INTERNATIONAL BANKING ACTIVITIES
OF CANADIAN AND AMERICAN BANKS:
EXPERIENCE AND PROSPECTS

by

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B. Comm., University of British Columbia, 1968

A Thesis Submitted in Partial Fulfilment of the Requirements for the
Degree of
Master of Business Administration
in the Department
of
Commerce and Business Administration

We accept this thesis as conforming to the required standard

The University of British Columbia
April 1969
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ABSTRACT

The objective of this study was to explore the historical expansion of the international operations of the Canadian chartered banks; to compare and contrast the exhibited growth pattern with that of the major commercial banks of the United States; to draw implications for the future pattern of world banking; and to see the role of the Canadian banks in that pattern.

The analysis was limited largely to the post-World War II era and was conducted primarily in terms of the operating forms employed in other countries by the banks. The foreign-based vehicles described were the representative office, agency, branch, wholly-owned subsidiary, affiliate and multinational joint venture.

The approach was essentially qualitative in character with a number of hypotheses introduced to explain the findings but with no effort made to statistically test these hypotheses. Specifically, hypotheses were tendered to account for the exhibited increasing internationalization of the banks; to explain why they go abroad to set up foreign "offices"; to explain why they might choose a particular country or area; and to account for the selection of a particular operating form for this location.

The study relied upon several principal sources of information in order to develop the hypotheses offered. Standard governmental publications and the annual reports of the selected Canadian and U.S. banks were significant data sources and a number of articles from various
periodicals were found to be especially relevant. Vital information was acquired by correspondence with the selected banks of each country and through personal interviews with executives in the International Divisions of these institutions.

To facilitate the investigation of overseas involvement, and to enable more effective comparisons and contrasts to be developed the world was divided into seven geographic regions. It was found that the banks of both countries have experienced increasing internationalization of activity during the past 25 years with the U.S. banks enjoying more extensive "office" representation in other countries. The findings indicated that the greater number of U.S. customers abroad, measured in terms of U.S. foreign direct investment abroad, may be the most important contributory factor. The chartered banks, on the other hand, generally appeared to be motivated more by the volume and direction of Canadian external trade and the value and sources of foreign investment in Canada as the prime forces behind their increasingly "international flavour" and movement into certain countries or areas.

The study indicated that bank policy was a pervasive universal force influencing the exhibited extent of internationalization of the number and variety of "offices" abroad of the individual banks, particularly in terms of the variety of vehicles employed and the locations selected as a base of operations. On the other hand, it was indicated that restrictive Canadian banking legislation may be a force limiting the banking activity of the chartered banks in certain areas while New York and California state legislation has facilitated the overseas expansion of the U.S. banks.
The respondents were asked to name the principal persistent problems which their banks experienced during the conduct of their international operations. On the basis of these perceived difficulties and from the findings of the study to that stage implications were drawn concerning the future pattern of international banking particularly as it pertained to the chartered banks. The findings indicated that the trend toward increasing internationalization could be expected to continue for the banks of both countries with the U.S. institutions continuing to be more intensively represented on a wider scale geographically. The range of operating vehicles is not expected to increase but it appears that the affiliate and multinational joint venture may become relatively more important. Significant changes in international operating methods and management techniques are expected to be forthcoming from the increased application of computer technology, especially through the centralization of information. On the other hand, the future can be expected to bring greater decentralization of authority through expanded regional organization.
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ACKNOWLEDGEMENT

I sincerely appreciate the indispensable assistance of Dr. Whata Winiata in the preparation of this study. His untiring enthusiasm was most inspirational and his constructive criticism was a valuable tool in its preparation and completion.

I also wish to express my sincere thanks to the officers and executives of the chartered banks and their American counterparts for the vital information which they contributed. Without their gracious co-operation the study could not have been conducted.

I would also like to give specific recognition to the Canadian and U.S. banking institutions involved. They were as follows:

**CANADA**
- Bank of Montreal
- Canadian Imperial Bank of Commerce
- The Bank of Nova Scotia
- The Royal Bank of Canada
- The Toronto-Dominion Bank

**UNITED STATES**
- Bank of America
- Chase Manhattan Bank
- First National City Bank
- Manufacturers Hanover Trust
- Morgan Guaranty Trust Company

I would also like to acknowledge the efforts and excellent work of the typist, Gale LePitre.
CHAPTER I
OBJECTIVES AND IMPORTANCE AND WORK TO BE UNDERTAKEN

OBJECTIVES AND IMPORTANCE

The principal objective of this study of the international operations of Canadian chartered banks is to explore the historical expansion of this facet of their activities; to compare and contrast the exhibited growth pattern with that of the major commercial banks of the United States; to draw implications for the future pattern of world banking; and to see the role of Canadian banks in that pattern. The historical analysis will be largely limited to the years since World War II, nevertheless, this should not inhibit the validity of the study for it has been during the post-war era that the greatest multinationalization of financial and general business has occurred.

The international operations of Canadian banks is a phenomenon that has experienced rapid growth in recent years and few, if any, systematic efforts have been made to describe it. This effort will describe this phenomenon in terms of "when, where and how much" and offer a number of hypotheses to explain its occurrence.

World trade and capital movements are large, and rising, as shown in Tables I and II, and concomitant demands on the banks exist. Therefore, we should discover how the banks have and might meet these demands.

The business and personal sectors of the economy, in particular, rely substantially upon the commercial banking system. In
either, or both, of their dual role as financial intermediaries, providing the mechanism by which international payments are made, or as just plain service institutions supplying information or giving advice, banks facilitate the completion of financial transactions with foreign entities. For example, a domestic corporation may request a credit line to finance the creation of a foreign subsidiary in the United Kingdom or an Italian businessman interested in investing funds in Canada may, as a preparatory step, consult the office of a Canadian bank resident representative in Europe with the objective of becoming better acquainted with the general investment climate and the alternatives, means of financing, restrictions, etc. present.

Whereas the foregoing examples are illustrative of overseas services provided by domestic banks, probably the most significant international service furnished by them is the financing of Canada's ever-increasing volume of foreign trade. As stated by the Canadian Bankers Association in its submission to the Porter Commission, "The active participation of Canadian chartered banks in foreign currency operations of all sorts is a natural corollary of the great importance to Canada of foreign trade." As one of the world's premier trading nations, then, it is vital to Canadian businessmen that a highly developed banking system, skilled in the techniques of financing the country's substantial export and import trade, is in existence. Developments in the banking field, affecting this area of the Canadian economy, should be of particular concern, not only to Canadian businessmen,
but also to every individual who wishes to witness Canada's continued economic growth. Hence, a study of the historical, current and possible future course of international banking takes an added lustre.

In terms of assets the banks are Canada's largest group of financial institutions. At October 31, 1968 the assets of Canada's nine chartered banks totalled some $35,893 million or more than half the nation's Gross National Product for 1967. Thus it is apparent that the banks occupy a significant position in the economy.

