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WORKSHOP ON TRADE IN FINANCIAL SERVICES AND DEVELOPMENT

GENEVA, 26 JUNE 2012

DDG Harsha V. Singh's opening remarks

Good morning, ladies and gentlemen.

It is a pleasure for me to open this workshop, which is aimed at improving our understanding of the crucial relationship between trade in financial services and welfare, growth and development. Today, you will all be able to explore various dimensions of this relationship, seen from different perspectives of governments, international organizations, and academia. It will also provide a basis for fostering a dialogue between trade negotiators and financial regulators.

The idea that an effective financial system plays an essential role in promoting economic development is not new and has been studied from different perspectives. Speaking of different perspectives, I found an interesting one by Jenny Marx, the wife of Karl Marx, when she said: "*I wish that dear Karl could have spent more time acquiring capital instead of merely writing about it*." More seriously, the practice and writings on development policies have always assigned great importance to the role of financial intermediation in innovation and economic development, whether it relates to the small scale sector, larger economic entities or nations as a whole.

I say this even though we have some eminent personalities with different views on the importance of financial sector for growth and development. For example, take the views of two Nobel laureates in the 1990s. Robert Lucas held that the role of finance in economic growth had been "*over-stressed*" by the growth literature, and Merton Miller considered "*that financial markets contribute to economic growth is a proposition almost too obvious for serious discussion*."

If we step back and examine what all is required for achieving growth and development, it is clear that a well-functioning financial sector with effective financial services is necessary for promoting development. Consider the feasibility, without a sound and effective financial sector, of ensuring health care and education in a large scale, or the possibility of creating a skilled and healthy labour force, or establishing relevant infrastructure in the economy, or improve the governance and business environment in a nation.

This assessment shows that we can reconcile all the different views to coincide with that of Merton Miller, namely that positive contribution of financial markets to economic growth is self-evident. The issue therefore is not to ascertain whether there is a relationship between financial services and development, but to better understand the positive nature of this relationship

and the steps needed to improve the contribution of financial services to development. This will help the decisions of policymakers to pursue financial sector reforms, as well as their choice of financial sector policies. There will also be a basis to better formulate trade policy in financial services, and make sustained improvements in factor productivity or meet social policy objectives.

This brings me to a crucial point. A lot has been said about the relationship between finance and development, and between finance and economic growth. A very impressive literature has developed over the last three decades on the finance-growth nexus, from cross-country studies to individual country case studies, to industry and firm-level research. But much less has been really researched concerning the link between "trade" in financial services and growth or development. I refer to "trade", as understood by the GATS, that is to say, as the supply of financial services by foreign suppliers through different modes. This should be our focus all along: how can "trade in financial services" contribute to growth and development, what are the challenges raised, and what the policy implications are.

Together with international capital mobility, trade in financial services contributes to countries' integration to the international financial system; integration in which domestic households and firms would have access to financial products offered by foreign financial service suppliers, and in which

domestic financial service suppliers can actually offer financial products and services to the world. But, of course, trade in financial services does not happen in a vacuum. Trade occurs as a result of a number of enabling elements and policies such as business environments, and legal and regulatory infrastructures, among others. And the impact of such trade will also depend crucially on the soundness and effectiveness of the financial services sector at large. It was indeed a wise thought to depict the financial services sector as the "brain" of the economy. When it functions properly, it allocates resources to the most productive uses, and trade in financial services contributes smoothly to that allocation of resources while positively contributing to the functioning of the financial system or the economy.

However, just as the impact of brain malfunction is felt in the rest of the body, a crisis in the financial services sector will have contagion effects and a significant impact on the country's real sector and, through trade and capital movements, possibly on other countries as well. As demonstrated by events over the last four years, a financial crisis may thus have adverse effects on development, nutrition, health, and augmenting skills for better jobs. Thus, the stability of the financial services sector is vital not just for growth and development, but also for political stability.

Therefore, it is important for Governments to develop a more resilient, competitive and dynamic financial service sector that supports and contributes positively to growth and development, and to the nation's integration into world markets to take advantage of evolving opportunities. Of course this needs to be framed within the appropriate regulatory framework.

Nonetheless, during these tumultuous times policy-makers in both developed and developing nations may draw the wrong conclusions and adopt trade policies that restrict markets and economic growth.

Today, I am glad to see that we have a broad programme for the workshop within which there will be time to discuss the contribution of financial services to development from different angles. We will have the opportunity to learn from the experience of different Members, and also discuss specific regulatory issues that need to be addressed to make the entry and operation of foreign financial institutions conducive to economic development within a sound and stable financial system.

With such tremendous potential for learning we need to be involved in a constructive and open-minded way in these discussions. This is essential for focusing on our key objective, that is to better understand how trade in financial services - and negotiations on trade liberalization - can effectively contribute to

development. That would help us successfully achieve the essential result from good multilateral initiatives, namely that the total of positive dynamic effects are far larger the sum of individual parts.

Thank you for your attention.
