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NORTH AMERICAN COMMERCIAL BANKING IN A TIME OF CHANGE

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ABSTRACT: Size of parent bank and desired market segment have been found to be the greatest determinants of foreign operations (number and type) of commercial banks. In the Canada-US context, this relationship is complicated by the two economies' proximity and intensive interaction, and by the regulatory changes included in the Canada-US Free Trade Agreement. This paper uses published statistics and interviews to note the influence that proximity, ultimate ownership, and market segmentation have on banks' decisions to engage in correspondent relationships versus agencies, branches, and subsidiaries across the border. The paper also explores relationships between existing bank strengths and FTA-related actions, and looks ahead to the implications of proposed changes in US bank regulation, trilateral free-trade talks among Canada, the US, and Mexico, and re-privatization of Mexican banks. The weakness of large US banks and the small scale of small US banks inhibit their ability to take advantage of current and proposed changes.
KEYWORDS: banking, Canada, Free Trade Agreement, Mexico, services, strategy, United States

Four unfolding events conspire to motivate this study of cross-border banking relationships: deregulation of financial institutions in the US and Canada; the increased importance and volatility of banks' employment and activities in regional economies throughout the two countries; the increasing demand for financial capital to support trade and industrial restructuring in the wake of the Canada-US Free Trade Agreement and discussions of a larger, North American free trade area; and the subtle change in banks' capabilities under Chapter 17 of the Agreement. This paper reviews the varied nature of and demand for banks' services, and establishes a framework for analyzing the decisions made by bank companies in response to the four unfolding events. Past and present decisions of banks are then viewed, in an attempt to make sense of the international and regional economic implications of the changes.

DEFINITIONS

Commercial banks. Most simply, a commercial bank is "an institution that both accepts deposits and makes commercial loans" [Boreham, 1987: 9]. However, the regulation of financial institutions in North America has given commercial banks two major functions: intermediating between individual investors and borrowers, and settling depositors' payments to third parties. The individual investors provide banks with short-term liabilities (demand deposits) that are invested in short-term assets (commercial loans). However, as deregulation increases the non-commercial-bank options of individual investors and borrowers, commercial banks have widened their scope of operations by selling credit, management, and information services for fees, and by geographic diversification. A search for profits, less-restrictive regulation, and improved client services has led many banks into international ventures.

Forms of international commercial banking. We can use a matrix like Table 1 to distinguish the ways in which commercial banks can operate internationally. We're concerned with two elements of banks' operations: their lending of money for interest payments; and their provision of non-lending, financial services for fees.

TABLE 1

Alternative modes of banks' international operations

	fin'l services	fin'l assets
trade	1	2
FDI	3	4

Like other manufacturing and service activities, banking services may be provided to foreign clients via trade (from the home country), via direct investment (establishment in the client's country or a third country), or via some combination. Export trade includes any of the international banking functions mentioned in the definitions above, provided from a bank's home country. The most common form of international banking is the maintenance of *correspondent relationships* with foreign banks, essentially a

way of trading financial services (cell 1 in Table 1). Issues, confirmations, and acceptance of trade-related documents may be accomplished via the use of a bank's funds on deposit with a foreign bank, or services provided by the foreign bank on behalf of the requesting bank may be compensated by withdrawing a fee from the requesting bank's account with the correspondent. In potentially important foreign markets, a bank may want the added presence of its own *representative offices,* foreign outposts that provide information and referral to potential clients of the parent bank. Representative offices are small-scale FDI in the provision of services (cell 3 in Table 1), with the purpose of increasing trade in financial assets (cell 2 in Table 1). However, the representative office carries out no banking operations of its own; except for information, all services are provided by the parent bank in the home country. Another form of international banking, the *agency,* provides limited services on site. Widely used by foreign banks in Canada and the US [Yannopoulos, 1983], agencies cannot accept deposits from local firms and consumers, but can issue credits to international clients, engage in money-market operations, and arrange loans. Foreign bank *branches* are much like domestic branches, and can engage in all banking functions. Furthermore, branches' liabilities are secured by the capital and assets of the whole corporation. Agencies and branches combine elements of cells 2, 3, and 4 in Table 1. *Subsidiaries,* on the other hand, are incorporated separately from the parent bank, as corporations in the host country. They generate loan assets based on their own supply of funds, and thus represent cell 4, along with intra-corporate trade of financial services (cell 1) with their parent companies [Brimmer, 1975; Roussakis, 1983: 13-30; Kim and Miller, 1983; Cho, 1985: 6-16; Compton, 1987].

