

Committee on Trade in Financial Services

**WORKSHOP TO MARK THE TENTH ANNIVERSARY OF
THE FIFTH PROTOCOL TO THE GATS**

Geneva, 31 March 2009

Welcome and Opening Remarks by Mr. Harsha V. Singh, DDG, WTO

Thank you, Mr Chairman,

Distinguished Speakers, delegates, Ladies and Gentlemen,

The negotiations on financial services that led to the Fifth Protocol to the GATS – whose entry into force we are commemorating today – were borne out of an initiative taken towards the end of the Uruguay Round of Multilateral Trade Negotiations. At the time, the commitments made in the sector were not considered to be enough to provide for a meaningful outcome.

At Marrakech in 1994, Ministers thus agreed to extend the negotiations in this sector. The negotiations were initially planned to be held during a six-month period following the entry into force of the GATS, that is until the end of June

1995. They were concluded at the end of July 1995, reflecting the Members' efforts to achieve a permanent deal. Subsequently, as you know, negotiators again decided that the results of those negotiations were still not satisfactory, and envisaged further negotiations two years later, in 1997. The improved commitments achieved in 1995, in what came to be called in some quarters the "interim agreement", were incorporated into the Second Protocol to the GATS.

Negotiations on financial services were thus reopened in April 1997, and were successfully concluded in December of that year. The improved commitments were annexed to the Fifth Protocol, which entered into force (for most of its signatories) on 1 March 1999.

The Fifth Protocol proved to be a landmark agreement, achieved at a critical time. As you may remember, much of the world was facing significant economic turbulence in 1997, due to a financial crisis that had broken out in Asia but that spread to many other parts of the world (particularly to developing countries) with considerable speed and intensity. It was probably the first major sign that globalized financial markets may stumble from time to time, causing severe damage. Nevertheless, WTO Members representing over 95% of world trade in financial services put their acts together, confronted the crisis, and remained faithful to their negotiating mandates and commitments, definitely

bringing this sector into the realm of the multilateral trading system. Indeed, considered in retrospect, the participants in these extended negotiations on financial services demonstrated a unique dose of enthusiasm, and political will. Political will that was necessary to focus on the long term benefits of liberalization, despite the short term challenges that many economies were facing at the time. It is encouraging to see that the enthusiasm remains alive as demonstrated by your presence here today.

As in 1997, the financial sector has again taken centre stage. The world is facing a much larger financial crisis. The current crisis is not confined to the financial sector, and is not only affecting a group of emerging economies. On the contrary, it is severely affecting everybody everywhere. Recession – very deep in some cases – has knocked on every country's door. We are facing the worst economic crisis since the Great Depression. In 2009 the world economy will contract for the first time in 60 years, and the forecast is for a decline of world merchandise trade this year, to be the largest since the Great Depression. The importance of a sound and stable financial system is evident as never before. And although the financial sector is at the origin of the crisis, it also holds the key to our future success in overcoming this major challenge.

Governments everywhere in the world have taken action to support the financial sector. Their priority has been to guard against the systemic risk posed to the economy by the threat of failure of large financial institutions, and to revive the role that banks must play in transforming savings into investments, in managing risk, and in allocating credit where it will be most productively used including trade finance.

As expressed by the WTO Director General's report issued last week, government intervention on such a scale to support a sector or industry, whether it be automobiles or financial services, raises a number of trade-related issues. One is that uncompetitive or even insolvent financial institutions may be kept in operation at the expense of their foreign competitors, thereby distorting the market, and reducing trade in financial services. Under the current circumstances, this may be viewed as secondary to the objective of reducing systemic risk, and restoring credit for the economy as a whole. It is important, however, that financial markets return to competitive conditions (albeit probably under stricter regulation and supervision than in the past) in which sound institutions can prosper without facing unfair competition.

The world needs not only stable and sound financial sectors but also open and competitive ones. It was through an open and competitive financial sector that

the world saw the highest growth rates in the past. It is not trade *per se* that is at the genesis of the present crisis, but the way trade was conducted, and the way market participants were allowed to operate. More than ever before, the crisis has shown that financial services liberalization must be underpinned by adequate prudential regulation and supervision, enhanced transparency and corporate governance, and proper legal and accounting systems.

And there is certainly no better framework of rules and disciplines than the GATS to ensure that trade in financial services flourishes in a sound environment. For one thing, the GATS does not curtail the ability of governments to introduce prudential regulations and to reinforce prudential supervision, with a view to protect depositors, investors, and policy holders, and to preserve the integrity and stability of financial systems.

Your presence here today is a token of the priority that you attach to this sector and to the ongoing Doha negotiations. An agreement in the Doha Round, including a meaningful package for services, has become more crucial than ever. By committing to a more open trading environment, you will be creating the basis for the future recovery of the economy. It is therefore in your hands to lay sustainable foundations for trade, growth and development, once the dust of the crisis has settled. With the ten years of experience in the coverage of

financial services under the GATS, and the meaningful GATS framework that we have for market opening, I would like to encourage all of you to work on providing also the positive stimulus and greater stability in the system by concluding the on-going services negotiations under the Doha Round.

I wish you all the best for a fruitful workshop.