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**Testimony before the
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
Committee on Financial Services
U.S. House of Representatives**

Good morning Mr. Chairman and members of the Committee. I appreciate this opportunity to come before you today to testify on the financial services chapters in the Chile and Singapore free trade agreements (FTAs). I particularly look forward to this discussion because I am newly appointed to my current position as Assistant U.S. Trade Representative for Services, Investment, and Intellectual Property, and this is my first opportunity to discuss these issues with you.

The Singapore and Chile Free Trade Agreements and the Broader Trade Agenda

Since the passage of the Trade Act of 2002, we have pursued an aggressive trade agenda. As stated by Ambassador Zoellick, “We are proceeding with trade initiatives globally, regionally, and with individual nations. This strategy creates a competition in liberalization, with the United States at the center of a network of initiatives. By moving on multiple fronts, we can increase America’s leverage and influence around the world. If others are reluctant, the United States will work for free trade with those who are ready.”

The recently completed agreements with Singapore and Chile represent the first of the next generation of trade agreements. We have also launched FTA negotiations with Morocco, Central America (Guatemala, Nicaragua, Costa Rica, El Salvador, and Honduras), Australia and the Southern African Customs Union (South Africa, Botswana, Lesotho, Namibia, and Swaziland). At the same time, the Free Trade Area of the Americas negotiations have entered a more vigorous phase, with market access negotiations underway, and a January 2005 date for completion. On the multilateral front, just yesterday the United States submitted its initial offer in the current round of services negotiations in the WTO.

Why Chile and Singapore

For several reasons, Chile and Singapore provided a good point of departure. First, the United States has a significant economic interest in trade with these countries.

- C Singapore is America's 12th largest goods trading partner. Two-way goods and services trade reached \$ 38.8 billion in 2001. Services trade alone amounted to \$ 6.1 billion, with U.S. exports of private commercial services reaching \$ 4.1 billion, up 54 percent from 1994.
- C Two-way trade in goods and services between the United States and Chile totaled \$ 8.8 billion in 2001, one-quarter of which was accounted for by trade in services. The United States had a surplus of \$ 472 million in services trade with Chile. In the seven years to 2001, U.S. services trade with Chile expanded by 37 percent.

Second, specifically with respect to financial services, Singapore and Chile have taken steps to open their financial sectors. Both countries respect the concept of rule of law and were in a good position to explore market access enhancing concepts relating to transparency of regulatory structures. They have already committed to moving in the right direction for many sectors, and our FTAs will reinforce these trends.

Finally, the Chile and Singapore FTAs provide good footholds for expanding liberalization in South America and Asia respectively.

Importance of Financial Services

The liberalization of financial services was one of our main objectives in negotiating the Chile and Singapore FTAs. In the final texts, we achieved the objective set forth in TPA to "reduce or eliminate barriers to international trade in services, including regulatory and other barriers that deny national treatment and market access or unreasonably restrict the establishment or operations of service suppliers."

The United States already enjoys a significant competitive advantage in financial services in international markets. The market opening initiatives in the Chile and Singapore FTAs, and in other fora, should create additional opportunities for our financial services suppliers.

U.S. provides a substantial part of the world's financial services. In 2000, for the financial sector, sales of U.S.-owned affiliates (not including commercial bank affiliates) in foreign markets reached \$ 101.8 billion. The United States also excels in providing financial services on a cross-border basis. Cross-border insurance premiums totaled \$ 8.7 billion in 2001. U.S. banking and securities firms recorded cross-border exports of \$ 15.2 billion in 2001 (including some banking activities but not core deposit-taking and lending business). Regarding cross-border trade for non-insurance financial services, the U.S. enjoyed a surplus of \$ 11.2 billion in 2001. (Cross-border figures are for exports to non-affiliates.)

For Chile, U.S. cross-border exports of banking, securities and insurance premiums reached

\$ 130 million in 2001; this represents approximately a \$ 108 million surplus in financial services with Chile. For Singapore, U.S. cross-border exports of banking, securities and insurance premiums reached \$ 329 million in 2001; the U.S. enjoyed a surplus of \$ 264 million. (Data on sales through U.S. affiliates is not available.)

Opening foreign markets for exports of U.S. financial services has two added advantages. First, it creates jobs and expands economic opportunities. For example, states like New York, California, Florida, Illinois, Massachusetts and Pennsylvania depend on financial sector activity to contribute to their economic growth and the tax base. Also, by expanding access to financial services, it enhances prospects for economic growth at home and abroad.