To give an idea of the significance of the foreign currency operations of these institutions Tables III and IV have been prepared. Because balance sheet data are presented the figures represent a stock of funds at a particular point of time, October 31, 1968. This, of course, tends to underestimate, probably substantially, the volume of foreign currency business conducted by the chartered banks. The deposits are virtually all demand deposits and the loans are substantially short-term. Consequently, a significant turnover occurs so that a presentation of the flows of these funds would offer a more appropriate measure of the size of their foreign currency activities. Nevertheless, in representing almost one-quarter of either side of the balance sheet foreign operations rank high in bank operations. Additional comments upon the significance of this data will be made at later points in the study.

The position of the country's balance of international payments receives considerable attention. Although no figures are pub-
lished it is likely that revenue from banking services is a significant item in the current account non-merchandise invisible receipts in the balance of payments. On the other hand, investment by chartered banks in foreign securities, or branches, subsidiaries or agencies in foreign countries, or in the purchase of equities in foreign banks, represents an outflow of funds which acts to enlarge the deficit entries in the capital account. Nevertheless, without this outflow which, generally speaking, tends to exert a downward pressure upon the price of the Canadian $ in terms of foreign currencies the counter-balancing revenue inflows are likely to be correspondingly reduced. Therefore, it is the relative magnitude of these opposite flows over time which is crucial to Canada's payments position and, in turn, may influence her economic growth as either more or less dollars are made available for domestic investment. Thus any developments which have taken place, or are expected to occur, in the foreign sphere of Canadian banking may well be factors influencing this country's future.

The direction of the flow of these funds, alluded to in the foregoing paragraph, in terms of economic areas, may have notable implications for the economic progress of developing nations. As this study intends both to survey the locations of Canadian bank "offices" abroad and describe their overseas lending activities one should learn whether Canadian banks are directing resources to the underdeveloped economies or whether they prefer to limit their overseas lending and other resource commitments essentially to the advanced countries.
One might put forth the thesis that the need to compete effectively with foreign banks is a prominent motivator underlying the cultivating of their overseas investments and techniques. If one accepts this hypothesis, and reappraises the earlier comments regarding the importance of trade to the Canadian economy and the participation of domestic banks in its financing, the growing multi-nationalism of business and the significance of banking revenues in the country's payments position, it becomes evident that their success in meeting this competition may hold noteworthy meaning for the economy. For international bankers a very substantial degree of competition in the international arena emanates from the United States for a number of large American banks have been very active internationally during the post-war period and their overseas operations continue to expand. It follows that it is most appropriate that a comparison be made of the initiating forces behind the movement abroad, the locations and types of foreign operations of U.S. and Canadian banks, together with a comparison of the factors considered in the decision to establish a particular type of foreign "office" in a certain location. There can be little doubt that there is much to be learned from the American example.

Once the comparable and contrasting styles of these competitors have been discussed one will be better equipped to offer predictions of the future world banking scene. Certainly putting forth a prognostication based solely upon an analysis of the Canadian banks,
without relating their activities to those of their American counterparts, is likely to be burdened with a very low probability of occurrence, if for no other reason than from a failure to consider currently available and relevant information.

In summary then an historical analysis is important to facilitate a better understanding of the operations in the world environment of a vital sector of the Canadian economy. This knowledge is especially useful in a world where multi-national institutions are becoming an increasingly more common phenomena and in a country where international trade constitutes such a significant place in the economy's structure and growth.

It was also proposed that the revenue from banking services abroad constituted a noteworthy component of the country's non-merchandise inflows in its international balance of payments transactions. Although, overseas investments and expenditures represent a countervailing flow of funds it was suggested that the relative magnitude of these flows over time was material. While some idea of the magnitude of these flows is useful to an appreciation of their importance to the economy, and the banking system itself, it was also suggested that it was useful to study the direction of the flow of the funds for investment. That is, are Canadian banks contributing to the economic progress of developing nations by making loanable funds available there, or are they chiefly interested in operating in already advanced economies? The answer, it was suggested, has implications for the progress of developing countries.
The tremendous size of the system itself was put forth as a factor supporting the topic's importance based upon the supposition that due to the sheer magnitude of the assets controlled by these institutions a movement in any direction would be likely to have an appreciable impact upon the economy.

The importance of the comparison with the operations abroad of major American banks by initiating forces, technique and location, it was said, rests upon the knowledge to be gained from the American experience. Experience which can be expected to assist immensely in the development of implications for the future of world banking.

WORK TO BE UNDERTAKEN AND TECHNIQUES TO BE USED

Data will be assembled evidencing the banking activity abroad by the Canadian banks and selected major United States banks. The data collected will be restricted primarily to the post-World War II era, and hypotheses will be presented in an effort to offer explanations for any similarities or differences in their behaviour. These hypotheses will be presented as possible explanations based substantially upon information obtained from field research conducted by the writer and will not be further tested. That work remains for another treatise.

The historical analysis of the growth of the international operations of Canadian banks will involve the presentation, for selected years, of statistics covering the foreign currency assets and liabilities of the chartered banks, as an indication of their increasing
foreign activity. These data, of course, may only serve as a crude barometer for there may be little apparent correlation between the opening of new facilities abroad and the growth pattern exhibited by the figures. At this introductory stage no conclusions can be drawn and it remains to be seen whether or not an acceptable inference can be drawn once the study has been completed. Similar statistical information will be offered for the American system although it is not the purpose of this study to analyze the post-war growth of the American banking system in terms of the volume of foreign currency assets and liabilities. The comparisons with the American system will be more concerned with the kinds of facilities employed by those banks in relation to those used by the Canadian banks abroad.

Therefore, in addition to the tendering of data, a description of the "modus operandi" of the two systems, with the qualifications outlined below, will be chronicled. It is the information supplied by this narrative which can be expected to form the foundation for future implications for world banking.

Although, as already stated, statistics will be presented which involve the entire foreign assets and liabilities of the Canadian banks together (e.g. Tables III and IV, which together with all other Tables are included in Appendix I following the text), the analysis of individual operations will be limited to the five largest banks in terms of total assets. These are The Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, The Bank of Nova Scotia and The Toronto-Dominion Bank. These same five institutions account for 98.9 per cent of the total foreign currency assets of the chartered banks and 98.7
per cent of the total liabilities. At the same time their branch system outside Canada embraced all but one of the 179 overseas branches of Canadian banks at December 31, 1967. The Paris office of the Banque Canadienne Nationale accounted for the remaining one. Clearly, the five banks selected for analysis dominate international movements among domestic banks.

As for the American banks it has been decided to select the five largest U.S. banks in terms of total assets. Their foreign operations will be subjected to individual scrutiny. The American banks to be studied individually will be The Bank of America (San Francisco), which is the world's largest bank in terms of total assets, First National City Bank (New York), (a wholly-owned subsidiary being the Mercantile Bank of Canada), The Chase Manhattan Bank (New York), Manufacturers Hanover Trust (New York) and Morgan Guaranty Trust Company of New York. Significantly, only Barclays Bank Limited of London, England with total assets of $4,534,012,730 (U.S. $11,652,606,475) at December 31, 1967 prevents these five American banking giants from occupying the top five rungs on the ladder of world banks.

