

home country corporate clients among their main customers.⁴⁴ Banks have focused on foreign exchange operations and the extension of trade credits. One of the problems foreign banks face in developing loan business with local enterprises, is that the banks do not always have access to cheap funding sources, notably retail deposits.

For banks to take full advantage of the business opportunities in foreign markets, it is often necessary for them to establish a presence in those markets.⁴⁵ This helps to gather local market information, make contact and become known in the community and to compete more effectively with the larger branch and distribution networks of domestic enterprises.

With capital already freely flowing across borders, and the importance of establishing a presence in foreign markets to generate business there, the key issues that surround the liberalization of trade in financial services are concerned with reducing the limits on foreign ownership, the right of establishment, and ensuring what has come to be known as "effective" market access, i.e., the elimination of barriers that impede the operations of foreign and domestic financial institutions alike in a given market. For firms involved in the trade of goods, trade and foreign direct investment are sometimes seen as alternatives, whereas for financial service firms they are more clearly complementary.⁴⁶ In order to fully service a foreign market, financial service providers must often be located in it.

4.6.3 Recent Canadian Experience

The FTA marked the first time that financial services were part of a general trade agreement. Among other things, Canada exempted U.S. firms from certain foreign ownership limitations and the U.S. allowed domestic and Canadian banks to

⁴⁴ See OECD, *Banks Under Stress*. Paris. 1992, pp. 23-4.

⁴⁵ See The Economic Council of Canada, *op. cit.* p. 146.

⁴⁶ This dichotomy should not be drawn too sharply. Foreign direct investment can also lead to trade in goods, particularly at the intra-firm level.