

COMMUNICATION FROM COLOMBIA¹

Financial Services

The following communication has been received from the delegation of Colombia with the request that it be circulated to Members of the Council for Trade in Services.

I. INTRODUCTION

1. A healthy and efficient financial system helps to improve the functioning of the economy as a whole. Liberalization of financial services can therefore become a catalyst of progress given all the benefits which can stem from such a policy: enhanced competition, reduced intermediation margins, technological innovation, better services, increased investment, introduction of new financial products, greater coverage, and so forth.
2. Nevertheless, as the financial system is part of the basic economic infrastructure, prudential regulations and adequate supervision are required to prevent management errors from resulting in losses to depositors and consequently destabilizing the financial system itself. In other words, a more liberal financial system should not be confused with a financial system with slacker operational rules.
3. From Colombia's point of view, paragraph 2 of the GATS Annex on Financial Services and Article VI of the GATS allow Members to take both prudential and non-prudential measures to ensure the stability and integrity of the financial system.

II. PROPOSALS

4. Although liberalization of the financial sector, coupled with rigorous and efficient regulatory measures and supervisory mechanisms, is a policy which can greatly contribute to capital market development and hence to the financing of the economy, the pace of its implementation must take Members' institutional development into account. Given the sensitivity of the economic system to financial sector imbalances, this sector should be liberalized with greater caution than any other. National policies and individual Members' level of development should therefore be taken into consideration in the negotiations on such services.
5. Colombia is particularly sensitive to the pace at which financial services delivered through the cross-border mode are liberalized. Liberalization of trade in financial services through the cross-

¹ Colombia reserves the right to amend this proposal at any time.

border and consumption abroad modes needs to take into consideration, *inter alia*, the financial, monetary and exchange policies of the countries concerned.

6. The nature of the sector also needs to be taken into consideration when liberalizing financial services. A surfeit of banking institutions or uncontrolled competition in the financial sector can bring in their wake, *inter alia*, systemic risks which can eventually become destabilizing. Market access restrictions based on an economic needs test for commercial presence are therefore legitimate for some Members.

7. Whilst respecting the principle of ensuring that the rate of liberalization is in line with Members' level of economic development, one of the objectives of this round of negotiations should be the removal of most-favoured-nation exemptions based on reciprocity.

8. Efforts should be made to clarify the scope of financial services provided in cross-border mode and to differentiate this from the consumption abroad mode of supply. The Understanding on Commitments in Financial Services is a good first step in this direction.

9. Colombia has undertaken full commitments in relation to the provision of financial services through the commercial presence mode, thereby granting guarantees to foreign investors and, in turn, promoting competition and technology transfer.

10. Some Members use the classification from the Annex on Financial Services and others the Central Product Classification (CPC) in their current specific commitment schedules. This leads to uncertainty as to the scope of the commitments scheduled by Members. It is therefore desirable, insofar as is possible, for a single classification to be used. As far as the Secretariat is concerned, the Annex classification is more disaggregated and therefore more appropriate for the purposes of scheduling than the provisional CPC.

11. Paragraph 3 of the Annex on Financial Services on the recognition of prudential measures of any other country is a valuable tool for boosting trade in financial services. We therefore propose that Article VII.4(b) of the GATS be implemented to afford enhanced opportunities to Members to become party to such agreements and arrangements when negotiations commence.
