vulnerable to exogenous shocks and political instability. With the adherence to the de-facto fixed exchange rate regime, the CBoS weakens its control of the behavior of reserve money, although by administering it intelligently, it could still accomplish a great deal. The instability of the multiplier creates an additional challenge for the authorities to make these basic tools as part of their monetary arsenal which is at least consistent with the ultimate goal of sustained real growth. Continued strong macroeconomic policies and consistent financial reforms need to be mutually reinforcing.

Part of the impact of the aforesaid reforms was presented in a report by Sudan News Agency (SUNA, April, 2008) which indicated that, the size of foreign investments

in Sudan's banking sector amounted to one billion US\$ during the years 2006 and 2007. There was great interest in more investment in the sector. Indeed, the Sudanese banking sector is rich with its financial resources, which contribute greatly in providing the needed finance for the promotion of production and development in the country. The capital of the newly established banks amounted to 32% of the total banking system's capital.

Meanwhile, the policy of liberalizing the banking services and the very positive response of the private and public sectors to this policy, played an active role in maintaining the economic growth rate of the country as high as 10.5 % by the end of 2007. In addition to that, the inflation rate remained under control, i.e. within the targeted levels. As for the exchange rate, the Sudanese pound continued to gain strength against the US \$. Regarding private investment financing, an official at the CBoS, while admitting that private investment activities in the country are vulnerable to economic and political changes, emphasized the need to counter this vulnerability by augmenting the financial resources of the commercial banks to enable them to extend more finance to private sector activities. He also explained that the active monetary and financial policies of the CBoS have led to an increase in foreign and local investment and this attested by such indicators as the increase in total financial assets of the commercial banks by 617% and bank deposits by 561% in 2007. Meanwhile the exchange rate of the Sudanese pound against the US Dollar continued to improve, reaching £s 2 per Dollar. This was partly due to the increase in the country's revenues from oil exports and in its reserves of foreign currency. The performance of the private sector also showed remarkable improvement.

These positive trends were reinforced by the pro-investment monetary policies adopted by the CBoS. These included motivating commercial banks to allocate funds to finance agricultural schemes and social development projects (the micro finance). The investment- encouraging policies also included decreasing the cost of financing,

where the margins of "Murabahats" dropped to 10% in 2008 from 15% in 2002. As a result, investments flowed to many economic sectors, including the banking sector itself which witnessed the establishment of some new banks, as Baplus Bank in 2003, the Sudanese-Egyptian Bank and Al-Salam Bank in 2005, and Emirate-Sudan Bank in 2006, was negatively affected. Modern technologies such as, computer networks, have been introduced in commercial banks' branches besides linking banks with electronic telecommunication networks. Moreover, to facilitate banking work, particularly in investment fields, the CBoS established a unit to manage and invest the official reserves. Investment department, to follow up investments financed by foreign currencies was established. Khartoum Stock Exchange launched a vigorous campaign to raise awareness on saving and investment in Sudan among both local and foreign private sector. The CBoS and other Banks continued their efforts to remove all impediments affecting the flow of Foreign Direct Investment (FDI) into the country. In addition, they continued their endeavors to create a conducive banking climate.

Following Hwan and Shin (1998) views mentioned in Chapter 2, Sudan's Telecom indicators, scored a per capita rate for Internet users (9.3 percent) in 2006 which was considered to be higher than the regional and the low-income country group averages, while the telephone per capita rate (14 percent), although trebling since the early 2000s, is still lower than regional and income group comparator rates. The country's International Telecommunications Union (ITU) telecom competition index is 1.0 (on the scale of 0 to 2, better). There are few formal restrictions on FDI in services, and there is substantial foreign commercial presence in telecommunications and banking sectors.

When applying some of the WTO principles such as, free trade policy, MFN and market access on Sudan's present situation, it appeared that, the trade barriers embodied in Sudan's foreign trade policies and practices are substantially greater

than those of many Sub-Saharan Africa (SSA) and low-income countries. In 2006, Sudan ranked 118th (out of 125 countries) in Trade (MFN) and Tariff Restrictiveness Index (TRI). Sudan's MFN applied tariff average of 20.1 percent and the import-weighted averages of 16 percent are both higher than the regional (13 percent and 12.3 percent) and low-income (12.6 percent and 11.3 percent) averages. However, it must be pointed out that despite all the aforesaid Sudan's trade regime became substantially more open over the years, (WTO, website).