Second, the opening of foreign markets for financial services creates export opportunities for other sectors. For example, banks, insurance companies and securities firms rely heavily on specialized software and data processing, thereby creating increased demand for computer-related services, another strong point of the U.S. export picture. And as countries develop their economies with the help of foreign financial services, those countries consume a wider range of goods and services, which benefits U.S. exporters more generally.

Core Provisions in the Financial Services Chapters of the Chile and Singapore FTAs

The financial services chapters in the Chile and Singapore FTAs cover all means of supply that are relevant for financial services trade, including, for example, through the establishment of a foreign subsidiary or branch or through channels of cross-border supply.

The financial services chapters require national and most-favored-nation treatment, which ensures that U.S. financial service suppliers are treated on equal terms with their foreign competitors. They also include a “market access” obligation to ensure that measures, such as non-discriminatory quantitative restrictions and requirements regarding forms of legal entities (for example, no branching), do not undermine general market access rights.

We have also sought to address more subtle, but equally insidious, market access barriers arising from non-transparency in foreign regulations. The financial services chapters contain strong regulatory transparency provisions relating to the openness of regulators to consult with interested persons, procedures for advance notice and comment on draft regulations, and an obligation to publish final regulations, including a summary of comments received. The transparency obligations also include concrete time frames for regulators’ review of applications for licenses and requirements regarding provision of information.

We also recognize that the financial services sector, like other modern, vibrant economic sectors, changes rapidly. The industry is constantly changing, developing creative and valuable new products

and services. We have, therefore, provided rights for foreign-owned institutions to introduce new financial services when certain conditions are met. For example, the agreements allow suppliers to bring a product to market that has already been introduced in the home market.

Finally, I would like to say a word on the issue of capital controls. This issue is not addressed in the financial services chapters of the FTAs, but is nevertheless related because the transfers obligations of the investment chapters apply to financial services. The issue of capital controls is clearly complex. We have to recognize, however, the potentially serious negative impact capital control could have on U.S. investors. We believe that our FTAs protect our investors, while at the same time they grant Chile and Singapore a certain degree of flexibility to manage financial flows.

Advantages of FTAs

In line with our general approach of using the FTAs to spark competition in liberalization among our trading partners, the Chile and Singapore FTAs mark a significant advance over commitments in other fora. For example, unlike in some other agreements, our Chile and Singapore FTAs adopt a presumption that national treatment will apply unless a sector is specifically carved out.

Chile and Singapore have agreed to commitments across a wide array of financial services, including insurance, banking and securities, and other areas, that exceed the level of their current GATS commitments. In some cases, they have undertaken commitment to preserve existing levels of openness that go beyond their GATS commitments. Chile has, for example, made great strides in liberalizing its banking and securities regimes in recent years. The FTA provided a means to lock in these improved levels of access.

In other cases, our trading partners have agreed to commitments that go beyond their current practice. For example, Singapore's banking market was largely closed to new entrants. As a result of the FTA, Singapore has agreed to groundbreaking liberalization of its banking regime over time, including for wholesale and retail banking. Chile and Singapore have also agreed to liberalize their regimes to allow important forms of cross-border supply of insurance.

These are just some of the many new commitments Chile and Singapore have undertaken. We would be pleased to discuss other commitments with you here today or to meet separately with you or your staff to discuss in further detail.

Domestic Regulation

While we have moved aggressively to open foreign markets, we are sensitive to the careful balance struck through our own political and legal processes between regulatory and commercial interests. In

fact, while the United States agreed to a high level of access under the Singapore and Chile FTAs to complement its existing GATS commitments, implementation of the financial services chapters in the FTAs will not require any changes to U.S. law or practice.

The chapters incorporate several other mechanisms to ensure respect of regulatory authorities. These mechanisms include, for example:

- C Flexibility to negotiate on a sectoral basis in light of the regulatory sensitivities associated with cross-border supply of financial services, and the ability to negotiate reservations for particular measures based on country-specific sensitivities.
- C An exception for prudential measures based on a similar provision in the WTO General Agreement on Trade in Services.
- C Special procedures allowing for the use of financial experts to resolve disputes involving measures related to the supply of financial services.

Conclusion

As I hope this survey demonstrates, we can expect real benefits to accrue to the U.S. economy as a result of the Chile and Singapore agreements. As we advance a strong trade promotion agenda, we remain ever-mindful of the objectives Congress asked us to achieve when it granted Trade Promotion Authority. I look forward to working with you and your staffs as we strive to continue opening markets around the world.