

Free Trade and Financial Services – The WTO as a stumbling block for the regulation of the financial markets

The liberalisation and deregulation of financial services was a significant cause of the financial crisis. The deregulation of financial markets in many countries has made it possible for uncontrollable financial institutions and finance instruments to emerge in recent years. One thing which is largely unknown is the fact that the World Trade Organisation (WTO) had significant involvement in the liberalisation of the worldwide markets for financial services. Negotiations about liberalisation and deregulation in the banking, insurance and investment sectors took place from the start within the framework of the WTO service agreement GATS. The further liberalisation and deregulation of financial services is on the agenda in the ongoing Doha Round and also in bilateral and regional agreements.

The aims of the negotiations on services within the framework of GATS are diametrically opposed to the current burgeoning discussions on regulation of financial markets. This also applies for some of the obligations already entered into. If the current WTO round brings about new results and if bilateral free trade agreements are made, then this contradiction threatens to become more marked. Nevertheless governments and the financial services lobby are pressing strongly for the completion of free trade agreements.

The Liberalisation of Financial Services in Free Trade Agreements

The main aim of GATS is the legal fixing of the increasing liberalisation of all service markets including financial services. The agreement includes both trade and the investment activities of service companies. The aim of GATS is for member states to commit themselves to far-reaching opening of markets and to fix these legally.

Due to strong conflicts of interests, mainly between the rising Asian countries and the USA, no agreement could be reached in the area of financial services back in 1995 when the WTO was founded. Therefore an agreement on financial services was only reached two years later within the framework of GATS which came into force in 1999. The main driving force for the realisation of the agreement was the lobby of the US and European financial companies which organised itself in the „Financial Leaders Group“. The financial services agreement is one of the great successes of the transatlantic policy of opening up the market due to its strong commercial support. Yet for the EU, the USA and the financial services lobby the current status of the GATS obligations is still not sufficient. Therefore they focus on further market opening obligations within the frame-

work of GATS on the one hand, and on the other hand push for further liberalisation within the framework of bilateral and regional agreements such as the planned EU-India free trade agreement for example.

The aim of the negotiations on the liberalisation of financial services in the framework of the WTO and the bilateral agreements involves providing banks and insurance and investment companies with the furthest reaching possible market access to foreign markets. „Barriers to trade and investment“ include capital regulations, licences or restrictions on business activity such as e.g. trading in highly speculative derivatives. All these measures involve regulations which aid the stability of the financial concern. The current financial crisis has made this very clear. Conditions for issuing credit to certain target groups like small companies or the rural population are put under pressure due to the liberalisation agenda. In this way the access of the poor in particular to financial services will continue to worsen.

Free Trade Against Re-regulation

Whether in the German Federal Government, the EU or above all the G20, a re-regulation of the financial markets is being discussed everywhere. Even if deeds have hardly followed the words, the new consciousness of the significance of state regulation is an initial step towards bringing about a more stable financial system. It is all the more problematic and hypocritical if those agents who publically advocate regulation push for a further expansion of free trade agreements at the same time. Three examples make this clear:

- The removal of capital controls (KVKs) was a significant cause of the 1997 Asia crisis. For this reason a few countries such as the Ukraine and Kazakhstan for example have reintro-

duced KVKs. There are still similar controls in other countries outside the OECD area. GATS and also the bilateral free trade agreements do however plan a removal of the capital controls in spite of their clearly stabilising effect.

- Questions of financial supervision play a central role in the current reform discussions. This involves the assessment of capital values or equity capital investments for high risk businesses. In GATS the right to supervision may only be used if the rights of foreign providers are not restricted. In this way the access possibilities of regulatory bodies are limited.

- In recent years there has been much discussion about „toxic papers“ and their destabilising effect. Up until now there have hardly been any regulations for financial instruments like credit derivatives which were a decisive factor in the outbreak of the

financial crisis or raw material futures, which hedge funds in particular use to speculate on a huge scale and are thus responsible for the food crisis in 2007 and 2008. Certain financial transactions like short selling have been forbidden for certain sectors at times in Germany, the USA and Great Britain for example. Yet within the framework of the GATS free trade agreement such prohibitions can be seen as „restricting trade“.

If the trade diplomats and Pascal Lamy present a conclusion of the WTO round as a contribution to the solution of the financial crisis, they ignore the close connections between the collapse of the worldwide financial markets and the WTO liberalisation policy. This shows that anyone who banks on the WTO to overcome the worldwide economic crisis is trusting the cat to keep the cream.

Banks for the Rich: The Liberalisation of Financial Services in India

For the European banks India is above all a lucrative and largely undeveloped market. The Indian financial sector was largely nationalised following independence and strongly regulated for the benefit of the poor and rural population. A process of liberalisation only started from 1990 onwards. This was driven by the Indian government and further encouraged by the GATS negotiations and legally set down. In this way India, for example, committed itself in GATS to issue at least 12 new licences for foreign banks every year. Within the framework of the negotiations of the EU-India free trade agreement, the European banking lobby is now pushing for the removal of the last remaining restrictions for banks in the issuing of credit. For foreign banks these restrictions are indeed more relaxed than those of the local ones in any case. For the poor rural population this means that their access to financial services will continue to worsen.

Links

www.weed-online.org
www.eed.de/welthandel

Literature

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Stichele, Myriam (2009): „Free Trade“ Agreements contribute to financial and other crises. SOMO. Amsterdam. URL: http://somo.nl/publications-en/Publication_3013/view

Take action

Online-Petition to the Federal Parliament for a financial transaction tax: <http://www.steuer-gegen-armut.org>

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