Sudan's WTO accession process has been stalled in recent years for reasons unrelated to economic policy, but is expected to eventually lead to the liberalization of the import regime and to commitments that would reinforce the services sector liberalization already underway. However, despite its poor trade policy, institutional environment, and international political standing, Sudan's real growth rate of trade recorded 25.2 percent in 2007 which represents the second-highest globally. Exports have grown faster than imports since the late 1990s except during the period 2005–06. Most of the recent growth rate of exports is attributable to increased production of oil and gas, especially from newly exploited fields, as well as the increase in the international price that has boosted the country's terms of trade. Trade as a share of GDP was 43.6 percent in 2006, which was lower than regional and income group mean integration ratios. In 2006 also, foreign direct investment (FDI) inflows were at 9.4 percent of the GDP, most of them were related to investments in the oil and gas sector. Services' share in total exports was 2.3 percent only, while the share of non-oil and gas merchandise exports was at 13 percent of total exports, reflecting Sudan's overarching dependence on its hydrocarbon sector for export incomes, despite the country's tremendous potential for international integration beyond the booming oil sector. The major non-hydrocarbon exports are sheep and sesame seeds. On the other hand, Sudan's imports include a wide range of products such as food, manufactured goods, refinery and transport equipment, medicines and chemicals,

textiles, and wheat. The country's main export destinations are China, Japan, and the Republic of Korea. Import goods are mainly obtained from China, Saudi Arabia, and the United Arab Emirates (CBoS Reports and World Trade Indicators, 2008).

Sudan has much better access to international markets than an average SSA or low-income country. According to, Trend and Technology in the Recording Industry (TTRI, available at: bing.com), it was ranked 23rd (out of 125 countries) on the 2006 Market Access. Such good market access may be looked upon as a common characteristic of most oil- and gas exporting nations. And Sudan enjoys such good market access in spite of the economic embargo that has been imposed on it by the United States of America since 1997. This embargo blocks U.S. firms and individuals from conducting any business transaction with the national government or state-owned enterprises, including a range of Sudanese companies operating in all sectors (except gum Arabic). Also, Sudan has not signed an interim economic partnership agreement (EPA), a comprehensive trade and development agreement to replace the African, Caribbean, Pacific (ACP) -EU Cotonou Agreement, which expired at the end of 2007, (European Commission, 2006). However, as a least-developed country, Sudan continues to benefit from duty-free access under the EU's "Everything but Arms" initiative. Its utilization of EU preferences, derived overwhelmingly from sugar exports, was high (75 percent in 2006), but their value is negligible at less than 1 percent of bilateral exports. Regionally, Sudan is a member of the Common Market for Eastern and Southern Africa (COMESA). It is therefore, important for Sudan to prepare its investment climate in order to make use of these agreements and economic blocs.

The improvement in the investment climate in Sudan can be gauged through comparing its Doing Business rank which was 143rd (out of 178) in 2008, with its previous rank of 174 in 2007. This improvement was largely due to reduction in documentation requirements, time and cost of doing business, which are deemed to

be equally important in the field of trade. The ongoing crisis in Darfur, with its political implications and unstable security environment, has constrained the country's ability to do business globally. The quality of governance has improved since the early 2000s; however, like much of the SSA region, governance quality is poor. Surpassing its comparators on all aspects of the 2006 Logistics Perception Index, the country was ranked 64th (out of 150). This may be attributable to the remarkable improvements witnessed in the field of infrastructure: roads, bridges, railways, and water transport. However, the large geographical size of the country combined with poor domestic logistics still impose substantive costs on export – import activities (World Bank, Development Report 2008).

In general, the present situation of Sudan with the WTO has been well envisaged by the Statement of H.E. James Kok RUEA Minister of Foreign Trade, Republic of Sudan at the Seventh WTO Ministerial Conference, November 30 -December 2, 2009, and Geneva, who stated that: "We are concerned about the cumbersome accession procedures. We recall accession Guidelines adopted by the General Council in 2002. We emphasize the Hong Kong Ministerial Declaration for Accession. We urge for the establishment and adoption of an effective mechanism for fast -tracking the accession process for least- developed countries (LDCs).

Sudan is calling for an early constructive, inclusive and comprehensive round table of dialogue on the process of accession. In this respect, the Government of the Republic of Sudan realizes and reaffirms the role and the contribution of trade in growth, economic development, poverty alleviation and the achievement of the MDGs. It is on this basis that, Sudan is locked -in a painful process of autonomous liberalization of its trade and economic regime as a means for integrating its economy into global trade system.