A STRATEGY-BASED FRAMEWORK

In an attempt to understand when a bank will engage in international activity, and what form the activity will take, we can refer to the framework illustrated in Figure 1. In this framework, a bank's motivation for entering the international arena depends upon the relative strengths or advantages of the bank. The international target of the bank depends upon its motivation. The form of international involvement, trade versus direct investment, depends on the motivation of the bank and the forms allowed in the foreign

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country. Finally, the regional location of the international facility (or correspondent) depends largely on the motivation for the operation.

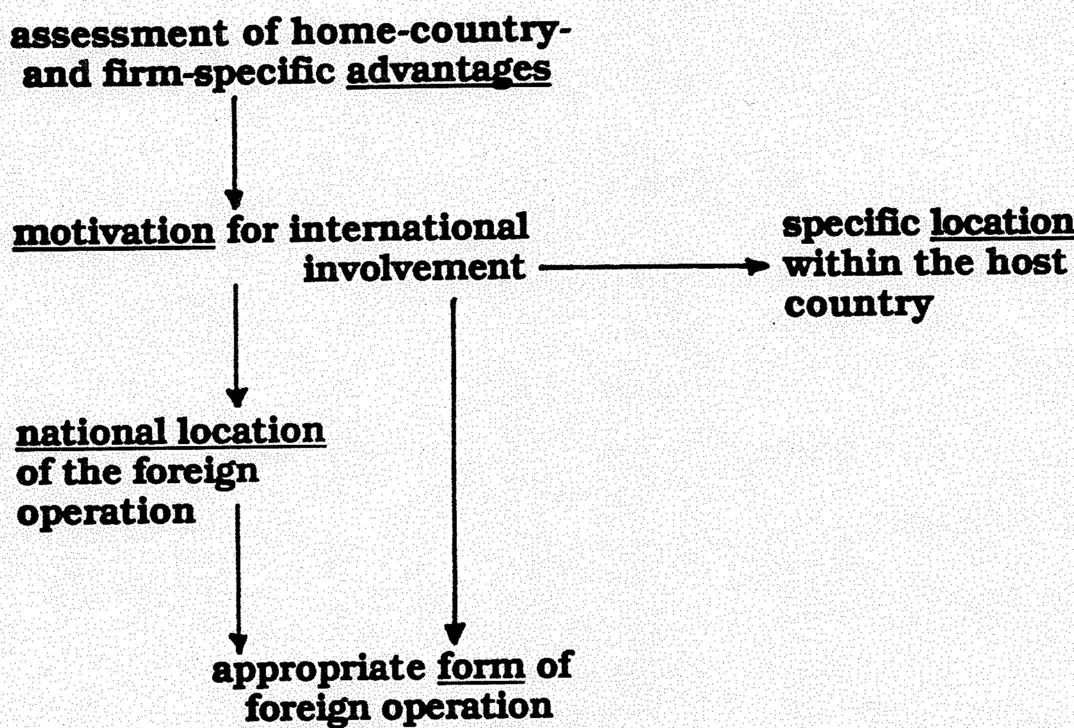

FIGURE 1

STRATEGIC CHOICE OF BANKS' INTERNATIONAL OPERATIONS

Country and company-specific advantages. We can identify advantages that might accrue to any bank based in a *particular country*. These might include: the use of a bank's home currency as an international standard [Yannopoulos, 1983]; a lack of restrictive regulation in the home

country; or international perception of that a country's banking system is especially safe and stable [Neu, 1985].[1]

The most important *company-specific* advantage, relevant to international banking operations, is size. Tschoegl [1983] found that, among the world's 300 largest banks, asset size was the best predictor of their number and size of multinational operations. Cho [1985] found analogous results in a study of all US banks with branches in Singapore or Korea. Another source of advantage is the operation of existing foreign activities, which provide the bank with risk diversification, first-hand information about clients and economic conditions, and name recognition overseas [Gray and Gray, 1981].

