

**THE ROLE AND DEVELOPMENT OF INTERNATIONAL  
FINANCIAL CENTRES**

**NATIONAL BANK OF EGYPT  
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**1. INTRODUCTION**

What I shall try to do in the course of this speech of an hour or so is to examine in turn three related questions about international financial centres.

To start with, I shall suggest an answer to a deceptively simple question : what is an international financial centre ? A large number of cities across the world now lay claim to this title; so it is as well to be sure just what are talking about.

I shall then turn to the rather more challenging question : why are international financial centres necessary ? The benefits of such centres to the host country have been frequently discussed in the past, but I shall place rather more emphasis on their benefits as I see them for the world at large.

Thirdly, I shall try to identify those ingredients which seem to be necessary for the development and maintenance of an international financial centre of high standing and efficiency. I am aware that this question may imply that creating an international financial centre is like baking a good cake; that it is merely a matter of following the recipe correctly. There is, of

course, no simple recipe ; but I do believe that there are various characteristics and attributes which are essential, or at least highly desirable, for the development of an international financial centre.

In concluding I shall also try to look ahead a little and assess what future there may be for international financial centres in the rapidly changing world political and economic order.

## 2. WHAT IS AN IFC ?

First then, let me attempt to define an international financial centre at any rate for the purposes of this speech. I do not think that we shall go far wrong if we use the term to mean "a centre in which banks and other financial institutions, foreign as well as indigenous, offer a wide range of services to residents and non-residents and to multi-national companies operating in the country or in neighbouring countries". Such centres are normally characterised by the presence of a wide range of branches and subsidiaries of overseas financial institutions.

This definition excludes a number of centres which have never sought to offer more than a very narrow range of facilities. By way of example, I would not personally honour some of the world's more far-flung tax havens with the title of international financial centre. There may be fiscal advantages to be gained from transacting certain types of banking, investment or other financial business from them. But they lack the breadth of services — and the breadth of talent as well — to merit the title.

As for serving non-residents, it seems reasonable to exclude from the definition centres which — however large or efficient they may be — are exclusively or predominantly concerned with meeting the financial needs of their domestic economies. In many cases, of course, these needs may be met in part by foreign financial institutions. But the mere fact that an American or British bank, say, has a branch in a particular town does not automatically make that town an international financial centre.

My definition is, however, wide enough to include many centres which concentrate on providing specialised services, or on meeting the needs of a particular geographical region of the

world, as well as centres such as New York and London which seek to provide an extremely comprehensive range of services for a worldwide market. Thus I would include within my definition centres like Vienna, which is heavily orientated towards the financing of East/West trade ; or Kuwait, with its close connection with the development needs of the Middle East; or Singapore and Hong Kong, with their important regional roles in the Far East. As I shall argue shortly, I believe that the world is large enough to accommodate a broad spectrum of international financial centres of varying sizes and specialisations offering both complementary and competing facilities.

There can, therefore, be no comprehensive list of services which every international financial centre must provide in full in order to claim that title.

At a minimum, however, it would need to offer the banking and foreign exchange facilities necessary to permit non-residents to make deposits or take up loans, either in the currency of the host country or in some foreign currency.

I would, of course, be expected to offer other financial services as well. Typically these might include insurance and insurance broking; securities trading and fund management; commodity trading ; and professional support services in such fields as tax, law and accountancy.

### **3. WHY ARE IFC's NECESSARY ?**

I suppose that there must now be a score or so of cities throughout the world which could claim the title of "international financial centre" as I have defined it. International banking, securities trading and the other activities associated with such centres have been, by any standards, among the world's major post war growth industries.

It is, therefore, not unreasonable to ask why so many centres, providing these services on so large a scale, are necessary. How do they benefit the world economy? The answer lies in the increasing interdependence of the nations of the world. The interdependence is seen most clearly in the use of international

trade as a means of raising world living standards. Countries sell goods and services surplus to their own needs and buy those of which they are in short supply. Such trade creates the need to develop international payments mechanisms and to extend international credit. At the same time the capital surpluses in some countries can be tapped to satisfy the demand for external finance in countries where there are capital shortages. In addition, truly international markets are created on which can be bought and sold goods (like crops and metals) or services (like shipping and insurance) for which purely national markets would be less efficient and, therefore, more costly.

