

European Free Trade Association (EFTA) partners another. A third group is emerging around Japan in the Pacific Rim.

a) Banks

Canadian banks have been reducing their foreign lending. From 1983 to 1987, their foreign assets have decreased from 42.5 per cent of total assets to 39.4 per cent (Table 2). This trend will continue: several major banks have indicated their intention to pull out of commercial banking in Europe and to continue to reduce their lending to less developed countries (LDCs). The main reason for this policy is the better rate of return from domestic assets. As Table 3 shows, profits from foreign assets have recently declined while domestic operations have become more profitable.

One reason for large international financings by Canadian banks in the late 1970s and early 1980s was the need to recycle large amounts of petro-dollars; this compensated for a severely depressed domestic market. The trend is now totally reversed, with a dynamic Canadian market outperforming international operations.

The Regulatory Framework

Canada is justifiably proud of the solidity and stability of its banking and financial system, especially considering the problems currently facing many American banks, and the crisis in the savings and loan sector.

But Canada runs the risk of falling out of step with the rest of the world in how it regulates its financial system, thereby making the Canadian market more vulnerable to international competition and limiting the competitiveness of Canadian institutions in the world market. The past 10 years or so have produced considerable changes in the world of banking and finance, giving rise to some instruments that meet a given need at a given point in

time, and then are disposed of. Financial institutions accustomed to stability and permanence must learn to adapt to constant change. European banks are more open to universal banking and are better able to cope with change than their Canadian competitors, who are prohibited from carrying out certain kinds of financial activities. A thorough revision of the Bank Act was announced three years ago but has yet to materialize. Moreover, there is uncertainty as to how far its reforms will go.

Competition is very real in the Canadian financial system. From 1982 to 1988, the banks' share of personal deposits declined from 57 to 51 per cent, and their share of total assets fell from 69 to 61 per cent. Some trust companies are as large as the largest banks. Canadian banks are currently not permitted to engage in fiduciary services, insurance underwriting and distribution, and car leasing. In the meantime, closely held commercial enterprises have taken control of some very large trusts, insurance companies and loan companies. These companies, operating outside the legislation regulating the banks, are able to offer very diversified services.

The big banks and the large trust companies are rendering the same type of services, but the rule restricting shareholder ownership to a maximum of 10 per cent (to prevent takeover by commercial or foreign interests) applies only to banks. Trust companies in Canada can be controlled by a single or a majority shareholder; and most are. They are also open to foreign takeover; the largest, Canada Trust, is in fact controlled by BAT Industries of Great Britain.

Another danger arises from the risk of the Canadian market being fragmented as a multiplicity of poorly co-ordinated federal and provincial regulations create confusion, unnecessary costs and inefficiency. The Europeans are not attempting to remove all the differences in the Member States' ways of regulating financial institutions, but they have adopted the principle