The member banks of the New York Clearing House Association are the only U.S. (or Canadian) banks which release data pertaining to deposits in foreign branches. A recounting of these deposit liabilities is an effective means of illustrating the significant part which international business plays in their operations. Among the ten member banks at December 31, 1967 the above-mentioned four ranked as the largest in
this area with deposit liabilities totalling some $8.3 billion in their foreign branches. First National City Bank (Citibank) led the way with $3.4 billion followed by Chase with $2.86, Morgan Guaranty with $1.46 and Manufacturers Hanover with $745 million. The deposits abroad comprised 15 per cent of the total liabilities of these institutions, and 17 per cent of their entire deposit liabilities, at that date. Similar information concerning the Bank of America is not available, however, at June 30, 1968 this bank has 72 branches abroad, second only to Citibank's 163 among U.S. banks, an indication of the important place of international business in its operations.

The five aforementioned banks also dominate the international scene as far as American banks are concerned. At June 30, 1968 they possessed 291, or 5 per cent, of the total of 344 overseas branches maintained by the member banks of the Federal Reserve system. Combined with the Canadian banks, then, these institutions operated an impressive sum of at least 469 overseas branches as at June 30, 1968.

The strength displayed internationally by the ten banks selected for analysis in relation to their domestic counterparts means that the activities abroad of these banks are truly representative of those operations of the banks in their respective countries. Indeed it is appropriate, when analyzing their activities, to consider their actions and motivations to be those of the Canadian or American banking systems as a whole and that is the course which will be followed.

An important basis for comparison will be to divide the world into seven regions and count the number and variety of operations which
each of the ten banks under perusal conduct in these regions. The areas for Canadian banks will be the United States, the United Kingdom, Continental Europe, the Caribbean, Latin America (South and Central America), Africa and the Middle East, and the Far East. Each region will be the same for the American banks except, of course, that Canada will be substituted for the United States. This particular form of global division was chosen because it would appear best suited to the exhibited patterns of the international banking networks of the two systems and also because it substantially reflects the division employed by most data sources thereby facilitating data collection. Nevertheless should any more interesting patterns emerge they too will be elaborated upon. A good example here would be the distinction between "developed" and "developing" economies and the extent of each system's operations in these regions. Unfortunately, however, the Bank of Canada publishes only gross data for foreign currency assets and liabilities, including the foreign agencies and branches of the chartered banks in the classification of "foreign banks", so that it will not be possible to compare the regional or total operations by volume. The number and types of facilities functioning will nevertheless provide an interesting and informative foundation for discussion and, as cited earlier, will be vital to any prophecy for the time to come.

One difficulty to be resolved in a discussion of overseas operations is the definitional problem. It will be necessary to define and describe what constitutes a foreign branch, agency, representative,
and correspondent, for example. It will also be essential to discuss the relative advantages and disadvantages of the entire spectrum of international operating forms, including an evaluation of the suitability of minority as opposed to a majority equity investment in a foreign bank or multinational joint venture.

In summary the study will include the accumulation of historical data both quantitative and qualitative to exhibit the expected trend toward growing international operations of the chartered banks with the historical qualitative information compared to the progress of the selected American banks, historically and in specified regions of the globe. In addition, problems of definition of terms will be dealt with and resolved.

COMPARABLE EFFORTS

Surprisingly enough, despite the fact that a host of books have been written dealing with the general field of international business, including those confined primarily to functional areas such as international finance or international marketing, few books used to date contain a section dealing with international banking per se. Furthermore, these texts make only passing reference to the operations of Canadian banks overseas, choosing instead to concentrate largely upon the activities abroad of U.S. banks.

Although there appears to be a notable absence of any effort, systematic or otherwise, to outline the historical or current overseas
operations of Canadian banks, specifically, a recent book edited by Lee C. Nehrt contains a chapter entitled "Commercial Banking and Multi-national Business" which brings together a series of articles concerning international banking reprinted from a well-known publication, "The Economist," along with a number from lesser known magazines. In Nehrt's words these readings have been collected with the objective that they "provide the reader with a sense of the direction which commercial banking is taking in different areas of the world, and the forces which are determining these directions." Within the chapter there are some brief references to Canadian banking abroad. However, of major relevance to the study now underway are the hypotheses offered as to why U.S. banks have expanded, and continue to multiply their operations overseas and why they choose a particular means of representation, i.e. direct branches, correspondent banks, etc. Also of relevance is the succinct accounting of the historical growth of their international banking activity. The Nehrt publication, then may be regarded as a comparable effort in several respects, for although it makes no attempt to compare the activities abroad of Canadian and U.S. banks, it does present pertinent hypotheses, some historical information, plus a useful discussion of the vast field of international banking.

A publication released in 1963 contained a series of research studies prepared for the Commission on Money and Credit in the U.S., one of which bears noting for its study of international banking. The research study performed by Fred H. Klopstock of the Federal Reserve
Bank of New York had as its major purpose "to explore whether commercial banks and similar financial intermediaries adequately meet the requirements of foreign traders and of those engaged in international finance. In the course of resolving his thesis that, "on the whole, United States financial institutions have lived up to their new responsibilities" Klopstock touches upon several areas of relevance to the current topic. Initially he puts forth a number of hypotheses to explain the growth of foreign loan operations, then describes several types of lending programs, including participation in loans of international financial concerns such as the International Bank for Reconstruction and Development (World Bank), stand-by credits for foreign governments and "developmental loans." In a section called "The Institutional Pattern" Klopstock presents an informative survey of domestic banks overseas, subsidiaries of foreign banks in New York and San Francisco, and, most importantly, the agencies of foreign banks in these cities with particular reference to Canadian agencies. Reasons to explain this growth of their operations, an outline of the range of their activities, including their active participation in "street loans" and an account of their legal powers are offered. A brief narration of the activities of representatives of foreign banks is presented. This is followed by an informative discussion of what are known as Edge Act and Agreement corporations, including an account of existing corporations of these types and their prospects for future expansion. Overall, then, this study can be expected to provide a very useful reference.
Beyond the aforementioned texts, one must turn to the perusal of articles from a variety of newspapers and magazines to unearth relatively scattered pieces of germane information. These stories and reports, nonetheless, cannot be regarded, in themselves, as being comparable efforts, although one soon to be mentioned embodies much to be expressed of the U.S. banks. A well-known Canadian periodical, "The Canadian Banker", in a regular column, entitled "Notes on foreign banking", presented, in a recent edition, a synopsis of the "expansion of the U.S. foreign branch network" for selected years up until June, 1966. An earlier edition offered a very brief accounting of the increase in number of Canadian and U.S. banks "offices abroad" together with three hypotheses said to be "the main impetus in the recent growth of foreign banking operations."

