



The Korea Free Trade Agreement and Financial Deregulation

On June 26, 2010, President Obama announced plans to move forward with the Korea Free Trade Agreement — a trade deal that was negotiated and signed by President Bush three years ago, but which the Bush administration was never able to get through Congress.

The proposed pact with South Korea is the largest free trade agreement since NAFTA itself, and represents a reversal of President Obama's campaign pledge to support a new model for international trade.

One of many concerns about the Korea FTA is the strict limitations it imposes on banking and insurance regulations.

Wall Street Loves the Korea Free Trade Agreement

Laura Lane, the Senior Vice President of International Government Affairs for Citigroup, has said the Korea FTA contains “the best financial services chapter negotiated in a free trade agreement to date.” Wall Street loves the Korea FTA because it not only guarantees market access for financial service corporations, but also prevents a wide range of commonsense financial regulations from being imposed in the future. The FTA's prohibitions on new regulations apply both the South Korea and the United States.

“Too Big to Fail” Cannot Be Effectively Challenged Under the Korea FTA

The Korea FTA prohibits limitations imposed on the size of banks, insurance companies, hedge funds and other financial service providers. The United States would also be obligated to refrain from establishing new firewalls between different types of banking, such as through reinstatement of the Depression-era Glass-Steagall Act or the more recent “Volcker Rule.”

Toxic Derivatives Trading Cannot Be Banned Under the Korea FTA

Bans on the sale of risky financial products, such as derivatives, are also forbidden under the Korea FTA. The Office of the U.S. Trade Representative actually brags that the FTA's financial services provisions includes the “adoption of a negative list approach to financial sector regulation.” This means that all types of financial services and products — including any new ones developed in the future — are automatically covered by the FTA unless already explicitly listed for exemption.

Commonsense Capital Controls Are Also Prohibited by the Korea FTA

Capital control measures that South Korea adopted in the 1990s to limit the effects of the 1997 Asian financial crisis are also prohibited by the proposed FTA,

despite recent admissions by the International Monetary Fund that capital controls can be useful tools for avoiding financial destabilization.

Korean Firms Granted Special Rights to Challenge New Regulations

The Korea FTA's investor-to-state dispute resolution would provide South Korean banks and insurance companies operating in the United States with the special right to challenge through international tribunals any U.S. laws, regulations and court decisions that negatively effect their profit-making potential. South Korea currently has at least seven different banks and four insurance or securities institutions operating in the U.S. Wall Street firms would likewise be able to challenge South Korean regulations restricting their businesses.

The Korea FTA Ignores the Lessons of the Financial Crisis

The Korea FTA was negotiated by the Bush administration in 2007 — before the financial crisis. Absolutely none of the lessons learned in recent years about the dangers of financial deregulation are reflected in the agreement.

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