

5.2 ECONOMIC POLICIES

5.2.1 Financial Services:

The progress towards North American free trade in financial services and the integration of financial markets reflects a movement already well under way in Canada in response to global forces. It has also been suggested that these international pressures cannot be ignored, and that to do so might relegate Canadian banks and other financial institutions to a regional role, effectively denying them, and Canada, easy access to the world's principal capital pools and financial markets¹¹⁸.

Depending on how one views the current status of North American financial institutions and regulations, the FTA financial services provisions may play a major role in either speeding or slowing the process of globalization in Canada.

Some analysts take the view that U.S. regulations are increasingly out of step with those of the other major financial service centres, such as London and Tokyo, and prevent the innovation and scale required to be globally competitive. If Canada adopts the U.S. way of doing things it may "leave us with a branch-plant service sector alongside our branch-plant manufacturing sector"¹¹⁹ without moving it closer to being globally competitive.

In the United States a number of long-standing laws and regulations prevent inter-state banking and combined investment and commercial operations, a policy at odds with international trends. While the United States, through the FTA, undertook to make "best efforts" attempts to reduce these restrictions, progress has been slow. As a result, Canadian financial services companies may be hampered in their attempts both to enter the United States market and to participate in world markets at the same time.

If the United States brings about these changes in its domestic regulations, new markets may open for Canadian financial services. On the other hand, the mere presence of the larger U.S. financial institutions operating in Canada, under the auspices of the Financial Chapter of the FTA, may create more of the competitive pressure needed to hurry the restructuring of the Canadian financial sector. The FTA may therefore indirectly lead to the development of the competitive strengths needed to export financial services into the international marketplace successfully, even if the United States and U.S.-based banks are not in a position to do so.

¹¹⁸ COURCHENE, T.J. 1988 Proceedings Senate Foreign Affairs Committee, July 28.

¹¹⁹ ONTARIO. *Ministry of Treasury and Economics* 1986 "Background Notes" in Ontario Study of the Service Sector May p. 25.