In this regard, the process of trade liberalization in Sudan was started in 1992, while

the Government formally applied for WTO membership, in October 1994. Despite the fact that Sudan completed the necessary steps of accession; we regret to note that the accession process has been difficult and cumbersome experience. It is time. Consuming, wasteful, costly, and uncertain; the demands are incompatible with our development, capacity and financial conditions. Worse of all is the non-trade and non- technical matters are adversely affecting accession process.

Sudan is the largest country in a strategic location in Africa. Its accession to WTO would enhance trade with North, East and Central Africa. It is the gateway for trade to her ten neighboring countries. Sudan is the link for trade flows in the region. We seriously need our accession to be expedited. Finally, Sudan associates itself with the WTO Director General's proposals, particularly the issue of assistance to the LDCs.

7. The Role of Financial Development in a Country's Economic Growth

A considerable part of the economic literature on the subject has consistently pointed to the crucial role of financial development in a country's economic growth. It is now almost axiomatic to state that a well performing financial sector promotes economic growth through a multitude of channels, well known among which is the enhancement of the rate of accumulation and efficiency of capital. Indeed, the relationship between economic growth and financial sector development has been extensively studied by researchers. McKinnon (1973) and Shaw (1973) highlighted the role of the financial sector in mobilizing savings and consequently enhancing the level of investment and rate of economic growth. In Fry (1978, pp. 464-475) the results of pooled time series cross-section analysis using annual observations for seven Asian less developed countries support the view that financial conditions influence savings and growth. Financial constraints such as interest rate ceilings

discourage risk-taking by financial institutions and hence ration out a large proportion of potential investors. King and Levine (1993, pp. 717-737) reached a conclusion that, the predetermined component of financial development is a good predictor of long-run growth over the next 10 to 30 years. i.e., the best predictor of the average level of financial development is past financial development. They also confirmed that, higher levels of financial development are strongly associated with future rates of capital accumulation and future improvements in the efficiency with which economies employ capital. Abolishing interest rate ceilings through liberalization of international financial flows, contributes to achieving the optimal result of maximizing investment and raising still further investment's average efficiency (Levine, Loayza, and Beck, 2000, pp. 31-77). Mishkin (2007, pp. 259-294) argued that, the real issue is not whether financial liberalization is inherently good or bad, but whether it can be done right. In response to this important argument, economists started to inquire into the nature of prerequisites under which financial liberalization would be beneficial to developing countries. They identified good institutions, high quality of governance and macroeconomic stability. (Prasad, Rogoff, Wei and Kose, 2007). Needless to point out that, accession to the WTO and more particularly to GATS will intensify the positive impacts of the financial sector on the overall development of the economy if it is done right.

8. Islamic Banking and the GATS

The sharia-law-compliant system, which prohibits interest, is the national norm in Sudan and Iran, and in a parallel banking system in Malaysia, Bahrain and a few other Gulf States. The development of Islamic finance over the world has witnessed remarkable historical event. The first experimental Islamic banks develop interest-free savings and loans societies were in Pakistan and the Indian subcontinent during the period 1950-1960. Egypt and Malaysia witnessed pioneering ventures in 1960s. New banks were developed during the 1970s as oil money pours into Gulf States.

The first commercial Islamic bank opened in 1975 in Dubai "the Dubai Islamic Bank" and approximately 30 Islamic banks were established over the next decade (Dubai Islamic Bank <http://www.dib.ae>). In 1975 The Islamic Development Bank (IDB), opened in Jeddah, Saudi Arabia. Between 1975 and 2005, it funds more than \$50 billion worth of projects in Organization of the Islamic Conference (OIC) member countries (Islamic Development Bank <http://www.isdb.org>).

Sudan has reformed its banking sector on Islamic principles in 1983 after President Numeiri imposes the sharia law. Dual banking system develops, Islamic in the north, conventional in the south. In 1984, Iran switched to interest-free banking at national level after passing a 1983 Islamic Banking law that was promised in the 1979 Islamic revolution.

By 1985, Islamic financial products offered by more than 50 conventional banks around the globe. Other major banks follow by the 1990s. The year 1990 has witnessed the establishment of the "International Islamic Accounting Standards Organization, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)" in Bahrain by the IDB (AAOIFI, <http://www.aoifi.com>).