"Fortune" magazine is another periodical which has presented interesting articles which refer, at least, to a part of the area which this study is expected to encompass. In a most recent issue an article entitled "The Worldly Banks" not only offered hypotheses for the post-war growth and success of U.S. banks abroad but also gave several examples of what they expect is "perhaps the most promising form of alliance" among banks of other countries in an effort to meet "the combination of American competition and the world's growing hunger for capital." This is the "multinational joint venture" which they described as "harbingers of a world banking community operating in a free capital market." Thus the feature entered the realm of foreseeing the future.
A most useful essay is one which appeared in the December, 1967 issue of "Fortune". Entitled "The First Real International Bankers" it presents a most informative discussion of the expansion of U.S. banking abroad. The caption beneath the title aptly describes the theme of the article: "American banks originally moved abroad only to serve their corporate customers. They have ended by shaking up the banking business." The article expresses several hypotheses behind the movement of American banks abroad including that mentioned above and, among several others,"the predominant role of the dollar in financing the world's trade," to "improve the bank's overall earnings and the U.S. balance of payments deficit which has engendered controls on the outflow of capital from this country." The article goes on to portray the aggressiveness displayed in the overseas lending field, as well as recounting the formation of several "international consortia" involving U.S. banks. The report closes by broaching several hypotheses to explain the selection of particular banking forms. Over-all then the story expounds upon a number of areas which it is intended that this study should cover. It must be emphasized nevertheless, that although it is an especially fruitful article, it describes the actions of U.S. banks alone, without any allusion to the Canadian scene.

Perhaps the most comparable effort uncovered to date is a report which appeared in the November 1966 issue of "The Banker" under the title, "Why American Banks Go Abroad." The purpose of the report is to examine the significant changes surrounding the rapid expansion
of New York banks "who have been adding to their overseas network of branches and contacts; they have also been attracting growing deposits round the world." Specifically answers to these questions were sought: "What forces have shaped the international development of U.S. banks? When did it get underway? What are the problems these banks now face abroad and what are their long-term aims?"

The reporter begins by suggesting explanations behind the relatively recent move internationally by American banks to the extent "that their native strength would long seem to have warranted." He then proposes that a turning point came in 1961 after foundations had been laid from the mid-fifties. Three reasons are given for this contention including 1961 New York State legislation which eased some of the restrictions upon branches of foreign banks, and a table illustrating the growth of a foreign branch network in terms of number of banks, location, and total branches which lend substantial credence to the proposal. The reporter contends that the two "main forms" of American banking activity in the "push outwards", "the acquisition of a stake (or occasionally complete ownership) in an existing foreign bank" and "direct branching." He then debates the advantage and disadvantages of employing either of these forms of overseas expansion. At the same time, tables are presented showing "links abroad" of the U.S. banks, These "links" are banks in which an equity investment is held; the tables display the U.S. banks in Europe and the rest of the world in terms of branches, representative offices and Edge Act affil-
iates. In dealing with the mushrooming of U.S. branches in Europe the statement is made that "all American bankers are agreed on one point: any bank that considers itself international must be in London."
Grounds for this consensus are then put forth. The report closes with a very brief look into the future.

From the foregoing summary it is apparent that the reporter has touched upon many of the areas to be covered by the current study. However, once again, it must be remembered that no mention was made of Canadian banking abroad.

It is clear then, from the brief resumes presented of work uncovered to date which might be construed as comparable efforts that there exists a noticeable lack of investigation of Canadian foreign banking. This is a void which this study hopes to fill.

MAJOR SOURCES OF AUTHORITY AND/OR DATA

In an effort to add vapor, in the form of information, to this vacuum, considerable reliance will be placed upon responses received from correspondence and personal interviews with the International Divisions of the ten banks to be analyzed. The Annual Reports of these same institutions, were quite helpful. Quantitative data on the Canadian banking system as a whole comes primarily from the monthly Bank of Canada "Statistics" and the annual "Supplement", together with "The Financial Post", the "Bank Directory of Canada" and the "Canada Year Book".
For the U.S. banks, in addition to the aforementioned correspondence and interviews plus their Annual Reports, correspondence with the Federal Reserve Bank of New York and statistics reported in the U.S. Department of Commerce publication "Survey of Current Business" and the Annual Reports of the U.S. Comptroller of the Currency will be very useful. Of course, the report prepared by a staff member of "The Banker" which discussed the actions abroad of U.S. banks and was referred to in an earlier section will be beneficial to support any hypotheses or supplement information presented in this study.

For relevant data concerning the Canadian economy the publications of the Dominion Bureau of Statistics dealing with Canada's balance of international payments will be most useful. Similar statistics for the U.S. economy are to be substantially found in the aforementioned "Survey of Current Business". Pertinent data pertaining to the world economy should principally be forthcoming from "International Financial Statistics" published monthly by the International Monetary Fund.

EXPECTED FINDINGS

An investigation of the data sources cited above will reveal a clear growth trend in Canadian international banking activities in the post-war era. This trend will be one of uninterrupted expansion in terms of foreign currency assets and liabilities, if not in terms of the number of banking "connections" abroad, as business enterprises have become increasingly multi-national in character, through both trade expansion and overseas investments. A variety of other appropri-
ate hypotheses will be developed in an effort to account for these burgeoning operations.

According to the Canadian Bankers Association, "if Canadian banks were not in a position to provide the whole range of banking services necessary for carrying on an extensive export and import trade, Canadians requiring these services would have to obtain them from foreign bankers...." This quotation, no doubt, expresses a salient explanation for the "increasingly international flavour" of Canadian banks, apart from the implications of the strongly trade-oriented economy in which they function; the reason being to cope with foreign banks. Thus we can expect to see Canadian banks growing in the face of intensive competition from foreign banks, not only in financing trade, but in providing any type of banking service where funds must cross international boundaries.

A prime source of competition on the international scene will, no doubt, turn out to be the major American banks and it is also likely that these institutions will exhibit a much greater cultivation of overseas operations in terms of numbers, types, locations and techniques employed. It is probable that the chartered banks can learn much from their American counterparts, although their relative small size in terms of assets, may force them to emphasize methods of overseas exposure which differ from those of the major U.S. banks as volume of existing or anticipated business in various trading areas abroad is a probable factor influencing the choice of type of connection (or none) to establish.
Turning now to what can be predicted concerning implications for the future of world banking, particularly as it affects Canadian banks, it is probable that the future will see the refining of existing forms and techniques, their application on a wider scale geographically, and no doubt the activation of new ideas in operating methods and management which may, or may not, now loom on the horizon.
CHAPTER II
AN EXAMINATION OF THE POST-WAR GROWTH OF WORLD TRADE
AND INTERNATIONAL PRIVATE CAPITAL MOVEMENTS

INTRODUCTION

This chapter will present a discussion of post-war world trade and international private capital movements seen as the major determining forces of international banking activity. An historical survey of the volume and direction of the international flows of goods and services and funds will be offered.

