

TESTIMONY OF
CHRISTINE BLISS
ACTING ASSISTANT U.S. TRADE REPRESENTATIVE
FOR SERVICES AND INVESTMENT
BEFORE THE
HOUSE FINANCIAL SERVICES SUBCOMMITTEE
ON DOMESTIC AND INTERNATIONAL MONETARY POLICY,
TRADE AND TECHNOLOGY
ON
“INCREASING EFFICIENCY AND ECONOMIC GROWTH
THROUGH TRADE IN FINANCIAL SERVICES”

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WTO FINANCIAL SERVICES NEGOTIATIONS

- Mr. Chairman, USTR appreciates the opportunity to appear before your Subcommittee today to describe our financial services liberalization objectives in on-going trade negotiations, particularly the WTO Doha negotiations.
- The Doha Development Agenda is at the heart of President Bush’s strategy to open markets, reduce poverty, and expand freedom through increased trade among all countries in the global trading system.
- We need to move toward a global trading system that provides incentives for innovation and growth in the most competitive aspects of productive sectors both at home and abroad. The services sector is the fastest growing sector of the US economy accounting for 8 out of 10 U.S. jobs. It also provides the brightest ray of hope for growth in developing economies as services accounts for nearly 60 percent of GDP in such countries.
- Financial services leads much of this development (as my Treasury colleague will elaborate on in his testimony). Of course, financial services also is a key part of U.S. exports and economic growth. In 2003, for the financial sector, sales by U.S.-owned affiliates (not including commercial banks) in foreign markets reached \$ 122.2 billion. Insurance companies accounted for \$ 80.4 billion of those sales. Other financial services

firms, including securities and asset management firms, recorded sales of \$ 41.1 billion in foreign markets.

- Regarding cross-border supply, U.S. insurance providers recorded cross-border premiums (exports) of \$ 18.0 billion in 2004. U.S. banking and securities firms recorded cross-border exports of \$ 27.4 billion in 2004 (not including core-deposit taking and lending activities). The U.S. enjoyed a surplus of \$ 16.2 billion in 2004 in cross-border trade for non-insurance financial services.
- One of the best ways to successfully promote new U.S. trading opportunities and global economic growth is to complete the WTO Doha negotiations.
- Regarding the Doha negotiations, last week in Geneva, the United States made some progress in narrowing the differences, not just in agriculture, but also in non-agricultural market access (NAMA) and also in services. We and other WTO members are continuing to urge the Europeans to do more on agricultural market access and we are joining the Europeans to ask the more advanced developing countries, like Brazil and India, to do more particularly on manufactured goods and services.
- The United States remains committed to a high level of ambition in the final package. However, WTO members do not expect to have the complete framework that was envisioned six months ago by next month's meeting. Our aim, nonetheless, is to still make as much progress as possible in the days leading up to the Hong Kong Ministerial so that we can achieve a final package in 2006.
- We will continue to work hard to promote a high level of ambition on services and to ensure that the Ministers provide us with necessary guidance to propel the services negotiations forward. Ministers are likely to address issues such as market access; rules; domestic regulation; and development.
- Regarding services market access, the United States is pursuing comprehensive liberalization with a wide range of WTO members to ensure that the overall level of global access increases significantly.
- Within these broad objectives, we are focusing on key sectors for which a critical mass of countries must provide high levels of meaningful liberalization and commitments. Financial services is at the top of this list which also includes telecommunications, energy services, express delivery, computer-and-related services, distribution services as well as other sectors, particularly from emerging markets such as Brazil, India, Malaysia, Thailand, and Egypt. We are seeking commitments that will create meaningful new commercial opportunities in these markets.
- The U.S. also seeks improvements in services disciplines on transparency in domestic regulation that would apply across all services sectors.

- Of course, our WTO partners also have a wish-list for the services negotiations. Developing countries have expressed interest in particular sectors such as tourism, medical services, and professional services and are particularly interested in further liberalization from developed and developing countries alike regarding the temporary entry of service suppliers referred to as Mode 4. India and a group of developing countries are also seeking disciplines on domestic regulations which would extend beyond transparency into areas such as qualification standards. Certain of the Asean countries are seeking flexibility in the rules area –for example, relating to services “safeguards.”
- In addition, some countries see services liberalization as primarily a trade for concessions in other areas of the Doha negotiations such as agriculture.
- Although we have been able to increase the level of participation in the negotiations to the point where 69 countries have submitted initial offers and of those 30 have provided revised improved offers (WTO membership totaling 148 recognizing that we may have more modest expectations for least-developed countries), the quality of offers in emerging markets of greatest interest is still poor. So as we plan for negotiations following the Hong Kong Ministerial, we face a major challenge in ensuring that our level of ambition remains high and we secure higher quality commitments.

Financial services

- This challenge is particularly great in the area of financial services. The WTO’s 1997 Financial Services Agreement was a first step toward liberalization, with 107 countries making some commitments on financial services. Since then, the U.S. has completed a number of WTO accessions including China and Saudi Arabia which have incorporated significant financial services commitments and continues to negotiate stiff membership terms on financial services and other services sectors with other key economies such as the Ukraine, Russia and Vietnam.
- As part of the Doha negotiations, the United States is focusing on the universe of financial services, including banking, securities, insurance, asset management, pension funds, financial advisory and information and other financial services. The United States has set high, uniform benchmarks for access to improve access for commercial presence (investment) and cross-border supply (for example, supply through electronic means) including as necessary removal of existing barriers. Our objectives are similar across the various financial services sub-sectors.
- We are looking for any and all means to generate momentum for the negotiations. The bilateral request/offer process remains the core of the negotiations and the fundamental means to pursue our export interests. However, we have spent much of the past year working with other countries such as the EU, Canada, Japan, Switzerland that export

financial services or have an interest in the benefits of financial services for economic growth through what is being termed in Geneva a “plurilateral” approach to put additional prominence on the sector and to emphasize the need for meaningful financial services offers.