In 2001, Malaysia's Financial Sector Master plan sets target for Islamic finance to make up 20 percent of finance sector by 2010. By 2009, its share of financial assets is about 17 percent. In 2002, International standard setting organization the Islamic Financial Services Board (IFSB) was established in Kuala Lumpur (IFSB, <http://www.ifsb.org>).

In 2004, the Islamic Bank of Britain, the country's first sharia-compliant was opened in London. During the period 2004-2008 the investors' interest in Islamic finance products grows strongly amid steady rise in oil prices and petrodollars flowing through oil producing states. World oil prices peak at over \$147 per barrel in mid-

2008 before sliding sharply. In 2008, Global credit crisis and economic slowdown send conventional financial markets into steep tailspin and have chilling effect on Islamic finance as investors avoid risk and asset prices tumble. The Islamic banking system became a risk saver system. As a result, by 2010, Islamic banking and finance became one of the world's fastest-growing economic sectors that comprise more than 400 institutions with assets under management in excess of \$ one trillion (\$ 1,000 billion), (Dubai Islamic Bank <http://www.dib.ae>).

The significance of Islamic banking as a risk saver system has encouraged a number of researchers to examine its expected performance under the GATS using different sets of data. Islamic Banks are faced by the challenge of financial liberalization, where the financial openness nationally and internationally took various deep dimensions and effects that affected economic and financial systems worldwide.

A study by Ajlouni (2009) aims at forming strategic response to assess the Jordanian Islamic Banks' ability to take advantage of the opportunities that may be provided by financial liberalization and limit its threats, through assessing the capability of Islamic banks to meet the requirements and challenges of financial liberalization, in order to maximize and limit the expected opportunities and threats respectively, has concluded with some results such as: financial liberalization will have negative effects on Islamic banks' autonomy and competitive position. It is also having positive effect through the enhancement of the Islamic banks' ability to create new investment and liquidity management instruments and methods, as well as, the development of the existing ones. In addition to increasing its ability to take advantages of the openness by expanding its operations into new markets.

Omar (1998, pp. 47-66) study aims to follow up the implications of the GATS by analyzing the current condition of Islamic banking industry, highlighting the major items of the GATS which are likely to affect this industry. The study concluded by suggesting a number of measures that would enable Islamic banks to compete fairly

with western banks under the call for globalization of markets and liberalization of trade.

Hamoud (1997, pp.1-46) study considers the future stance of Islamic banks within the frame work of global Islamic banking system. The study deals with the origins of banking in Islamic culture, the current condition of Islamic banking and finance, as well as, the future of Islamic banking under the state of globalization. The study reveals that Islamic banking has achieved partial integration through establishment of Islamic financial institutions. However, such integration is still in need of more comprehensive support to enable Islamic banking system to face the emerging cutthroat competition created by the disappearance of barriers and borders in the domain of trade, banking services, finance and investment.

Igbal, Ahmad and Khan (1998, pp. 9-81) concentrates on problems and challenges facing Islamic banking when operating side by side with traditional banks. The study highlighted such aspects as the institutional and legal framework, accounting criteria, lack of joint stock companies as well as challenges related to the operational aspects.

Farah (1999, pp. 27-78) deals with the impact of globalization on the economy manifested by the intensive entry of foreign banks in domestic markets, which usually results in weakening the competitive position of national banks and strengthening that of foreign banks. The study also underscored the special character of Islamic banks in terms of depositors and quoted the experience of Dubai Islamic bank as an example. Moreover, Farah emphasized the importance of promoting and supporting Islamic banking through continuous modernization and adoption of technological improvements and advances. He also stressed the significance of deposits guarantee in supporting Islamic banks' deposits. The study analyzed the present situation of Islamic banks and the potential options that fit with the GATS requirements. Based on its prognostication of the expected impacts, it outlined the elements of an appropriate future strategy for Islamic banks.

It is obvious from these studies, that there was a consensus among the researchers that there are some clauses in the GATS which will adversely affect the competitiveness of Islamic banks.