Technology, often in the form of extensive operating systems, is an increasingly important determinant of a bank's competitive position. During the 1980's, the proportion of large US banks' non-interest expense represented by systems technology increased from 5-10 percent to 15-20 percent [Steiner and Teixeira, 1990]. Whether, where, and in what activity a bank gets involved internationally must reflect its strengths in systems that can range from check-clearing to credit-card billing to payment systems.

Choice of form. The legal form taken by a foreign banking venture depends in part on the forms of foreign banking that are allowed in the host country, differential regulation of forms in the host country, and tax advantages of particular forms in the host country. Subsidiaries are specifically subject to bank regulations of the host country. In cases where host-country regulation is less restrictive than home-country regulation, expansion-minded banks are more likely to establish foreign subsidiaries than branches. Some countries (e.g., Canada) do not allow branches, requiring incorporation as a separate banking company. Other countries do not allow total foreign ownership of banking operations, requiring establishment of a joint-venture subsidiary or affiliate relationship. Even under the re-privatization of Mexican banks, private foreign ownership in an operating

[1]Lord [1987] investigated inter-*state* bank investments in the US, and found a positive relationship between, on the one hand, state regulations that allow banks to become strong and large and, on the other hand, interstate bank acquisitions by banks from those states (into states where interstate bank acquisitions are allowed).

bank in Mexico is limited to 30 percent; representative offices are allowed [Neumann, 1990].

Beyond legal restrictions, the motivation for involvement determines the appropriate form. For example, a correspondent relationship is insufficient for offering proprietary information or services to foreign subsidiaries of a bank's domestic customers, while a representative office may suffice. Foreign agencies provide adequate capability to serve foreign-trade financing [Yannopoulos, 1983; Compton, 1987]. As another example, low expected volume of transactions makes subsidiary establishment uneconomic, while escaping the regulation or taxation of the home country requires a foreign subsidiary. Finally, internal constraints on the parent banking company -- capitalization, foreign experience, and knowledge of country-specific foreign markets -- encourage lower-risk forms of involvement such as representative offices, agencies, or joint-venture subsidiaries [Odjagov, 1978].

Sub-national location. Figure 1 asserts that the location of foreign-bank operations within a host country depends on the motivation for establishing the foreign operation. An attempt to serve a retail market requires a geographically distributed branch network, while a corporate-lending market can be served from the corporate center. Trade finance and assistance encourages location at major trading centers and near the operations of major trading companies, while providing capital and fee-based services for foreign operations of home-country clients requires operations near the clients' foreign facilities.

Geographic studies of international banking services and multinational banking offices have emphasized their spatial concentration in a very few cities in each country [Martz and Semple, 1985; Daniels, 1986; Holly, 1987; Hultman and McGee, 1990]. The reasons for such concentration include proximity to clients and appropriate labor. The major reason, however, is agglomeration: proximity to other internationally oriented financial institutions [Daniels, 1986]. However, the requirement for agglomeration is greatest for foreign banks providing fee services or participating in international money trading. Bank operations in support of

foreign trade are drawn toward their market -- importers and exporters [Goldberg et al., 1989]. Again, the motivation influences the location of facilities.

CANADA-US BANKING RELATIONS ON THE EVE OF THE FTA

What were the size and geographic patterns of the cross-border operations of US and Canadian banks, before the Canada-US FTA took effect? The Bankers' Almanac [Thomas Skinner Directories, 1989] includes listings for those commercial bank companies around the world that have been in business for at least a year and have some (broadly defined) international banking activities or relevance to clients engaged in international business. We used this source, as did Grubel [1989], because it delineates the international operations of the banks it includes.