Many international financial transactions can, admittedly, be accomplished without recourse to the services of an international financial centre. Often it is possible for one or other of the countries participating in a bilateral transaction to provide the necessary facilities itself. Much export finance, for example, is satisfactorily handled on this basis.

In an increasing number of cases, however, the nature of a transaction makes it appropriate for the parties involved to turn to a major financial centre which is better equipped than their own domestic financial markets to handle the matter. Typically, this will be the case if the transaction is too large, too complicated or too specialised to fall within the competence of a purely national market. Perhaps I may draw some examples from the experience of London of the sort of transactions I have in mind.

First, as an example of the large transaction, one might cite the underwriting of marine insurance. No purely national insurance market could now satisfactorily accommodate the huge risks involved in insuring supertankers. A genuinely world-wide market is necessary if the risks are to be effectively costed and shared. The London insurance market, with its extensive re-insurance capabilities, and the unique facilities of Lloyds, provide such a market.

Next, as an example of the complicated transaction, one might cite the provision of multi-currency loans for many of today's major investment projects. Even if the sums involved were within the means of a purely national capital market, there

would remain immense problems of project appraisal and of what is now called "financial engineering" — structuring the terms and conditions of the loans to meet the needs of borrowers and lenders as fully as possible. To provide such loans requires not only access to the funds themselves, but also the ability to overcome problems such as these. That in itself requires highly efficient, talented and imaginative international bankers. London's role as the world's major Eurocurrency market could not have developed in the absence of such people.

Finally, as an example of the specialised transaction, one might cite shipbroking. Chartering supertankers, like insuring them, is not an everyday business and there could be no possible justification for fragmenting the charter market into dozens of self-contained national markets. A truly international market such as London's Baltic Exchange is essential if the suppliers and users of such facilities are to be properly matched.

It might be helpful at this stage to examine why the world has come to depend particularly heavily on the services of international financial centres during the recent past.

Of particular importance has been the fact that international trade has continued to expand at a faster rate than world economic activity as a whole. By way of example, the combined industrial production of the member countries of the Organisation for Economic Cooperation and Development grew by just 44 per cent between 1966 and 1974, while the volume of manufactured goods exported by those same countries grew by as much as 114 per cent.

This growth in international trade has, moreover, been associated with periods of great instability and uncertainty on the world's foreign exchange markets, large fluctuations in the balance of payments positions of the major nations and, as a result, major movements of capital from one country to another. It has also been associated with such developments as the continuing rise of the multinational corporation, commercial detente between the Eastern and Western blocs, the rapid progress towards economic maturity of many of the world's developing nations and most recently the shift in the balance of world economic power brought about by the oil price rises of the past two years.

Developments such as these have all helped to reinforce the need for the services provided by international financial centres. For example, the Eurocurrency markets have provided one of the most important channels through which the surplus reserves of the oil exporting countries have been recycled. The same markets have been used intensively for the allocation of investment finance to the developing countries in particular; it must be doubted whether, in the absence of such markets, it would have been possible to provide such finance by alternative means on the necessary scale.

Traditional financial centres such as New York and London have been to the forefront in responding to the developing needs of the kind I have described. It is clear, however, that the world has proved large enough to accommodate a considerable number of regional or specialist centres as well.

I am, of course, concerned that London should remain a strong and healthy centre and that it should not unnecessarily lose out in its activities or its reputation to other, competing, centres. Nevertheless I would feel that there was something dangerously wrong if London were the only international financial centre of any significance, or one of only a very few.

In other words, I regard the existence of a variety of centres of different sizes, locations and specialisations, as itself a healthy sign, and for two reasons.