In the following chapter a number of hypotheses will be tendered as explanations as to why commercial banks choose to become involved in these activities. A section of this chapter will be devoted to a discussion of the foreign activity which the banks conduct from a domestic base, principally in terms of the specific instruments and techniques employed. Next, an important chapter will define and discuss the types of overseas operating forms utilized, including some hypothesizing concerning the appropriate type of "office" to apply in various circumstances. In the penultimate section, alternative measures of the international involvement of the private banks will be debated with a statement and defense of the approaches selected by this study. In closing, the contents of what can be regarded as comparable studies will be summarized and placed in the context of this treatise.

The elaboration upon the foregoing elements of international activity which is to follow is designed to place in perspective the
study of the historical expansion of the international operations of both Canadian and American commercial banks.

FACTORS TO EXPLAIN THE POST-WAR GROWTH OF WORLD TRADE AND INTERNATIONAL PRIVATE CAPITAL MOVEMENTS

The tremendous increase in the volume of international trade and international private capital movements has been a significant feature of the post-war world economy. This upsurge has been facilitated by several factors according to the views expressed by those international bankers interviewed by the writer. What follows is an elaboration upon their responses.

Probably the most significant force behind trade expansion in the immediate post-war period was the Marshall Plan, the European Recovery Program initiated in 1948 by the United States under which that country provided substantial financial assistance, about $13 billion during its four years of operation, to reconstruct the productive capacity of the war-ravaged economies of Western Europe and make possible the importation of goods required to sustain the population. The Plan proved to be very successful in restoring Europe's economic health by relieving the unbalanced condition in European trade and production.

At the same time rationing and, in general, the shortages which war-time conditions had imposed upon the populations of North America had created a deep reservoir of pent-up demand which was readily transformed into a buying splurge once the war ended. The large volume
of savings accumulated by Canadians and Americans facilitated this surge which not only placed additional demands on the domestic productive sector but also led to increased imports of goods and services. The consequence was a sizable rise in trade volume between Canada and the U.S.

Meanwhile, the international monetary system was undergoing a transformation which has proved to be a vital factor in the expansion of world trade and capital movements. The Bretton Woods agreement of 1944 led to the creation of the International Monetary Fund (IMF). The Fund was designed to be a source of short-term funds to bolster foreign exchange reserves of countries undergoing severe temporary balance of payments pressures. Under Article I of the Articles of Agreement the member countries, which now number 107, undertake to keep their exchange rates as stable as possible, confining fluctuations within narrow limits, which are specified as one per cent of par either side of par, and to make no adjustment in rates unless the change is essential to correct a fundamental disequilibrium. The Fund must be consulted prior to implementing any change and its concurrence is required for any adjustment in excess of 10 per cent of established par value.

Although recently the adequacy of its resources have been questioned it is quite probable that it has facilitated international trade, especially between the developed and developing economies. At the same time, the exchange stability promoted and, conversely, the avoidance of competitive exchange depreciation has removed a serious psychological barrier to international capital movements.
The Bretton Woods conference recognized that the objective of "the expansion and balanced growth of international trade" would be made difficult by existing tariffs and other restrictions. Accordingly the conference adopted a resolution which recommended that the member countries agree on ways and means to "reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations." The resolution ultimately led to the initiation of the General Agreement on Tariffs and Trade (GATT) in 1948. The negotiations fostered by the Agreement led not only to a general lowering of tariffs but also to greater stability in tariff schedules.

GATT and the IMF together created a climate conducive to a general reduction in barriers to multi-lateral trade. Of special significance was the widespread elimination of import quotas. While tariff barriers can be overcome by cheaper, more efficient production, volume restrictions were real obstacles in the way of trade expansion since no amount of improved technology could expand the market beyond the physical limits imposed by quotas.

Improving technology, itself, has been an important factor behind the stimulation of world trade. In the United States, Canada and Western Europe in particular, the tremendous advances in technical know-how giving native corporations the ability to compete effectively in world markets has led them to look increasingly beyond the domestic market for buyers. At the same time better communication links were being established around the world facilitating the flow of information
concerning such matters as market or investment opportunities. Greater knowledge of other countries and augmented ability to compete on world markets then, in no small way, contributed to growing world trade.

We have noted that improved communication and information flows between countries enabled potential foreign investors to acquire knowledge of investment opportunities beyond national boundaries, and that the exchange stability prompted by adherence to IMF agreements removed a weighty psychology barrier however, these factors alone could not account for the tremendous increase in private international capital movements which has taken place since World War II. There were real barriers which had to be removed.

One contributory factor, behind growing private capital flows, bridges the gap between the provision of a conducive atmosphere and the removal of an effective barrier; that was the work of the Foreign Bondholders Protection Council. This U.S. non-profit organization was charged with the duty of negotiating debt settlements between nations. Noteworthy success was experienced in removing the overhang of defaulted government debts brought about by the huge flotations of the Depression years and the subsequent ravages of war. The image of investment banking had been severely tarnished by the frequency of defaults and the "tieing up of broken threads", largely through the efforts of the Council, contributed much to the resumption of bond flotation on world money markets. The flow of public and, in turn, private capital to developing economies was also facilitated since the World Bank would not lend new funds for development projects until old debts were officially recognized with provision for servicing, or completely settled.
However, the most significant event leading to increasing private international capital flows occurred in 1958 with the return to convertibility on non-resident account of the principal Western European currencies. The fear that funds could not be repatriated, a fear which hitherto seriously inhibited the flow of private funds, was effectively removed.

An outcome of World War II was the emergence of the U.S. dollar as the world's "key" currency illustrated by the fact that the par values of the currencies of IMF members are stated in terms of gold (or U.S. dollars of the weight and fineness as of July 1, 1944). Although its role is debated the continued current account deficits on the U.S. balance of payments has made available considerable sums of U.S. dollars to be employed as a widely accepted means of international debt settlement.

The continued availability of dollars in international money markets, combined with the return to convertibility of the major European currencies, were important factors behind the burgeoning of the Euro-dollar market. Euro-dollars are difficult to define succinctly, however, a description offered by the Bank for International Settlements is quite suitable. A Euro-dollar is "a dollar that has been acquired by a bank outside the United States and used directly, or after conversion into another currency, for lending to a non-bank customer, perhaps after one or more redeposits from one bank to another." The Euro-bond market is its counterpart in the medium- and long-term end
of this international capital market. The international bankers inter-
viewed were unanimous in the view that Euro-dollars have become probab-
ly the most significant element in world capital movements today. The
writer strongly supports the view that this market has been most
instrumental in the growth of international capital flows during the
past ten years. More will be said about the market as an initiating
force behind the movement abroad of U.S. banks.

A number of elements which together have contributed in no
small way to the burgeoning of international trade and capital movements
have been elaborated upon. While some attempt was made to distinguish
between factors which were trade stimuli and others which were confined
to capital flow motivation in practice the linkage effects should not
be overlooked. Trade and capital in general move together when one
contracts the other grows smaller and vice-versa. Thus while the Mar-
shall Plan ostensibly aided trade the recovery it generated facilitated
the relaxation of restrictive controls, and hastened the restoration of
currency convertibility which in turn, greatly stimulated international
capital flows.