The data set provided 1988 information on 360 private, commercial bank companies[1] in the US, 342 of which were owned by US interests, and 59 such bank companies in Canada, 9 of which were owned by Canadian stockholders or companies. Out of the 15,000 banks in the US, the listing included only those US banks that were most likely to have some kind of international operations, so our interpretation must recognize that most US banks are not at all active internationally. All the Canadian banking companies had some relationship (correspondent, representative office, agency, branch, or subsidiary) with US banks, while only 42 (11.7 percent) of the US banking companies had some relationship (correspondent, representative, or subsidiary) with Canadian banks. This asymmetry reflects the asymmetry in the trading relationship of the two countries (in which trade with the US is a much higher proportion of Canadian trade than trade with Canada is for the US), as well as the much greater average size and international involvement of Canadian commercial banks.

Regional distribution. The largest number of banks in the data set (48) was in New York City. Forty-three were in Toronto, and 13 in Montreal. The

[1] We use the phrase "private, commercial bank companies" to exclude government banks and to note that separately incorporated subsidiaries of a US bank holding company (including both US and Canadian subsidiaries) are counted as separate banks (either in the US or in Canada).

largest number of foreign-owned banks (40) was in Toronto. All foreign-owned banks reported in Canada were in Toronto, Montreal, or Vancouver. In the US, foreign-owned banks appeared in 7 cities besides New York: Chicago, Houston, Los Angeles, Miami, Newark, San Francisco, and Washington DC. The US banks with Canadian correspondents were in large cities across the eastern, southern, and middle US.

Observed relationships. All the Canadian-based banks maintained US connections, generally representative offices in a few, large US cities (especially Chicago and Dallas or Houston), agencies in New York, and branches in New York and a few, large US cities.

For the US banks, these data clearly showed a relationship between size and cross-border relationships. Of the 42 US banks with Canadian linkages, 34 reported their assets: they had a mean asset size ($21 billion) that was nearly 7 times the mean asset size ($3.3. billion) the other US banks in the data base. There was also a relationship between overall multinationality and cross-border relationships. The 42 US banks with Canadian linkages had an average of 12 foreign branches worldwide, compared with an average 0.4 international branches for the other 318 US banks in the data base.

When the US banks with correspondent relationships with Canadian banks were inspected separately from the US banks with other Canadian linkages, the relationship between asset size and Canadian linkage disappeared. Rather than depending on size of the US bank, the presence of Canadian correspondent relationships reflected the trading needs of the banks' clients.

New York City banks were more likely to have some Canadian relationship: 29 percent of the 48 New York banks versus 9 percent of the other 312 US banks. When only subsidiaries were considered as Canadian links, a strong relationship was found with New York location: 24 percent of the New York City (and US-based) banks had Canadian subsidiaries, compared with 2 percent of the other US-based banks. The six US banks outside of New York City, with Canadian subsidiaries, were in Boston, Chicago, Detroit, Los Angeles, Pittsburgh, and San Francisco. The 16 US banks outside of New

York with Canadian correspondents were in a range of large (but not the largest) cities throughout the country (including 6 in the Southeast), though none were west of Salt Lake City. These findings correspond to the much greater investment required for a foreign subsidiary than for a foreign correspondent.

REGULATORY CHANGES

US and Canadian regulation. Financial services are heavily regulated in both the US and Canada. Both countries maintain both federal and state/provincial chartering systems for financial institutions, though in Canada, only the federal government can grant a commercial-bank charter. Both countries require separation of corporations providing different financial services, particularly commercial banking and securities underwriting, and both countries are in the midst of slowly removing many of these requirements [Bartholomew, 1989]. One major difference between the two countries has been the US prohibition against federally-chartered banks' branching across state lines. Within states, federally and state-chartered banks must abide by each state's regulations on intra-state branches. This has assisted the proliferation of nearly 15,000 commercial bank corporations in the US. Only 6,000 of these operate branch networks, for a total of 43,852 branches (an average of 7 branches per bank operating a branch network). This compares with 9 Schedule 1 banks in Canada (federally chartered banks with dispersed ownership -- no individual or company may own more than 10 percent of the shares of a Schedule 1 bank), 6 of which operate nearly 6,700 branches [Boreham, 1987].