In the first place, I think that it is desirable that enough centres should exist to ensure that healthy and effective competition can occur between them in the provision of financial services on an international scale. It is important and normally beneficial for the institutions, regulatory bodies and others involved in operating an international financial centre to appreciate that if between them they fail to adjust to the developing needs of their customers their business will be attracted elsewhere. It may be thought that there are some fields where competition between centres can be taken too far, and beyond the longer term interests of the world financial community.

In the second place, I regard it as equally important that such centres should be neither too large nor too remote from their

customers. It is surely significant that most of the world's successful financial centres are geographically compact; the ability of the institutions represented in them, however many they may be, to develop and maintain relationships with one another, based on mutual personal trust and understanding, strikes me as essential.

By the same token, if a financial centre is to **concentrate** on the particular needs of a specific region of the world, there is a clear case for siting it in that region. In an age of rapid communication, the purely logistic arguments for doing so may not be as strong as they were; but they still carry weight. More important, perhaps, is the need to complement the truly universal attitudes and skills required by a major regional IFC with more localised ones — the knowledge of local markets, customs and laws, for example. A regional centre is more likely to attract the men with such knowledge than one sited thousands of miles away. To a large extent, therefore, the services of a regional financial centre are complementary with those of the more universally international centres; in an increasing number of transactions, both have a role to play.

In discussing the need for international financial centres, I have deliberately concentrated on the benefits they have to offer to the world at large, in contexts such as the financing of international trade and investment.

In addition, though important benefits can accrue from such centres to the individual countries in which they are sited. A successful centre is an asset of value not only in terms of national prestige but also in the hard cash of invisible exports and favourable capital flows. The financial expertise and other factors associated with a successful centre, which I shall be examining shortly, can also of course contribute to many other aspects of a nation's economic life. So, to an even greater extent, do factors such as political stability which are essential prerequisites of an IFC.

I would, not, however, want to suggest that all international centres have always been totally benign in their effects on the world about them or on the countries in which they are sited.

The facilities they provide, like any other services available in the world, can be used for ill as well as for good. For example, the same Eurocurrency and foreign exchange dealing centres which helped to ensure the responsible recycling of oil revenues in 1974 are capable of being used for disruptive and speculative foreign exchange transactions as well.

This, however, is not an argument against such centres themselves; it is an argument against their abuse. The ability to contain abuses must be a consideration of paramount importance to those who supervise such centres, both individually and where appropriate jointly.

I should perhaps say a word about one charge which has been levied in the past against the City of London in particular. This is that by its very success it has starved other parts of the domestic economy of vital financial or human resources. Thus, the argument runs, whatever its contribution to the world economy, it may over time and on balance have damaged the U.K. economy.

This argument seems to me to be misconceived for a number of quite separate reasons. As I have already pointed out, truly international financial centres draw on as supply international financial markets. If a particular centre is a net exporter of funds on a long term basis it is because there are not sufficient or sufficiently attractive investment opportunities in the domestic economy for it to be a net importer (and because government exchange control regulations permit it to be). Furthermore, the argument seems to hang on a peculiarly restrictive view of the availability of human resources. Even a centre the size of the City of London only employs about 1% of the total work force of the country in which it is situated. Moreover, many of the kinds of human talent and skills deployed in the City are not those that would be needed, for example, to improve the quality of management in manufacturing enterprises.

The reasons for Britain's poor economic performance are many, and certainly some blame must attach to Government policies over the years — though I doubt whether Government alone can be expected to find a panacea. Suffice it to say that

if there were more real investment opportunities for British industry then institutions in the City would provide the finance, and moreover be well placed to tap international sources of finance to invest in the domestic economy.

If the City has been more successful in its international than in its domestic role in recent years this has not been at the expense of, but rather because of the state of the rest of the domestic economy. Indeed the "financial services industry" has itself been one of the very few growing and internationally successful sectors of the British economy. This is not the place to become involved in the current British debate about the relative merits in national terms of manufacturing and service industries, but I would question the implicit assumption made by many that manufacturing is in some sense the "better" .