As was stated the adherence to the Articles of Agreement of
the IMF fostered both activities. GATT, an outgrowth of the same con-
ference, by creating an improvised environment for multi-lateral trade
brought many nations into closer contact with one another. This improved
communication permitted potential foreign investors to become aware of
overseas investment opportunities. Continued technical advances, par-
particularly in North America and Europe have stimulated both the ability and will to trade and also to transfer this technology to other countries in the form of direct investments or licensing arrangements. We are all fully acquainted, of course, with the large inflows of U.S. investment capital which accompanied the trade expansion between Canada and the U.S. following the war. The efforts of the Foreign Bondholders Protection Council were referred to as facilitating capital flows, however, the credit worthiness of the nation does influence the volume of trade it conducts, particularly in the case of developing nations which require foreign aid or loans in an effort to develop surpluses for increased exports.

The emergence of the U.S. dollar as the key currency and that country's continued balance of payments deficits were discussed in the context of the stimulation which these occurrences have given to international capital flows and, in particular, possibly history's most significant capital market, the Euro-dollar market. However, at the same time, a large supply of dollars, a readily accepted means of payment outside the Communist bloc, have been made available to finance growing trade transactions.

AN HISTORICAL SURVEY OF THE FLOW OF INTERNATIONAL TRADE AND CAPITAL

The foregoing section tendered several factors which contributed to the increased volume of international trade and capital movements. In this section an historical picture tracing the growth of these activities will be presented.
Table I, alluded to earlier, offers data in U.S. dollars for selected years which exhibits the post-war in trade volume which has occurred for the world as a whole as well as for the world's six foremost trading nations. It can be seen that total world trade, exports plus imports, is over five times as large in 1967 as it was in 1946. The same is true, of course, of exports or imports viewed separately as on a worldwide basis each tends to move hand in hand.

If we look specifically at Canada it is noted that during the same period gross Canadian trade virtually quintupled increasing from $4.4 to $22.0 billion. Thus Canada's trade expansion has kept pace with the world.

At the same time, the total trade of the United States increased only 3.8 times. This low multiple was occasioned primarily by a relatively small expansion of exports which just tripled in the period while imports were growing slightly more than five times.

Evidence of the phenomenal growth of trade in some countries is clearly provided by reference to the experience of Germany and Japan, vanquished nations in World War II. Since 1946 German trade has multiplied twenty-five times while Japanese trade has increased by fifty times its 1946 level!

Turning now to Table II, we are able to obtain an indication of the magnitude of private international capital movements in the period from 1958 to 1967. Earlier data from the International Monetary Fund was unavailable as accounting methods were not revamped to provide a breakdown for capital flows until 1958.
The net position attained in the table is achieved by combining the net annual flows of direct investment, the results of investment in new and outstanding issues of Canadian securities by foreigners and the retirement of securities held by them, plus the net outcome of other long- and short-term private capital flows. Not included are private transfers, travel receipts and payments, net investment income position, or the position of income from other services. Unfortunately, the data represent net flows only.

In an effort to present a relatively realistic picture information from sixteen countries which have participated substantially in world capital movements has been compiled in the table. It will be noted that among these countries many experienced positive net flows while others were encountering a deficit position. In balance of payments accounting a minus sign indicates an outflow of capital from the country in question and a corresponding increase in that nation's external assets. For example, in 1967 the United States sustained a net outflow of private capital totalling $4.565 billion resulting in an increase in U.S. claims on foreigners of the same amount, considering only this one section of the country's international payments position. The opposite, of course, is true of a positive net flow. Canada, for example, has continually encountered an increase in claims by foreigners on Canadians, a net capital inflow, by virtue of positive net capital flows since 1958.
Thus it can be seen from a perusal of the table that some of the countries selected have historically been net suppliers of capital to foreigners, such as the United States or United Kingdom, while others have continually been net recipients, such as Canada or Spain, and still others have shown both positions. The important point which emerges is that if we sum the negative positions, or positive positions, obtained for a particular year for the selected countries we may obtain a crude indication of the magnitude of annual gross capital flows. For example, in 1967 the outflow of capital among those countries with deficit positions totalled $6.3 billion, whereas in 1958 the corresponding sum was $3.9. The fact that their "positive" counterparts totalled $2.5 and $3.0 billion respectively may be taken to indicate that a greater flow of funds to those lesser developed nations not included in the table has been occurring recently. Thus, we may conclude that the capital flows, of which we speak, have almost doubled in the past decade. An interpretation which should have important implications for foreign banking operations.

At the outset of this chapter we stated that foreign trade and international capital movements are significant factors in deciding the course of international banking activity. Referring to Table VI, if we agree that the growth of foreign currency assets and liabilities of the chartered banks is one indication of the volume of their international business, it is apparent that the foreign activity of these institutions has grown tremendously in the post-war years. Particularly note that since 1958, while the capital movements above were tripling,
these balance sheet items have undergone a three-fold increase as well. In the same period world trade doubled. Therefore, there would appear to be a definite and close relationship among these variables.

It would seem reasonable to conclude that world trade and private investment capital movements are significant to the international operations of the banks. What would be the source of their foreign operations without these flows? The scope of their activities would be notably reduced and restricted largely to private transfers and remittances plus transactions arising out of foreign travel. In 1967 this would have involved a total volume of about $2.7 billion in fund flows or just slightly more than 12 per cent of Canada's world merchandise trade alone, without reference to capital movements. Thus it can be seen that the range and volume of their foreign activity would become relatively small. The following chapter will tender a number of hypotheses to explain why the banks have chosen rather to play a role in the wide range of private capital flows as well as actively facilitating the import-export trade of Canada.
CHAPTER III

AN EXAMINATION OF THE ROLE OF THE BANKS IN TRADE AND CAPITAL MOVEMENTS

SOME HYPOTHESES TO EXPLAIN ROLE IN TRADE AND CAPITAL MOVEMENTS

Although it would appear from the data presented in the preceding section that trade and private capital movements are vital aspects of chartered bank international operations, no specific explanations have been offered as to why these institutions have made these activities important. In other words, what hypotheses may be tendered to account for Canadian banks assuming a significant role in two areas which have become of particular consequence, not only to themselves but, to the Canadian economy?

Besides, the apparent reason that there must be noteworthy profits to be gained due to the sheer magnitude of the funds involved, a number of other explanations must be proffered for it does not necessarily follow that large movements of goods and services or money means substantial or immediate profits. Greater risks than accrue to an entirely domestic transaction are likely to be involved when dealing with international traders or investors. Although trade transactions in which they participate largely originate with domestic corporations the third party is most often a foreign concern about which the bank, and the Canadian company, for that matter, may know very little. Also, foreign currencies transactions are common with foreign trade or investment activities. These are but two factors which required the banks to
invest what must have been sizable sums of money into the development of an expertise which they anticipated would yield them a satisfactory return.

One of the principal explanations given is the need to meet strong competition in the form of foreign banking concerns. According to the Canadian Bankers Association: "If Canadian banks were not in a position to provide the whole range of banking services necessary for carrying on an extensive export and import trade, Canadians requiring these services would have to obtain them from foreign bankers..." In other words, protection against the loss of opportunities for profit may be said to be a factor encouraging their international activity.