- One recent result of our work at the WTO is a “Statement on the Importance of Financial Services Liberalization,” co-sponsored by about a dozen members representing different levels of economic development, and including a call for high market access benchmarks. The benchmarks are generally reflective of the requests for access that we have heard from our financial services industry.
- These objectives have been presented to the WTO Membership and have been incorporated in an informal Annex of sector specific proposals that has been prepared by the WTO Secretariat at the request of the Chair of the Services negotiations. The hope is that the sector benchmarks listed in the Chair’s Annex can be used to guide countries in the negotiations and in preparing their revised offers.
- The United States, like other Members, has also submitted specific bilateral requests to all WTO Members, excluding the least developed countries detailing the types of improvements we are seeking across services sectors. For Financial Services we are requesting that countries provide:

--Commercial presence: Right to establish new and acquire existing companies, in the form of wholly-owned subsidiaries, joint-ventures or branches;

--Cross-border: For insurance, cross-border supply and consumption rights are particularly important for marine, aviation, transport insurance, reinsurance, brokerage, and auxiliary services. Cross-border supply and consumption is important for financial information and advisory services and cross-border consumption is important for banking, securities and all other financial services;

--For both commercial presence and cross-border, removal of discrimination between domestic and foreign suppliers regarding application of laws and regulations (“national treatment”). Removal of non-discriminatory limitations such as monopolies, numerical quotas and economic needs tests; and

--Transparency in development and application of laws and regulations, speedy licensing procedures and commitments on other regulatory issues as needed (as mentioned, we are pursuing this on a horizontal –cross-sectoral—basis).

Financial services offers

- Some of the offers submitted to date have provided small improvements on financial services – mostly related to investment -- but the United States continues to seek

meaningful offers from a majority of WTO members to meet the benchmarks outlined above. We need greater participation, particularly among emerging markets, such as Brazil, India, China, Malaysia, Thailand, Indonesia, South Africa and the Philippines.

- Why haven't we made more progress to date, especially in these key markets?
- Sometimes the problem is existing barriers. Other times the country has liberalized but has not yet brought the liberalization into its offer. We are proposing the same benchmarks for access for each country but the amount of pain may differ depending on how far the country has advanced with its own liberalization plans or the recognition of the importance of financial services for economic development.
- We are working at all levels to improve the quality of the financial services commitments. As my Treasury colleague will explain in more detail, Treasury is reaching out to Finance Ministers to put more prominence on the Doha services, including financial services, negotiations. Both USTR and Treasury are working to get the financial services negotiators from key countries more involved in the negotiations through bilateral requests as well as the possibility of plurilateral approaches. We hope they come to see us in Geneva. But if not, we'll find a way to reach out to them in their capitals.
- In the last month, the United States made a major offer of new agricultural liberalization and in doing so we expected to see similar offers from other WTO Members not only in agriculture but also in services and other areas of the negotiations. So we hope that this will provide some new momentum and that as other parts of the Doha agenda begin to move forward, we can successfully press countries to improve their services offers, particularly in financial services.

FINANCIAL SERVICES INITIATIVES BEYOND THE WTO

- The United States also is forging ahead to achieve regional and bilateral liberalization in financial services. Our Free Trade Agreement (FTA) objectives are fully supportive of our WTO objectives by maintaining high benchmarks for liberalization which provide immediate access for U.S. suppliers and may also result in more active participation by the FTA partners in the WTO Doha negotiations.
- The U.S. model FTA financial services chapter is comprehensive and covers both investment and cross-border supply. We require our trading partners to use a negative listing for investment access – whereby national treatment and other core obligations automatically apply unless the sector is carved out. We also include strong disciplines on regulatory transparency, licensing and other regulatory issues.

- The Bush Administration has concluded FTAs with Jordan, Singapore, Chile, Australia, Morocco, the Central American nations of Nicaragua, Guatemala, El Salvador, Honduras, Costa Rica, and the Dominican Republic (the Central America-Dominican Republic FTA or CAFTA-DR), and Bahrain. We recently announced our conclusion of the Oman FTA which we expect to sign in mid-January and would then reflect on the most appropriate timeframe for introducing it for Congressional consideration.
- We have ongoing FTA negotiations with several countries. We are meeting this week at an advanced stage of the negotiations with the Andeans (Colombia, Ecuador, Peru). We continue negotiations with the UAE and Panama. With Thailand, we are seeking to build on the existing Treaty of Amity to provide enhanced access for a full range of financial services suppliers. We are continuing exploratory talks with the South African Customs Union countries –South Africa, Botswana, Lesotho, Namibia and Swaziland.
- New and pending FTA partners, taken together, would constitute America’s third largest export market and the sixth largest economy in the world.
- The FTAs have resulted in significant liberalization, often well beyond what has been achieved in the GATS. Just a few examples: Singapore agreed to groundbreaking liberalization of its banking regime over time, including for wholesale and retail banking. Costa Rica will open up its insurance monopoly over time. And Chile, Singapore, the CAFTA nations, and Morocco agreed to concrete changes to their regimes to ensure that insurance can be provided on a cross-border basis.
- We also participate actively in regional fora such as APEC to promote some of the same objectives –market access and transparency –that we explore in a more binding fashion as part of the Doha services negotiations.

CONCLUSION

- USTR appreciates the opportunity to testify before you today regarding the U.S. Government’s trade objectives in the ongoing WTO Doha negotiations and our various bilateral and regional initiatives.