The TPPA and capital controls

The New Zealand government is negotiating an international agreement that could have a huge effect on the lives of ordinary kiwis. It's called the Trans-Pacific Partnership Agreement (TPPA), and it involves eleven Asian and Pacific-rim countries, including the United States. If it goes ahead, we risk damage to our innovative economy, our pristine environment, our health, and the ability to shape our own future.

Because the negotiations are being conducted in secret, what we know about the TPPA comes from leaked documents and detective work. This is not acceptable. We live in a democracy, which means we have the right to know what is done in our name and to have a say.

One of many causes for concern around the TPPA is its potential effect on the stability of our financial system.

New Zealand's vulnerability to global financial shocks

The New Zealand dollar is one of the world's most traded currencies, mainly by currency speculators. Overseas investment makes up a significant part of our economy and the mainly foreign-owned banks operating in New Zealand have at times held massive levels of short-term foreign debt. This makes New Zealand **extremely vulnerable**[1] to destabilising flows of capital in and out of the country. The proposed TPPA will seriously fetter New Zealand's ability to follow the lead of other countries and apply capital controls to protect our economy. What's more, foreign banks, insurance companies, money traders, and overseas property dealers from the other 10 countries would gain special powers to challenge laws and policies designed to shift the focus of investment away from speculation and grow our productive economy.

The TPPA would prevent Capital controls

New Zealand has already **willingly eliminated**[2] many of the legal mechanisms that limit the exposure of our economy to global financial shocks. The TPPA would lock in our lax regulatory system and may even require New Zealand to weaken it further.

Under a **leaked TPPA negotiating text**[3] the governments would have to permit the free flow of capital related to investments from the other countries (including investments in our currency), government bonds and other 'financial assets'. This effectively forbids the use of regulations to control or restrict the movement of capital, such as financial transaction taxes (a small tax on transactions that curbs volatility and discourages speculation) or minimum stay requirements that deter quick turnaround investments.

Changing Tide Accepts Capital Controls as Legitimate

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Why should we cede yet more control over our economy – allowing foreign corporations to enforce rights against our government that are not available to our own firms – in pursuit of much greater access to the American market for our dairy products that the US dairy industry will never allow?

– Bryan Gould, economic commentator, former Vice-Chancellor & MP.

Links:

1. *http://www.rbnz.govt.nz/research/bulletin/2007_2011/2010dec73_4Steenkamp.pdf*
2. *http://www.eastonbh.ac.nz/?p=523*
3. *http://www.citizen.org/documents/Leaked-TPP-Investment-Analysis.pdf*

The TPP, genetic modification, and food safety – continued

Capital controls are especially important at times of financial crisis. In the 1997-98 Asian Financial Crisis rapidly growing Southeast Asian nations — who were funded by high levels of foreign debt — defaulted and foreign capital took flight. Countries like Thailand, Indonesia and the Philippines refused to impose capital controls and suffered heavy losses. Malaysia, however, chose to buck the 'orthodoxy' and insulate itself from attacks by currency speculators with **emergency capital controls**,[4] successfully giving its economy the space to recover.

After the global financial crisis capital controls are increasingly seen as a legitimate way that countries can protect themselves against heavy losses in an era of globally-linked financial sectors which rapidly spread a financial crisis around the world. Even the traditionally conservative International Monetary Fund has **endorsed**[5] their use in appropriate circumstances. Capital controls are also useful for managing the level of the exchange rate – a big problem for New Zealand at present.

Prominent economists oppose TPPA provisions on capital controls

A series of letters to the Obama Administration from prominent economists (**here**[6] and **here**[7]) detail how existing US trade and investment treaties have been used to prevent their signatories from using capital controls and ask for these provisions to be excluded from the TPPA. Top US Democrats Barney Frank (Chairman of the House Financial Services Committee) and Sander Levin (House Ways and Means Committee) have written an **open letter**[8] in support of capital controls being allowed under US trade and investment agreements.

Investor-State Dispute Settlement

One of the major grounds for concern around the TPPA is that foreign investors could sue the New Zealand government for compensation in secretive international tribunals over new laws or policies which they claim would significantly hurt their investments. This would mean that foreign banks, insurance companies and money traders from the other 10 countries — especially the US — could challenge new financial regulations introduced to defend the New Zealand economy from speculation.

No Effective Exceptions

The past experience of some TPPA countries makes them very nervous about restrictions on capital controls and they have proposed limited exceptions and emergency powers allowing their use. The United States opposes these exceptions, even in a balance of payments emergency.

Despite deregulation, New Zealand still has some legal capacity to protect ourselves in a financial crisis, and we should not trade this away. Our government is elected by New Zealanders to look after our interests, and it should not have to answer to transnational corporations for introducing measures designed to protect and grow our economy.

"Does the TPPA sound like something New Zealand should be a part of?"

Act now!

- ***Email the Prime Minister***[9]
- ***Sign the petition***[10]
- ***Spread the news***[11]

Links:

4. *http://www.henciclopedia.org.uy/autores/Khor/Malaysia.htm311.pdf*
5. *http://www.guardian.co.uk/commentisfree/cifamerica/2011/apr/06/imf-capital-controls*
6. *http://www.ase.tufts.edu/gdae/policy_research/CapCtrlsLetter.html*
7. *http://www.ase.tufts.edu/gdae/policy_research/TPPAletter.html*
8. *http://democrats.financialservices.house.gov/FinancialSvcsDemMedia/file/press/112/Frank_Levin letter to Geithner RE capital controls_ May 23_ 20120003.pdf*
9. *wwwww.itsourfuture.org.nz/take-action/*
10. *www.avaaz.org/en/stop_the_corporate_death_star/*
11. *www.itsourfuture.org.nz/news/*