

foreign operations of Canadian banks and life insurance companies account for almost 50% and 55% of revenue respectively. Their key foreign market is the United States. However, a number of Canadian financial institutions also have substantial interests beyond the U.S., for example, in Southeast Asia and, to a lesser extent, Latin America and Europe.

The majority of barriers to trade for this sector are found in Southeast Asia and Latin America. Trade barriers include restrictions on the type of legal establishment allowed, foreign ownership rules, lack of transparency in financial sector regulation, denial of national treatment in regulation (such as discriminatory capital requirements), and restrictions on permitted business lines.

Trade in Financial Services: The WTO General Agreement on Trade in Services (GATS)

Liberalization of trade in financial services provides benefits to the domestic financial sector, as well as the broader domestic economy. It can help strengthen domestic financial systems by enhancing the capital base and promoting state-of-the-art management practices in financial institutions, and it can improve credit quality control and risk diversification. It also encourages domestic capital market innovation that may help channel foreign and domestic savings to productive investments. In addition, by encouraging transparency and the efficient flow of related financial data and market information, liberalization enhances the functioning of this sector. All of this contributes to increased financial sector stability.

Increased competition in the financial sector also benefits users of financial services, such as businesses and individual consumers, by lowering costs, increasing quality and providing a greater variety of products and services.

The Government of Canada has always been a strong supporter of a GATS covering financial services. The WTO GATS provides Canadian financial institutions with the benefits of a rules-based system supported by: (1) a set of general obligations (such as most-favoured-nation [MFN] treatment, and the transparency and objectivity of regulations); (2) specific commitments with respect to market access and national treatment; and (3) an effective dispute settlement mechanism. The WTO and the GATS also provide a unique multilateral forum for the ongoing exchange of views on matters related to financial services trade liberalization.

It is important to note that a liberal financial services regime does not mean an unregulated regime. The GATS provides basic and extensive accommodations for the prudential regulation needed to protect the safety and soundness of financial systems, safeguard the integrity of financial markets and protect investors.

Canada's initial objectives for the current GATS negotiations on financial services include: seeking expanded and strengthened market access and national treatment commitments from our trading partners to further reduce barriers to trade in financial services; clarifying any definitional or classification issues that may exist in the Annex; strengthening transparency disciplines; and allowing developing countries to phase in commitments over a specified time period.

In addition to the GATS negotiations, trade in financial services will also be addressed in other trade agreement initiatives, including the Free Trade Area of the Americas, and in bilateral negotiations with, for example, the Central America Four and Singapore.

Focus on Ontario and Quebec

The focus on Ontario and Quebec is the third in a series of regional focuses. The 2001 edition of *Canada's International Market Access Priorities* looked at Alberta, Saskatchewan and Manitoba, while the 2000 edition highlighted Atlantic Canada.

This year, *Canada's International Market Access Priorities* turns its attention to Ontario and Quebec, reviewing the significance for these provinces of opening markets to Canadian products.

Ontario and Quebec both have well-diversified economies. Ontario's primary exports are from the manufacturing sector, particularly in areas of transportation equipment, electrical and electronic products, and food processing. The agri-food industry also plays an important role in the province's economy. Quebec's