9. Relevant Studies on the Banking Sector in Sudan

Very few studies seem to have been conducted on the relationship between financial development and economic development in Sudan. Most notable is the study carried out by Mohamed (2008, pp. 1-24) which investigated the effect of financial development on the performance of Sudan economy over the period (1970 -2004). The study attempted a statistical evaluation of the short-run and long -run relationship between financial development and economic growth and other conditioning variables. The results overwhelmingly indicate a weak relationship between financial development and economic growth in Sudan. For instance, the results of the study showed that although the coefficient of M3/GDP was statistically significant, it is negative. Moreover, the impact of credit to private sector by banks on real GDP growth was both negative and insignificant. The author attributed these findings to the inefficient allocation of resources by banks, along with the absence of an appropriate investment climate required to foster private investment and promote growth in the long run, and to the poor quality of credit disbursal of the banking sector in Sudan.

Another study by Kireyev (2001, pp. 1-52) indicated that, Sudan's banking sector has been characterized by heavy government interventions and regulations, centralized lending by the central bank to public enterprises, absence of indirect monetary policy instruments and an inadequate accounting system. The Sudanese commercial banks still remain very small even as compared with Islamic banks in other countries. The total amount of deposits held by the Sudanese banking system has been hovering around \$ 500 million since mid-1990 and dominated by demand deposits with a share of over 70%, whereas saving and investment deposits remain

relatively small. According to Kireyev these features reflect the cash nature of the Sudanese economy where individuals prefer to have instant and easy access to their funds.

As far as liberalization of the banking sector in Sudan is concerned, a study by Eltayeb (2005, pp. 1-46) summarizes the situation for countries adopting Islamic banking practices. The aim of his study was to examine the effectiveness of the Islamic Banks in facing international competition in the context of financial liberalization of the GATS. The study comprehensively analyzed the general context of the banking service agreement as well as the obligations models offered by some of Islamic countries. It also compared the current reality of the Islamic banks with that of traditional banks (local and international). The study concluded that, the GATS imposed a number of challenges on the Islamic Banks and that these challenges should be faced through adopting an efficient strategy based on offering comprehensive banking services that cope with technological innovations and development and meet international standards while maintaining strong ties with foreign banks particularly those with Islamic windows. The strategy should also allow for merger options and other forms of coordination and integration with Islamic Banks that would facilitate benefiting from large-scale economies and creating large banking institutions able to face international competition. In addition, the study recommends the insertion of Islamic Banking Services in the obligations' schedules to gain the maximum benefits from the facilities offered by the GATS agreement.

10. Conclusion

It can be stated that the above cited experiences underline the potential benefits of foreign financial institutions in stabilizing capital flows. Several countries with significant presence of foreign financial institutions benefited from the access of these institutions to foreign capital. More generally, the studies' shows that the

presence of foreign financial institutions can lead to a stronger regulatory and supervisory framework, thus making the processes of capital account liberalization and internationalization mutually reinforcing. This notion is qualified by the need to enact reform policies. The existence of heavy regulations will put the domestic banking industry at a competitive disadvantage relative to foreign financial institutions; create distortions and inefficient resource allocation. The cases of Greece and Portugal confirm the need to consider domestic deregulation and financial liberalization jointly.

Islamic Banks are strongly recommended to offer comprehensive banking services that cope with technological innovations and development to face challenges imposed by the accession to the GATS and maintain strong ties with foreign banks particularly those with Islamic windows.

It is evident from the previous discussion that there may be significant economic benefits to be derived from financial sector liberalization, in particular from the entry of foreign banks and the privatization of state-owned banks. However, attention needs to be paid to the possible detrimental effects that may occur in the case of developing countries.

Taking into consideration that, Sudan's banking sector is characterized by heavy government interventions and regulations, centralized lending by the central bank to public enterprises, absence of indirect monetary policy instruments and an inadequate accounting system. In addition to the small size of commercial banks. So, attention should be paid to the possible negative impacts of financial liberalization. Therefore, the following recommendations may be useful:

11. Recommendations

First, it may be useful for Sudan to solve the problems that crippled the production in the agricultural sector, to encourage commercial banks to extend finance to it.

The Salam mode of finance should be enhanced.

Second, the CBoS is recommended to continue its efforts of reinforcing the control measures effectively, and derive lessons from the global financial crisis in treating the Non-Performing Loans problem.

Third, the monetary authorities in Sudan are recommended to be aware of the effects of significant negative relationship between the three growth indicators, the real per capita growth rate of the economy, the ratio of domestic investment to the GDP, and the real per capita physical capital stock and the financial indicator, financial depth.

Fourth, these authorities are recommended to consider the significant positive relationship between the two growth indicators, the ratio of domestic investment to the GDP and the improvements in the efficiency of physical capital allocation, and the Islamic modes of finance.