Certainly, it would seem sensible nationally to support rather than carp at the one really successful sector of the economy — even if it is a service sector. As I have already said, I believe rather that an international financial centre can be a source of considerable strength to the economy in which it is situated, both directly in terms of invisible exports and indirectly. An historically successful international centre represents a considerable physical, human and intangible asset; in national terms I believe it is an asset to be exploited to the full.

#### **4. CREATION AND MAINTENANCE OF INTERNATIONAL FINANCIAL CENTRES**

I turn now to a discussion of some of the factors that seem to determine the formation and development of IFC's. This is a subject to which considerable thought has been given in London in recent years thanks to our national habit — some would call it disease — of introspection.

Clearly the factors that explained London's emergence as a major financial centre in the 19th century would not necessarily apply to, say, Cairo in the later 20th century. As I have mentioned there are many different types of centre. And what comparative academic literature there is on the evolution of different

centres demonstrates clearly that the reasons for their emergence are various. The different reasons explaining, for example, the growth of New York or London are not the same as those responsible for the emergence of Luxembourg or Zurich. Nevertheless comparative and historical analysis does point to a number of general points that are likely to be important in a wide variety of circumstances.

According to economic theory the location of a particularly type of industry will be determined by a number of factors. These include the proximity to the supply of raw materials, the proximity to the market, the cost and availability of necessary factors of production and the adequacy of transport facilities.

In principle, the location of IFC's is determined in the same way. For example, many of the largest centres initially grew up because they were situated in a region which was an important exporter of loanable funds (the basic raw material of financial intermediation), because they were located on strategic international trade routes, or because they were situated in a developing region which imported substantial amounts of capital. In the case of the City of London, a number of factors were important in its emergence as a major IFC in the 19th century. First, the U.K. was, as it still is, a massive importer and exporter. Secondly, London was the base from which many of the primary commodities produced in the British Empire were marketed. This encouraged the growth of ancillary services such as international insurance and shipping and commodity markets. So London became an important meeting place for international trade. Then the United Kingdom was a major capital exporter. The upshot of all this was that sterling played a strategic role in the international monetary system. To this day, it remains an advantage for an IFC if the currency of the host country is reasonably widely used as a trading counter and is stable enough to be used with confidence.

Although particular circumstances such as those mentioned above may account for the emergence of a financial centre the story does not end there. Once sufficient markets have been established and an infrastructure (in terms of professional expertise, communications facilities, and so on) has been construct-

ed, a centre will then be in a position to attract business unrelated to the initial reasons for its establishment. It benefits from economies both of scale and of diversification. Thus the London merchants, who started their acceptance business to finance British imports and exports, later used their expertise to finance trade between third countries.

A number of basic environmental conditions are important, some crucial, for the establishment and maintenance of a successful IFC and I will discuss these at greater length. The lesson of history, though, is that once an international financial centre is firmly established, and has built up its infrastructure and traditions, it is strongly placed to maintain and improve its position; provided of course that its institutions, governmental and otherwise, remain stable although reasonable flexible in the face of changing economic circumstances.

What then are the specific factors that determine the success or otherwise of an international financial centre? Obviously they are many and varied, and I will not attempt to be exhaustive. Rather I will try to select and highlight those that seem likely to be of particular importance in the development of an international financial centre during the last quarter of the 20th century .

#### **Sources and Uses of Funds :**

Historically the existence of an immediate hinterland that is either a large exporter or importer of capital has been important. Britain in the 19th century fell into the former category as would a major oil producing state now; and most developing commercial and industrial states fell into the latter. It may be, however, that this factor, with efficient modern communications, is now a good deal less important than it was historically. Obviously reasonable ease of physical access by potential suppliers and users of funds is one determinant of a centre's relative success, but **immediate** proximity is no longer necessarily crucial.