An additional common answer is implied in the above quotation. That is, the desire to retain old, and acquire new, customers. This too may be tendered as an explicit reason why banks have established and are expanding their "offices" and banking connections abroad. This aspect will be extensively elaborated upon later in this study.

Table VI presents a picture of long-term investments abroad of Canadian business enterprises for selected year-ends from 1945 to 1965 which indicates both the magnitude and rate of growth of this stock of funds. Before proceeding, it is suitable to clarify the distinction between direct and portfolio investment, although the definitions and their significance will be referred to again. Canada, and the United States, define direct investment as the acquisition of assets in a foreign enterprise in which the domestic resident holds controlling
interest. For balance of payments purposes it is assumed that the ownership of 25 per cent or more of the voting shares constitutes a controlling interest. On the other hand, portfolio investment represents the purchase of stocks or bonds of a corporation in which the purchaser does not hold or gain a controlling interest as defined.

It can be seen from Table VI that direct investment in branches, subsidiaries and controlled companies enjoyed almost a five-fold increase from 1945 to 1965. At the same time, portfolio investment in foreign securities increased three and one-half times for an overall quadrupling of total private long-term investment abroad as it moved from a sum of $1.3 billion in 1945 to $5.6 billion in 1965. Clearly, the magnitude of the funds involved should attract Canadian banks to the international scene.

The desirability of "internationalization" is likely to be accentuated when it is noted that at the end of 1963 the total book value of direct investment outside Canada of but 13 Canadian corporations aggregated $50 million or more accounting for $2.197 billion, or 70 per cent of the total. An additional 8 were between $20 and $50 million and their direct investments amounted to $224 million or another 7 per cent of the total. A further 38 companies whose individual direct investments were between $5 and $20 million accounted for another $358 million or 12 per cent of the total. Thus, just 59 companies, embracing $2.779 billion in foreign direct investments, comprised 89 per cent of the $3.356 billion total, an indication that it is a number of the banks' largest customers who are operating in other countries.
In terms both of developing service and lending expertise, as well as establishing banking connections overseas, the banks then are likely to be encouraged in an effort to cement relations with these existing customers, to acquire new domestic clients who have, or are becoming international in scope and to obtain the business of foreign enterprises who have dealings with Canadians.

Table VII presents, for purposes of comparison similar, but somewhat more comprehensive data for the United States covering selected years from 1945 to 1967. It will be noted that private direct investment abroad by U.S. residents increased slightly more than five-fold from 1945 to 1965, similar to the growth experience for Canadians while from 1945 to 1967 inclusive a greater than seven-fold expansion took place. Meanwhile, portfolio investment almost quadrupled from 1950 to 1965 for an overall quadrupling of long-term investments from $17.5 billion to $70.9 billion, again very similar to the Canadian case.

While long-term private investment was undergoing an impressive rise the short-term sector also was experiencing noteworthy growth. Short-term assets and claims are of less than one year's duration, often arranged on a demand basis. When unchecked by exchange, or other forms of direct or indirect, control short-term funds tend to be highly sensitive to international interest rate differentials moving spontaneously in search of better returns. In addition, short-term funds tend often to be highly speculative moving in and out of various currencies or into gold depending upon economic and/or political conditions in dif-
ferent countries or the general piecemeal state of international monetary conditions. The gold rush of 1968 when speculators believed an increase in its price was imminent is a case in point. A very recent example was the heavy movement out of French francs into Deutsche marks and gold when labour and student demands seriously threatened the stability of the franc in late 1968.

It follows that these funds are highly volatile and therefore the monetary authorities are much concerned about their country's short term position at any given time. For example, when short term claims are substantially greater than short term assets there may be the real danger that a sudden outflow occasioned by some uncertainty within the economy will seriously endanger the currency's par value, or precipitate a serious drain of gold in the case of the U.S. where gold may be demanded in exchange for dollars.

It can be seen from Table VII that this form has experienced an eight-fold increase between 1950 and 1967. However, despite this impressive growth it must be noted that this expansion rate is based upon comparisons of a stock position at a given point of time. The rapid turnover of these funds makes a comparison of fund flows over time more appropriate. Nevertheless, although understated, probably substantially due to the foregoing, total private investment increased from $19 to $93.3 billion between 1950 and 1967, a notable five-fold expansion. It follows that American banks, like their Canadian counterparts, should be similarly attracted to internationalization.
Another thesis which encompasses both the themes of meeting competition and customer acquisition arises from the fact that the banks are private profit-seeking enterprises and, therefore, are interested in profitable growth opportunities. Such exist through direct or portfolio investment of their own funds or indirect participation via the financing of foreign trade or facilitating the flows of private capital to other countries. Walter B. Wriston, President of the First National City Bank lends credence to the validity of this view in a recent statement which follows.

The potential for U.S. industry abroad is just enormous. The overseas market is growing twice as fast as the domestic and it should double or triple in the years just ahead. With some 3 billion people in the world and only 200 million in the United States, it is most important that every corporation structure itself to get on that escalator.27

This statement has particular significance to U.S. banks whose domestic expansion is constrained by that country's unit banking system which in most states does not allow branching. In a few such as New York limited branching is allowed, for example the New York banks referred to earlier are restricted to branching within Manhattan and two or three other burroughs. In a small number, notably California, Oregon and Washington state-wide branch systems are permitted. However, banks are not allowed nation-wide branch networks as is the case in Canada, therefore, the opportunity for growth by internationalizing is especially attractive to U.S. banks.

Although Wriston is speaking of the U.S. scene what he said can be readily transferred to a Canadian context where, despite the
existence of nation-wide branch networks, the opportunities for expansion may be magnified since Canada has a population of only some 21 million.

This rapid growth of the "overseas market" which Wriston predicts means that there is likely to be a growing number of Canadian corporations either becoming or increasing their international marketing efforts and/or locating subsidiaries in other countries. If this should occur the chartered banks, no doubt, will be increasingly called upon to supply the varied international services they offer from the remittance of funds, to guidance, to lending. To retain established customers and to take advantage of the anticipated growing opportunities for new international business the banks are likely to be encouraged to widen their foreign activities both by refining or broadening techniques as well as overseas "offices". In this growing internationalization we should emphasize that for Canadian banks the U.S., itself, will probably be a significant "escalator".

In summary then the need to meet competition from foreign banks to prevent the loss of profit opportunities, if not for immediate profit, the desire to retain established, or obtain new customers and the opportunity for growth have in the past and, no doubt, continue today to inspire the chartered banks to increasingly "internationalize" their activities.

We have illustrated the immense growth of world trade and capital movements, and the factors to explain their expansion during
the post-war era, in the opening sections of this chapter. In this section we have broached the aforementioned hypotheses to explain the participation of the banks in these expanding fields at the same time suggesting that the techniques employed and the number of overseas "offices" may increase or be improved. In this discussion an attempt has been made to distinguish between motives for internationalization from a domestic base and motives for going abroad to operate from a foreign base which will be elaborated upon later. The distinction is most difficult to make and as a result we have obtained an inkling of why banks go abroad. Nevertheless, it remains that the banks do conduct a significant portion of their international business from a domestic base.