Foreign-bank agencies, branches, and subsidiaries in the US were largely unregulated (except by states) until the International Banking Act of 1978 required registration with the Federal Reserve Bank, limited *new* foreign entrants to deposit-taking in one state, prohibited foreign banks from non-banking activities from which US banks were prohibited, required foreign banks to buy federal deposit insurance, and brought large banks (worldwide assets over US$1 billion) under deposit-reserve requirements [Kim and Miller, 1983; Holly, 1987]. Canada, on the other hand, has severely restricted foreign-bank operations. The Bank Act of 1967 limited foreign interests to less than 25-percent ownership of chartered banks. Wholly-foreign-

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owned operations were limited to representative offices, agencies, and a host of "near-banks" that engaged in a wide range of financial services [Chant, 1985]. The Bank Act of 1980 allowed for federally chartered bank corporations which could be owned entirely by another company, including a foreign banking company. These are the "Schedule 2" banks [Bartholomew, 1989], of which there were 57 in 1989.

The Free Trade Agreement. The Canada-United States Free Trade Agreement of 1988 includes internationally historic provisions for the easing of restrictions on international services trade. Chapter 17 of the Agreement focuses on financial services, with the greatest direct impact on commercial banking functions. Like most of the Agreement, the principle underlying Chapter 17 is of national treatment: a Canadian financial institution based in, or owned by a company based in the US is to be treated in Canada like any similar Canadian-based financial institution, and a Canadian-owned bank in the US will be treated like a US-based bank. In addition, the Canadian-owned banks whose interstate networks were established before the US International Banking Act of 1978 are allowed to maintain those networks indefinitely (instead of undergoing a periodic review). According to the principle of national treatment, US interests in Canada: collectively may own any proportion of a Canadian federally chartered financial institution (though no individual or corporation may own more than 10 percent of a Schedule 1 bank); are not subject to the 16-percent limit of total Canadian commercial-bank assets that can be held by foreign-owned banks; and no longer must receive Finance Ministry approval for establishment of branches (once the US interests are chartered as a Schedule 2 bank corporation). State and provincial restrictions on and regulation of banks remain in force [Caron, 1988; External Affairs Canada, 1988; Schott and Smith, 1988; Bartholomew, 1989].

Contrast to European changes. The concept of national treatment is key to the differences between the Canada-US FTA's Chapter 17 and the European Community's banking directives growing out of the Single European Act[1]. The right to establish a foreign operation, and the treatment of that

[1] The 1986 Single European Act was an agreement on the part of the European Community to create an internal market of factors, trade, establishment, and regulation across the 12-member Community, by 1 January 1993. Progress toward this goal is to be made by adopting a series of

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operation according to host-country laws, allow greater latitude by the US and Canada to maintain their own regulatory idiosyncrasies [Ruth, 1988]. The key feature of European financial-institution integration is mutual recognition: a company chartered as a bank in one member country will be able to operate as a bank in all other member countries, and will be governed by the regulations of its *home* country. This will create much greater harmonization of bank regulation across countries, to avoid unfair competition by foreign banks in a country that restricts the actions of its domestically based banks. Mutual recognition also implies that an EC bank faces no regulatory requirement to establish an operation (branch, subsidiary, etc.) in each member country to serve clients in that country. EC-based banks will be free to decide what services to provide in each member country, based on each bank's advantages (including the bank's branch network), and to establish only the physical presences necessary for that marketing strategy [Pattison, 1989a].

Mexico: government ownership and sale. Mexico's federal government took ownership of the country's commercial banks in 1982. A few years later, one-third of the shares in these banks were sold to Mexican investors. In 1990, President Salinas proposed and the Congress approved that Mexico's banks (except for the government's development bank and foreign-trade bank) would be entirely sold to private investors. A mix of large, national and smaller, regional banks are involved. Foreign ownership of Mexican banks will be limited to 30 percent, with a single foreign investor limited to a 5 percent stake in a bank company. Foreign investors will not have corporate voting rights. Foreign-owned representative offices are still allowed, and foreign-bank agencies or branches are likely to be allowed -- primarily to serve multinational clients and to provide capital for investment in Mexico. Restrictions are likely on foreign-branch deposit-taking [Green, 1990; Neumann, 1990].