What remains important, though, is the existence of varied, efficient and secure markets on which non-residents can deposit and invest their funds, as well as borrow and raise capital. The

most successful IFC's, such as London and New York, are certainly marked by the presence of such facilities. As a specific example, I might mention the British gilt-edged market. Although I can hardly pretend to derive any satisfaction from the size of our national debt, it is nevertheless true that the gilt-edged market, on which ownership of that debt is traded, is itself one of London's major assets as an IFC.

### **Infrastructure :**

Then there are the other elements of what one might call the basic "infrastructure" of a financial centre. These include, for example, the existence of a variety of efficient and reputable financial markets; good transport, postal, telephone and telegraph facilities at the local, national and international level; the availability of attractive but preferably inexpensive office and residential accommodation. To this list, one might add natural advantages such as a favourable time zone and local climate, and local cultural, historical, "life style" and other attractions likely to encourage employees of international financial institutions to want to take up residence.

I would emphasise three aspects of infrastructure particularly. First, the technological infrastructure that is increasingly important in a modern financial centre; second, the importance of the presence of a wide **range** of institutions and professions; and third, the availability of a pool of high calibre staff.

A modern financial centre depends increasingly on a capability in computing and data processing. The local financial institutions have to become expert at using such equipment, and build up their know-how. There are few countries capable of local production of the sophisticated hardware and software needed so that normally it will also be important to create conditions to facilitate the required imports. To operate effectively, such equipment requires electric power supplies proof against failure; whilst this can be achieved by individual organisations each acquiring their own standby generators, the service could probably often be offered more efficiently by the electricity utility itself.

Telecommunications are equally essential, for transmitting both speech and data within the IFC, between the IFC and its immediate hinterland, and internationally — particularly to and from other centres. Private as well as public networks will be required. All forms of communication, including the postal services, need to be secure against fraud, error and breaches of privacy and commercial confidence. It will be obvious that the local telecommunications authority has a key role to play — and its relationships with telecommunications authorities in neighbouring countries can also constrain or facilitate developments.

I have dealt with technological factors at some length, partly because they are so often ignored, and partly because they are going to be increasingly important in the future. The benefits of a wide range of institutions and professions are on the other hand frequently discussed. Suffice it to say that this has certainly been one of London's strengths with well developed banking and insurance systems, pension funds, stock market, money markets, commodity markets and an infrastructure of law and accounting expertise. This network of financial institutions and supporting services, not to mention the personal contacts between the individuals that work in them, provides a financial centre with the synergy it needs for success. Obviously, such a network takes many years to build up, but one point I would make is that London's recent experience clearly demonstrates the benefits to be had from maintaining an "open door" policy to reputable foreign financial institutions that want to enter.

Perhaps the most important aspect of infrastructure though is the availability of the right kind of people, with the right kind of skill. In any rapidly growing financial centre, as for example London in the 1960's, there are likely to be shortages of people available with the right skills. Moreover to some extent the skills required are themselves changing as markets and external factors (e.g. the move to floating exchange rates) develop. International institutions may be able sometimes to import the required expertise, but expatriate personnel often find it difficult during relatively short term secondment to grasp the intricacies of practice and the nuances of economic and social structures necessary to some roles in an IFC. Under these circumstances the local labour market comes under pressure, and this has to be accepted.

Training facilities have to be created; and salary levels in indigenous institutions probably rise towards those in their international counterparts. The availability of a local pool of educated and potentially skilled staff, capable of working to the highest standards of honesty and integrity, is thus a most important facet of a developing IFC.

### **Fiscal Environment**

The need for a favourable fiscal environment is another factor much cited in the literature on IFCs. Whilst clearly important, I often wonder whether this is not overstressed. Matters usually mentioned as determinants of a centre's growth are tax privileges for temporary residents from overseas, low or zero withholding taxes on dividends and interest, a favourable system and level of corporate taxation and the existence of a network of double taxation agreement with other countries.

So far as personal taxation of non-residents is concerned the tax regime obviously has to be sufficiently favourable to persuade individuals to work away from home for considerable periods of time. At the least such individuals need to be protected from a double incidence of taxation, either by formal double taxation agreements between their host country and their country of origin or otherwise.

