the domestic integration of financial services assists financial and non financial firms to compete internationally, as well as possible future developments with respect to internationally integrated financial services markets.

The remainder of the Paper is organized as follows: the second section reviews the history of financial market integration and what it means for Canada; section three briefly considers the economic implications of financial integration; section four focuses on the trade implications of more integrated financial markets and trade in financial services. Finally, a few policy-relevant conclusions and projections concerning the international integration of financial services are presented.

2. THE INTERNATIONALIZATION OF CAPITAL MARKETS

2.1 A Modern History of World Capital Markets

The modern history of the internationalization of world capital markets is generally traced back to the late 1950s when Soviet authorities, fearing a seizure or blocking of dollar balances in the U.S. in the event of hostilities, placed U.S. dollar deposits in banks located in London and Paris. This led to the development of a European market for dollars, which has come to be known as the Eurodollar market. Today, the term Eurodollar is misleading, since the market encompasses any commercial bank deposits outside the country of issue of the currency.

Two important events, both of which took place in the 1970s, stand out in the development of the Eurodollar market and the increase in international financial flows. First, in 1971 the system of fixed exchange rates, as devised in Bretton Woods over 25 years earlier, was adjusted due to huge U.S. balance of payments deficits. This led to a massive flight of liquid capital from the United States. By 1973, exchange rates were allowed to float. The second event of note was the 1973 oil crisis. Following the sharp oil price increase, an imbalance in the form of a payments surplus for oil-producing countries and a payments deficit for oil-importing countries was generated. Euromarkets played a key role in recycling the surpluses via large-scale international bank lending.

Since the 1970s, a number of factors have facilitated the growth of international capital flows and, ultimately, the integration of world financial markets. In the mid 1970s, the removal of capital controls began the financial deregulation process in Germany and the U.S. (Canadian capital controls were lifted in the early