BANKS' REACTIONS TO REGULATORY CHANGES

Expected changes. The chief determinant of multinational-bank presence in developed countries (outside of London, New York, and Tokyo) is the extent of foreign trade and investment by companies based in the bank's

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sector- or issue-specific directives: general policy statements that are to be implemented by particular legislation in each of the member countries [Quelch et al., 1990].

home country. Therefore, the greatest impact of the Canada-US FTA on cross-national banking should be via the increase in bilateral and third-country trade and investment in the two countries, rather than via the specific provisions of Chapter 17. Neu [1985] concluded that the overall effect of liberalization on the two countries' banking sector should be minimal. Large commercial banking customers already have access to any large bank in the world, local banks have competitive advantages in taking deposits and managing assets in small, local markets, and it is difficult to discern comparative advantage between the banking sectors of the two countries. It has been generally recognized that both countries have very strong and sophisticated banking sectors, and that Canadian prohibition of single ownership of its Schedule 1 banks, alongside the US restrictions on banks' activities and interstate banking, minimize the possibility of wrenching change in this sector [Warren, 1988]. The weakened condition of US banks in the wake of nonperforming loans to recession-scarred commercial real estate and to developing countries, along with proposals to allow more complete interstate banking, may increase the possibility of a substantial foreign presence in the US at the retail level.

The foreign involvement of newly private Mexican banks will likely be slow, concentrated within the largest banks, and geared toward their involvement in international capital markets in New York, Tokyo, and London. Canadian and US banks are expected to be deterred from investing in Mexican banks by the restrictions on ownership and control. However, some of the countries' stronger and better capitalized banks may want to establish equity relationships in anticipation of lowered restrictions [Green, 1990]. Banks whose clients have substantial Mexican operations will likely pursue the options, still unclear, for agency or branch operations to serve those clients.

At the regional scale, a range of changes is possible. Given the huge volume of trade (and trade financing) between the US and Canada and the US and Mexico, and the concentration of this trade in the province and states of Ontario, California, Michigan, New York, and Texas, the importance of trade activity for international banking could lead to multinational banks' establishing operations in border cities, despite the absence of a multinational

banking agglomeration in these locations. It is very likely that existing, domestic, regional banks (in the US and Mexico) and branches of large banks (in Canada) will continue to exercise their competitive advantages in trade-related services for their regional clients. For the US and Canada, the potential bilateral, regional change is that the banks of each country will compete to service any growth in these medium-sized companies' banking needs -- perhaps by a presence in the other country. Even then, however, any presence outside of New York, Toronto, and Montreal is likely to be limited to a few, major regional centers, as Leyshon et al. [1989] discovered for a range of financial sectors in Great Britain.

Interview findings. During February and March of 1990, I interviewed International- or Canadian-division executives of six US regional banks and interstate bank holding companies ("super-regionals"), with bank-holding-company assets ranging from 3 to 60 billion dollars; commercial-lending and correspondent-banking directors of two Canadian Schedule 1 banks with nationwide operations; executives of the Canadian subsidiary of a US bank; and the manager of a US branch of a Canadian Schedule 1 bank. These interviews took place in the headquarters of each bank (except for one, conducted during two lengthy telephone calls), in Ontario, New York State, and North Carolina. In addition, I studied annual reports of these and other banks in the two countries. Each interview covered:

- basic characteristics and organization of the bank (and the holding company, for the US-based banks);
- the dimensions of commercial-bank competition;
- the bank's perceived strengths along those dimensions;
- the bank's foreign involvements, particularly correspondents and facilities across the US-Canadian border and their functions;
- changes in clients' activities or needs before or during the first year of the FTA;
- changes planned or implemented by the bank with respect to Chapter 17 of the FTA; and
- general discussion of these issues with respect to key competitors of the bank.

Despite the expected differences across such a variety of banks, some patterns emerged. The most striking patterns related to the cross-border commercial-lending roles taken on by the banks.

(1) Canadian commercial lending by US "money-center" banks has focussed on the largest Canadian companies.

(2) Large, regional banks in the US finance the US subsidiaries of Canadian companies, and provide loans based on US receivables of Canadian exporters.