Fifth, it may be useful for the abovementioned authorities to consider the significant positive relationship between the growth indicator the ratio of domestic investment to the GDP and the financial indicator, the ratio of claims on the nonfinancial private sector to GDP.

Sixth, the aforesaid authorities are also recommended to take into consideration the significant positive relationship between the real per capita physical capital stock and the rate of inflation (PI), as well as the significant negative relationship between this growth indicator and the financial depth.

Seventh, the Sudanese commercial banks are recommended to continue increasing the level of their investments in modern banking services technology. Commercial banks are also recommended to follow the CBoS instructions for merging, to improve their abilities to compete on the international level.

Eighth, Commercial banks should diversify their provided banking services, as well as innovate new banking services to meet the increasing demands of their Clients.

Ninth, the manpower in these commercial banks should be given more attention through training and skills upgrading, that will enable them to use the modern technology more efficiently.

Tenth, the measurement of the banking performance in Sudan should include standards such as, efficiency, profitability, a suitable mixture of the provided services and reasonable size of assets and inventories, to enable them to face the strong competition after Sudan's accession to the WTO.

Eleventh, the efforts aiming to enhance the awareness of the public with regard to the banking behavior should be intensified all over the country, along with minimizing the required costs and procedures for depositing, borrowing and transfer.

Twelfth, the Islamic modes of finance should be clarified to the public, and the amounts and numbers of loans through these modes should be increased.

Thirteenth, Sudan is recommended to include its detailed Islamic Banking Services in the obligations' schedules to gain the maximum benefits from the facilities offered by the GATS.

Fourteenth, it may be useful for Sudan to communicate with WTO Islamic member countries, to strengthen its position in the negotiations with this Organization.

Fifteenth, caution should be given to the fact that, foreign banks will not be interested to address the problems of poverty alleviation, the access of low-income and rural-based savers and borrowers to financial services.

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Appendixes

A. Islamic Banking Practices in Sudan:

Musharaka (Partnership):

Under Musharaka the investment is necessarily be implemented between two or more parties, each of them contributes a share of the total capital. It works according to the following conditions:

1. The capital of Musharaka is generally paid in liquid money; however.
2. Payment in kind is also acceptable. In this case, the value of that property (not the property of per se) is considered for determining the percentage age of his contribution to the capital and his obligations toward any liability.
3. A partner ought to enjoy full legal capacity to act on his own and on behalf of others (partners) with respect to the different dealings of Musharaka.
4. The means by which profits and losses are distributed among partners must be stated.
5. It is acceptable for a partner who contribute more effort than others and/or who enjoys more experience to take a %age in profit in lieu of his extra labor and expertise but losses are always incurred in direct proportion to the respective shares in capital.

Mudaraba:

Mudaraba is a special type of Musharaka. In a Mudaraba contract, one partner contributes the capital and the other partner provides labor and expertise. Common conditions for this mode of Islamic finance include:

1. Capital of Al-Mudaraba must be identified, known to the parties, and delivered to the investor (entrepreneur), and it should, under no circumstances, be a debt resting with the investor (entrepreneur).
2. The duty of the investor (entrepreneur) is to exert his best effort for investing the capital and at the same time to take all precautionary measures to protect the assets of the project under the Mudaraba financing.
3. The investor (entrepreneur) is a trustee. He is, therefore, under no obligation to guarantee any damage or loss incurred in the due process of investment. In this case, the damage and loss are borne by the investor (entrepreneur). However, the investor (entrepreneur) is pounded to pay any damages and bear losses if he transgresses the limits as a trustee, through will-full acts, negligence and breach of contract.
4. The distribution of the profit must be explicitly agreed to and in such a way as to ensure its distribution between the parties i.e. in percentage. However, losses are borne by the owner

of capital.

Muzara'a:

Al Muzara'a is a type of sharecropping agricultural partnership. Traditionally the landowner would provide the land and inputs while the farmer provides labor. The yield is distributable among the partners in accordance with their predetermined contract. The increasing cost of inputs and production often lead to changing the formula. Some new forms may be illustrated as follows: the contract of Muzara'a may be undertaken by:

1. The landowner, the expert farmer and the owner of irrigation scheme.
2. The landowner who also undertakes to administer the farm and the bank that provides the inputs.

