GATS NEGOTIATIONS IN FINANCIAL SERVICES INCREASE RISKS OF FINANCIAL INSTABILITY AND POVERTY

GATS negotiations on financial services (banks, insurance companies, mutual funds, etc.) are little monitored and discussed but pose major threats to developing countries and sustainable development.

A SOMO report (see www.somo.nl)(1) by Myriam Vander Stichele on the financial sector concluded as follows on the GATS negotiations:

1. Prioritising swift liberalization

The current GATS negotiations on financial services have again an unproportional focus on market opening for foreign financial services and investment by foreign banks, insurance companies, private pension funds, etc. The EU has submitted far-reaching requests to many developing countries.
The GATS agreement even has a special annex, the 'Understanding on Commitments in Financial Services', that provides a model for the swift and full liberalisation ensuring that no trade barriers or obstacles to profit-making by foreign financial firms are left.

2. GATS stimulates the gaps between rich and poor

The experiences of financial services liberalization in developing countries show that much more is at stake than improved 'efficiency', product choice of access to capital.

- Foreign financial firms widen the gap between rich and poor by targeting the richest clients, the most developed regions and the best personnel from their host countries ('cherry picking').
- More money is siphoned off from South to North as profits made off rich clients in poor countries are repatriated (GATS XI prevents restrictions on profit repatriation) and clients in the South get more opportunities to channel money to the North.
- As soon as developing country markets are opened, foreign firms often rapidly take over a large part of the domestic financial industry.
- Host countries must spend additional resources for regulatory and supervisory measures to handle changes and risks by new foreign financial firms.
- GATS negotiations are used to question measures that support poverty alleviation, as is the case with the EU requests to Malaysia.

3. GATS increases the risks of a financial crisis

Liberalization of financial services, as such, poses many threats to the financial stability of the host developing counties and the international system. GATS rules and negotiations reinforce those threats, and both limit and challenge governments and central banks to develop independent policy. The provisions under GATS to deal with the systemic risk of financial services are subordinated to commitments to liberalize.

While GATS is not supposed to liberalize capital flows, GATS articles and commitments in financial services in practice do.

What is worrying is that Western negotiators brush aside concerns raised by developing countries while the risks of financial instability are not fully analysed or discussed. This undermines the use of GATS exemption clauses by developing countries.

The vagueness of financial prudential measures which GATS permits leave many developing countries' regulations open to challenges by WTO disputes, or to bullying by the hardliners during the secret bilateral GATS negotiations as reflected in the leaked EU requests to many developing countries. This could make countries refrain from introducing national legislation such as a Tobin Tax.

4. Trade negotiators ignore lessons from financial crises

Western GATS negotiators ignore the experience of previous financial crisis that liberalization needs to be gradual and well sequenced, underpinned by costly capacity building of financial authorities in developing countries. Free trade area negotiations (e.g. EU - Chile, EU - Mercosur, FTAA, European Partnership Agreements with ACP countries) very often push for substantial financial services liberalization. When the necessary national financial safeguards are not in place, trade negotiations should not push for financial sector liberalization since the global financial architecture is not reformed and financial firms increase poverty and unsustainable development.

5. GATS negotiations fail to integrate needs of civil society

GATS rules and negotiations fail to address the many problems of civil society, especially in the South, such as:

- lack of universal access to financial services,
- decreasing financing and financial services for poorer individuals and entrepreneurs,
- lack of transparency of the financial industry and its transactions, and
- no legal obligations to implement financial sector initiatives to strengthen corporate social responsibility and promote sustainable development.

6. GATS fits neatly with Western financial industry interests

The top financial industry lobby of the US and the EU has been very active and successful during GATS negotiations. The leaked EU requests look like a wish list of the European banks and insurance companies.
GATS rules and current GATS negotiations fit neatly with the expansion, concentration ("consolidation"), and profit-making strategies of the top financial conglomerates The GATS agreement has on only a very weak Art. IX to tackle market abuse that will follow the unlimited consolidation and concentration of the industry.

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(1) See <publications>. The full SOMO report "**Critical issues in the financial industry**" includes **chapter 6** which analyses liberalization of financial services under GATS. For more information, comments or a hard copy, contact <m.vander.stichele@somo.nl>
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