(3) US banks' Canadian subsidiaries vary according to size, but primarily serve Canadian subsidiaries of US companies. The FTA's removal of restrictions on the size of the US banking sector in Canada may lead some US-based banks to pursue lending to mid-sized Canadian companies, but the fact that a foreign subsidiary's loans must be backed by the subsidiary's capital base (rather than that of the parent bank) limits the size of loans that can be made.

(4) Canadian banks in the US have traditionally established commercial-lending relationships with the very largest US companies, but in the most notable change in roles, are beginning to establish mechanisms to service the (relatively small) US subsidiaries of their large Canadian clients. This change includes the opening of a new Canadian-bank branch operation in Buffalo, with two more planned. If this new role is successful, these branches will begin competing for mid-sized US-based relationships, as well.

The managements of all banks seemed more concerned about the stalled pace of deregulation in the US than about the FTA or the Single European Act. US banks are attempting to define their roles as interstate banking comes closer to fruition via interstate reciprocity of out-of-state acquisitions. Canadian banks are concerned that the FTA gave US banks free entry into Canada's nationwide banking market, including the ability to acquire securities underwriters, while Canadian banks face the market balkanization and functional separation of the US financial system.[1] The twin problems of non-performing assets (loans to lesser-developed countries and to depressed real-estate markets) and stock-market volatility have slowed US legislative

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[1] As a concession to the interests of Canadian banks, but to keep the principle of national treatment intact, the FTA allows all banks in the US to sell securities backed by any level of Canadian government. This was important, because sales of Canadian-government securities had been a sizable portion of the US business of Canadian-based securities firms, and these firms are being acquired by Canadian banks [Ruth, 1988].

initiatives on deregulation and have reduced the capability of the largest US banks to entertain major expansion. The 1991 proposals by US President Bush to remove these restrictions on US bank location, operation, and ownership will be hotly debated in the US Congress, and will not ameliorate US banks' current financial problems [Labaton, 1991; Rosenbaum, 1991; Silk, 1991].

Meanwhile, US regional banks (and most of the Canadian banks) pride themselves on limited involvement outside of those two countries.[1] It will be interesting to see these attitudes change as these countries are joined by smaller, private bank counterparts in Mexico, and as the regional clients of these banks develop greater investment ties with the Mexican economy.

Assessment. For the rational bank, the decision to enter a particular international arena or role is based on assessment of the bank's strengths. The distinct roles taken on by banks of different types reflect, for example, the importance of region-specific client contact for certain relationships, and of size and sophistication for other relationships. When a wider range of financial services (fee services, correspondent services, international currency trading) is considered, the roles and their requirements become even more distinct. Banks' motivations dictate the form and location of their operations.

As expected, major changes resulting from the Canada-US FTA, if they are to occur at all, await further deregulation of financial services in the US. Until then, two changes are evident: increased competition for the financial needs of trade and investment flows across the border; and increased competition for the domestic financial needs of middle-sized companies in each country. It will be the unusual bank that will be able to move strongly into these markets, because of the need for local market presence (i.e., substantial FDI) to serve them. Nonetheless, increased competition and acquisition activity will reduce the number of independent banks in the US. The end result should be that middle-sized firms will have access to a range and

[1] A few large Canadian banks (notably, Bank of Nova Scotia, CIBC, and Royal Bank) are taking aggressive stances in the European market for selected financial services [Pattison, 1989b; personal interviews].

sophistication of financial products that have been available to the largest firms.

Current events in Mexico (privatization), Washington (deregulation), North America (trilateral free trade negotiations), Geneva (services-trade provisions of the stalled and endangered Uruguay Round of GATT), and Brussels (specific banking protocols under the Single European Act) have great bearing on the shape of bank competition in North America. The scope and timing of this paper do not allow development of all their implications. At the sub-national, regional scale, these developments will have few visible manifestations in the short run: fewer small, general-purpose branches of small, general-purpose banks; more signs of non-retail presence of foreign banks. The technology, capital, and branching requirements of providing a full range of bank functions across territories as large as Canada, the US, and Mexico will inhibit many obvious changes. However, the bilateral, trilateral, and multilateral changes of trade, investment, and corporate involvement will severely affect the linkages and services required of commercial banks in the three countries. Novel forms of interaction and involvement will be necessary to fulfill these requirements.

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