Many countries, however, give particularly privileged treatment to such individuals, and sometimes this may be necessary to counteract relative disadvantages in terms of climate, cost of living, etc.

The normal function of withholding taxes on interest and dividends is to reduce tax evasion. Some countries thus distinguish between domestic and non-resident investors, levying tax at a nil or reduced rate in the latter case, since tax evasion by non-residents is not *prima facie* a problem for the host country, and because many international funds are sensitive to this particular point. In this case too though the existence of an extensive network of double taxation agreements may benefit an IFC. The U.K. at present has 65 such agreements with other countries.

The level of corporate taxation is also important, including in this term property taxes, capital gains tax, capital duties, local taxes and social security contributions as well as corporation tax as such. Some countries give special treatment to overseas companies, such as tax holidays during the early years of establishment, or generous treatment of branches of foreign business.

In each of these areas one is left with the impression that there is a danger that competition between IFCs in offering tax attractions could lead to a situation that is in neither their own long term interests nor necessarily the long term interest of the world financial community. There may be a need for some tacit understanding at least between major centres not to go too far in offering special tax attractions.

That said, of course, each financial centre does need to protect its own position, offering tax advantages sufficient to balance those offered by rival centres. In doing so it must be remembered that international tax comparisons are extremely complicated; and in particular that it is not simply rates of tax that are important, but also the base on which they are levied, and the rigour with which they are enforced.

### **Regulatory Environment**

Next I turn to the regulatory environment. It goes without saying that a major IFC must have well developed systems of law, covering the various types of financial transaction, the conduct of companies and the employment of staff, effective and trusted courts and judiciary, and where appropriate tried and trusted disputes and arbitration machinery.

In particular there needs to be an effective and efficient system of regulating financial institutions themselves, be it for purposes of prudential supervision or monetary and credit control. To be efficient a regulatory system needs to enable the economic objectives of monetary and credit policy to be met; to protect the deposits and savings entrusted to financial institutions, and generally to ensure the soundness of the financial system; to permit the growth of institutions capable of meeting the

legitimate needs of their customers in terms of finance and other services ; and to encourage competition, innovation and growth generally in the financial sector. These various objects are not all directly relevant to a financial centre's international role (for example the concern to protect small domestic depositors), and their relative importance and indeed compatibility are perhaps open to discussion. But of particular importance to an **international** financial centre is the need to ensure a sound financial system, at the same time as providing the flexibility required to permit experimentation, innovation and growth, in the face of often rapidly changing circumstances.

In my view there is only one kind of regulatory system that can easily meet these criteria ; that is one run with a good deal of administrative discretion and based on the consent and in many cases self regulation of the financial institutions concerned. You may not be surprised at this view since this is very much the kind of system that has grown up in London over many years, and I believe has contributed greatly to the growth of the City's international business both at times of expansion and innovation, and during periods — like the past few years — of relative difficulty. Of course, no system is ideal, and indeed the systems of regulation in the U.K. are constantly being added to and improved — without, though, changing their basic character.

Obviously different countries will approach this subject in different ways, but what is needed I suggest is a basic law which contains very few details, but empowers some body to issue detailed regulations implementing the system. This approach avoids the very considerably delays which are inevitable if the legislature has to be asked to amend the law in respect of every smallest detail. It is also, I believe, the only type of system that can accommodate a wide range of heterogeneous institutions — merchant banks, popular banks, savings banks, investment banks, universal banks and so on — without undue discrimination between the different categories.

Moreover, to be acceptable to the financial community seems to me to require a system run with some degree of administrative discretion by a supervisory authority which is not a government department. In some countries this is the Central Bank; in other

countries another body. I have two related reasons for saying this — firstly, it reduces the vulnerability of regulation to detailed political pressures of a day to day character; and secondly, it creates the desired confidence within the financial institutions that their problems are being examined and discussed by a regulatory authority which understands their needs and sympathises with them. But for such a discretionary, non-legalistic system of regulation to work effectively requires an atmosphere of mutual trust. And to achieve this the authorities need to place the greatest emphasis on the quality and integrity of both management and staff.