Murabaha:

The steps to be followed for the formation of this sale contract may be summarized as follows:

1. The intending buyer asks the would-be seller creditor (Islamic bank) to buy a commodity, the intending buyer promises to buy that commodity for mark-up price (margins) that is determined by the monetary authorities.
2. If the creditor (Islamic bank) agrees to enter into that transaction, it has to buy the demanded commodity from the original owner according to the guidelines of the commodity under financing.
3. Having that commodity, creditor (Islamic bank) has to make a fresh offer - depending of course on the previous negotiations and promise to the buyer.
4. According to the preponderant Shariah point of view and despite his previous promise, the buyer has the right to accept or reject that offer, and in case of acceptance, a valid contract of sale is concluded between the two parties.
5. In case of rejecting the offer, the ownership of the commodity rests with creditor (Islamic bank).

Istisna'a:

Istisna'a is a sale contract whereby the buyer asks the seller to manufacture and sell a commodity well defined. Or that the seller commodity might be specified without necessarily manufacturing it, e.g. forming a contract with a factory for agricultural capital goods, and other inputs to be delivered by specification within a definite period of time. The dominate point of view among jurists is to the effect that the contract of *Istisna'a* is not obligatory on the two parties i.e. any one of them has the right to withdraw without a prior notice. However, among leading Hanafi's jurists there is an opinion that *Istisna'a* is as binding on its parties as any other pecuniary contract. This view is the more acceptable one for dealings in Sudan.

Ijarah:

Ijarah refers to a leasing contract in which some specified assets (e.g. tractor) are leased for use by a farmer/client according to an agreed price and for a specific period of time.

Salam:

Salam is a special type of sale contract, which is valid for both agricultural and industrial products. It is exactly the reverse of the deferred sale. In this contract, the price has to be paid immediately, whereas, the delivery of the commodity agreed on with specifications has to take place at a specific future period. The following terms must be satisfied for the validity of the contract of Salam.

1. The price (known as capital of Al-Salam) must be identified and known.
2. The price should be paid immediately after the constitution of the contract. Nevertheless, a delay for short period is condensable according to the Maliki School.
3. The sold commodity must be known by specifications, in order to provide the seller with wide room to get the commodity from wherever it is available.
4. Its delivery should be postponed to a specific time in the future; therefore, the availability of the commodity in the market is usually the main determining factor for fixing a time in the contract.
5. To avoid uncertainty, the place of delivery has to be stated in the contract.
6. The seller ought not to have stipulated that he would honor his obligation from specific source such as his farm or farms in specific area. Therefore, if the seller is unable to secure the commodity due to its unavailability in the markets, the buyer has two options; either to wait for its availability or to resign the contract and recover the paid-up price. (Source: Mohamed, 2008, p. 24).

B. Recent Islamic Monetary Policy Tools in Sudan:

(1) Central Bank Musharaka Certificates (CMCs):

The Bank of Sudan introduces these certificates in June 1998. They were issued by the Sudan Financial Services Company (SFSC) on behalf of the Bank of Sudan and the government of Sudan. Essentially, they represent a Limited number of shares in a special fund composed of the pool of government investments in nine commercial banks. The CMCs allow its owner to share with the bank of Sudan and the ministry of finance the benefit of investing in banks wholly or partially owned by them. The High Shari'a Supervisory Board (HSSB) approved these certificates for the banking system and other financial institutions as the first Islamic interest free instrument used to manage liquidity and conduct open market operations.

The utilization of CMCs to conduct open market operations are considered to be more effective in influencing liquidity when compared with the statutory reserve ratio. If the bank of Sudan wishes to reduce liquidity of the commercial banks, then it would sell certificates with the amount of money it wants to withdraw from the banks, and the reverse is true, if it wishes to pump liquidity into the national economy.

(2) Government Musharaka Certificates (GMCs):

The Government Musharaka Certificates (GMCs) are also equity-based financial securities that were introduced in 1999, as an Islamic-oriented means for financing the budget deficit. It offers the Bank of Sudan an additional effective tool for liquidity management. These certificates allow their owner to share the profit or a loss resulting from the operations of all government companies and corporations whose equity capital constitutes the fund from which these certificates were issued. The issuing of these certificates achieves the following objectives:

- a. Managing liquidity on the macroeconomic level through Open Market Operations (OMO).
- b. Covering part of the budget deficit instead of printing more paper money by the bank of Sudan. Accumulating national savings and encouraging investment through increasing awareness among the general public with the benefits associated with this investment. (<http://www.cbos.gov.sa>).