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Memo to Reporters

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Contact: Lori Wallach (202) 454-5107
Ann Eveleth (202) 454-5108

G-20 Summit: Will Leaders Address Existing WTO Rules That Stymie Necessary Re-Regulation of Financial Services, Reject WTO Doha Round's Agenda of Further Financial Service Deregulation?

This week, G-20 leaders will again agree that new regulation of financial services is necessary to counter the crisis and avoid future meltdowns, even if they disagree about specifics. **The key question is whether they will repeat the mistake of the November G-20 summit by again calling for completion of the World Trade Organization (WTO) Doha Round, *which includes further financial service deregulation.***

To replace what has become a hazardous casino of global finance with a system that promotes productive investment will require *undoing* the existing system of global financial governance – a prominent instrument of which is the WTO's Financial Services Agreement (FSA). This little-known agreement promoted by the financial services industry in the 1990s contains rules that ban many obvious and necessary regulations, including rules limiting the size of financial service providers and the extent of government oversight. Indeed, the WTO FSA legally obligates its 105 signatory nations to continue many of the very policies that governments worldwide are now working to reform.

Despite the hyper-vigilance about the threats of “protectionism,” there has been insufficient scrutiny of the current rules of flawed economic governance like the WTO's FSA that protect and promote the financial service sector's ability to gamble away the economic security of the world's six billion people. The devastation caused by the global economic crisis is not merely the result of bad practices by certain large financial firms, but is the outcome of past domestic policies and a system of global economic governance explicitly designed to eliminate the government regulation and oversight that are necessary to ensure markets operate in a stable and productive manner.

While numerous countries are attempting to work their way out of failed financial deregulation policies, many of the best ideas for doing so conflict with the existing binding global rules of the WTO's FSA – and requirements of numerous bilateral and regional free trade agreements (FTAs). Indeed, the International Monetary Fund's (IMF) contracts with many poor nations explicitly condition their loans on the implementation of financial service liberalization and deregulation.

While widespread press reports have declared that the crisis is a fatal indictment on the neoliberal regime, in fact many of these policies remain in place in the form of legally binding obligations on most of the world's governments. Changes to these institutions and agreements are essential to ensure that governments have the policy space necessary to establish effective new financial service regulation on domestic and international levels.

To be successful, this G-20 London Summit must include actions by the world's largest economies – many of whose prior governments were pushed by their largest corporations to create the domestic and global rules that led to the crisis – to reform the WTO and IMF, which currently enforce these flawed rules.

The G-20 must achieve two critical outcomes related to the WTO:

- **Revise the WTO's Financial Services Agreement and recognize that many free trade agreements' financial service deregulation obligations must be removed.** To effectively create new domestic and global financial sector regulations, the G-20 must agree to significant revisions to the WTO's FSA, including to those provisions:
 - **Forbidding governments from limiting the size of banking, insurance and other financial service firms.** As Simon Johnson, former chief economist of the IMF has said, "too big to fail is too big to exist." Yet WTO rules explicitly forbid government from limiting the size of foreign financial service firms, even if such limits are equally applied to domestic firms;
 - **Forbidding governments from establishing "firewalls"** that, for instance, prevent firms involved in commercial banking or in providing insurance from gambling peoples' savings on risky investment businesses; and
 - **Forbidding establishment of new regulation or limiting the degree of government oversight.** The WTO FSA "standstill rule" agreed to by the United States and other Organization for Economic Cooperation and Development (OECD) member countries explicitly forbids countries from establishing any new regulatory policies that might roll back their deregulatory commitments. These commitments were made by previous governments with respect to a vast array of insurance, banking and other financial services. Other rules subject domestic regulations to review by WTO tribunals to make the subjective determination of whether "*they are not more burdensome than necessary.*" Also forbidden are moves by member countries to "*apply licensing and qualification requirements and technical standards that ... could not reasonably have been expected of that Member at the time the specific commitments in those sectors were made.*" This requirement conflicts with the widely accepted imperative of adopting *new* regulation of financial services.
- **Review the current WTO Doha Round agenda, which includes *further* financial service deregulation, and instead shift focus to needed reforms to the *existing* WTO rules:**

The WTO Doha Round agenda includes as one of its main pillars *further* financial service deregulation and liberalization. The imprudence of further global financial service deregulation may have been less apparent when these talks started in 2001 or when the specific financial service deregulation agenda was fleshed out in 2005. However, today it is clear that rather than calling for completion of the current Doha Round agenda, the leaders of the G-20 countries must agree to review and repair the existing WTO limits on financial service regulation and devise a future agenda for WTO negotiations that takes into consideration the harsh lessons of the crisis.

Given what is contained in the Doha Round agenda, the November G-20 Communiqué's call for completion of this WTO Doha Round agenda was perverse – and counterproductive. One explanation for this error may be a lack of understanding among world leaders regarding the precise terms of the Doha Round agenda. However, another explanation is these leaders' use of the call for completion of the Doha Round as a proxy for expressing concerns about protectionism – an issue that has been conflated with recent declines in world trade volumes. As the WTO itself noted in its March 26 report on the state of global trade during the crisis, the cause of this decline is the collapse of worldwide demand. **The WTO found that there “is no indication of an imminent descent into high intensity protectionism involving widespread resort to trade restriction and retaliation.”** Trade flows will rebound when demand is stimulated, including through government economic stimulus initiatives. In contrast, a new WTO agreement based on the current Doha Round agenda of imposing further financial service deregulation could undermine the sustainability of increased trade flows and trigger the next economic meltdown with a related decline in demand.