### **Political and Social Environment**

Perhaps though the single most important set of factors affecting the growth and development of international financial centres is the political and social environment in the country in which they are situated.

If I were asked to choose the single factor that had contributed most over the years to the City's success I would be tempted to mention the generally stable political and social environment in which it has operated. It is for this same reason too, that I doubt whether some of the so called international tax havens could ever develop into major IFCs.

Britain has had many changes of government over the last two centuries but no revolutions; and all governments have accepted the need to honour international financial obligations. There can be no doubt of the long term impact of this stability on the willingness of those from overseas to place their deposits and investments, and write their insurance, in London. If in recent years the attractions of sterling as a currency in which to do business have diminished, non-sterling business in London has correspondingly grown.

Recent events in Beirut should perhaps be a warning to us all of how quickly a reputation for financial stability built up over generations can be jeopardised by political events.

Of almost equal importance to general political stability are public and political attitudes to financial institutions in the country

concerned. The effects of antagonistic attitudes may take some time to show themselves; but in most democratic countries one could instance laws and regulations, passed perhaps in the aftermath of some public financial scandal, that have inhibited innovation and growth in part of the financial sector for a generation or more. The question of the City of London's public image in Britain is one to which many now are giving serious thought, and with good reason — for if it became tarnished it could sooner or later lead to government regulations or measures that could, probably unintentionally, destroy the prospects for further growth in the City's international role.

A special word is necessary, perhaps, about public and political attitudes to foreign financial institutions. As I said at the outset, the presence of such institutions is a hallmark of an IFC. It clearly follows that no centre which discriminates against them is likely to attain high international standing. I am not, of course, suggesting that such institutions need be treated any more favourably than domestic ones; merely that they should be allowed to compete freely and fairly for the available business.

## 5. SUMMARY AND CONCLUSIONS

The successful IFC needs to score high marks under most if not all the headings I have mentioned, though those with existing status have an easier path to tread than new aspirants. Some factors, such as the immediate proximity of geographical areas of financial surplus or deficit, are perhaps of declining importance; and others such as good telecommunications and suitable technological infrastructure in terms, of computing power and expertise will be more crucial in the future than they have been in the past. I would emphasise the need for an effective but flexible system of regulation, for a good range of institutions and professions, and above all for a stable political and social environment.

However, I should not wish to suggest that an IFC cannot operate until all the conditions I have mentioned have been met in full. That would be to misunderstand the evolutionary nature of IFCs. The process of their development is a gradual and never ending one, since even long established IFCs have to adapt to

changing circumstances and needs — and, indeed, to the challenge and competition of new IFCs.

I am sure that the development of IFCs has been a beneficial one, both for the world economy, and for the countries in which they are situated. In general, they should continue to be given as much freedom as possible to develop. Nevertheless in certain contexts they may need slightly closer supervision and control in future by governments individually and jointly. In particular I do see certain long term dangers, not least to financial institutions themselves, from over-active competition between governments in promoting centres, for example by offering over-generous tax advantages. I am sure though that with suitable governmental policies towards the development of the world's major centres such dangers can be avoided.

Looking to the future, with continuing growth in world trade and interdependence between nations, the world-wide need for services provided by IFCs is unlikely to diminish. Indeed they are likely to be a continuing growth industry. I have no doubt though that successful IFCs will have to remain highly flexible to meet the changing demands and expectations of them; and that there will continue to be roles for many different types of centre.

In particular, there will be a need for centres capable of responding effectively to changing patterns of world trade and a changing balance of world economic power. In this context, it is hardly necessary for me to stress the opportunities now facing Cairo. The Middle East is, of course, large and economically powerful enough to support several IFCs. However, I believe that Cairo has many inherent advantages — not the least of which are the high educational standards that are widely attained here — which should ensure that it emerges in time as one of the most important and successful of them.