What are the forms of this involvement? This question can best be answered by a description of the operating forms employed by the chartered banks to facilitate the international movement of merchandise and funds. We shall now turn to canvass briefly the important instruments used and functions performed, including some comments upon what are judged to be the significant contributions of the banks to these international flows.

FOREIGN ACTIVITY FROM A DOMESTIC BASE

The direct involvement of the chartered banks in international transactions without physically locating in another country, may be classified into four principal categories. Firstly, the collection
function, that is, acting as the intermediary for transactions between residents and foreigners, primarily importers and exporters. Secondly, the financing of Canadian import and export trade and international capital movements through several types of lending arrangements. Thirdly, the buying and selling of foreign exchange. A fourth activity may be added and that is the provision of information, advice and guidance, but since these services are often granted in conjunction with the lending function they will be discussed in that context.

In practice it is virtually impossible to rank these activities according to their relative importance to the banks due to their extreme interdependence. It is useful here to outline the sequence of events which might occur in concert with the lending function in order to clarify this statement. Assume that a Canadian furniture manufacturer has the opportunity to export his product to the United States, however, the prospective importer is unknown to him except by correspondence between the two firms. Before committing himself to the transaction he asks his bank to obtain information concerning the American firm's credit worthiness and general reputation. The bank is able to comply with his request by contacting a correspondent bank in that area. Assuming the importer's reliability is confirmed the transaction proceeds. To provide the additional working capital needed to meet the contract the manufacturer arranges a loan with the bank to be repaid when the proceeds of the sale are received. A bill of exchange is drawn up and sent by the Canadian bank to its American correspondent.
for collection, the intermediary function. The terms are payment in U.S. dollars in sixty days. In two months time, the U.S. funds are remitted. However, a foreign exchange transaction is required as the U.S. dollars must be converted to Canadian dollars before the funds are deposited in the account of the manufacturer. In other words, the U.S. $ must be sold and Canadian dollars bought in the foreign exchange market. Thus it is quite possible to have each one of the aforementioned services involved, depending upon the needs of the customer.

The opposite side of the collection function, within the bank's intermediary role, is the remittance function. Had our example pertained to a Canadian importer the sequence of events could have been similar but instead of sending a bill for collection, the bank would have forwarded the necessary funds to the foreign exporter on behalf of the importer. Alternatively, in different circumstances, such as in an open account transaction, the importer might purchase a draft from the bank and forward it to the exporter. In either way a foreign remittance would take place.

The bank draft is a widely employed means of effecting foreign remittances. In Canada each of the branches of Canada's nine chartered banks are equipped to offer this service to its customers. When issued by a Canadian bank the draft instructs a bank in a foreign country to make payment to the holder of the draft on demand. Although cheques dominate domestic transactions in the international sphere their role is relatively minor because of the difficulties of cheque clearance
and currency exchange. Their function is carried out through drafts. The bank draft can be handled in a single currency, or it may be purchased in one currency while instructing payment in another currency. In the latter situation the chartered banks are executing simultaneously both the collection function and the foreign exchange function. A foreign transaction, however, need not always involve a foreign currency. Even if the draft calls for payment in dollars, it is a foreign transaction if it calls for payment outside Canada. This is in agreement also with balance of payments usage. An increase in liabilities to foreigners is a capital inflow even if the liability is in Canadian dollars, without inclusion of foreign exchange.

The commercial bill of exchange or trade bill used in international trade is very similar in form to the bank draft except the drawer is commonly an exporter, not a bank. The order directs the drawee, the importer or his bank, to pay a specified amount of money to a third party, the payee, either the exporter or his bank, at a certain future date. Sight bills are those payable immediately upon presentation to the drawee. Time drafts run for various periods of time.

In international trade clean or documentary drafts are used to effect payment. As the name implies clean drafts are those unaccompanied by documents. Documentary drafts are used almost exclusively however since properly executed documents give control over the shipment and make possible ready transfer of title to the goods.
When an exporter draws a draft on a bank the draft, after being accepted by the bank, is known as a bankers' acceptance. The instrument becomes an obligation of high quality, since it reflects the credit standing of the bank involved, and can be readily sold in the money market. Thus the exporter is able to obtain the funds due him sooner than would be the case if he held the draft until its due date.

In Canada it is more common for the chartered bank to act solely as collecting agent rather than buying or discounting an exporter's bill of exchange. The bill is forwarded to a foreign correspondent bank, whose relationship with Canadian banks will be discussed below, which presents it to the importer for payment or acceptance, whichever the arrangement directs.

The commercial bill of exchange is frequently drawn by an exporter on the bank of the importer under a letter of credit provided by the importer. The ordinary commercial draft discussed above offers no assurance that the importer will accept or pay the draft, or that he will take the goods sent to him, thus the exporter is likely to prefer the protection afforded by the commercial letter of credit. In Canada the letter of credit is a commonly used instrument in the financing of foreign trade transactions. This statement deserves some qualification however since a very substantial proportion of trade between Canada and the U.S. is conducted on an open account basis with the fund flows represented by inter-bank clearings, including inter-company transfers between U.S. parents and their Canadian subsidiaries. Outside
of trade between these countries, and particularly in trade with the developing countries, the letter of credit is the most frequently employed instrument although its use is undergoing a relative decline as greater knowledge of foreign clients is gained through repeat business. One might, in fact, develop a continuum of trade financing techniques. Moving from the polar of greatest protection to that offering the least assurance of payment one would begin with pre-paid transactions, the letter of credit would occupy the next position followed by the documentary draft, next the clean bill and, finally, open account transactions.

A letter of credit is a document carrying the guarantee of a bank to honour drafts drawn on it by an exporter up to the maximum amount stipulated and under certain conditions. For example, if the letter covers the purchase of lumber, the importer cannot use it to buy industrial equipment, unless the bank agrees to such a modification. And as protection, the bank normally requires certain documents such as the bill of lading and warehouse receipts to be filed with it so that it knows the correct items were actually shipped. Instead of being drawn on the importer, the draft is drawn on the importers' bank, which has agreed to act for him. The credit standing of a bank is ordinarily much higher than that of the importer, particularly for Canadian banks, and the letter of credit is a means of substituting the bank's credit for that of the importer.
Thus, by eliminating much of the risk for the exporter, since it guarantees that he will be paid for his shipment, provided of course, he follows instructions and if exchange controls do not delay matters, the bank is contributing much to the facilitation of foreign trade.

In addition to the contingent form of lending provided by the guarantees embodied in letters of credit the banks also engage in notable amounts of direct lending to Canadian exporters and importers through negotiations of lines of credit. At the same time the same technique is employed as they devote substantial sums to the financing of international long-term capital movements. While, as we illustrated at the outset, it is most difficult to rank their principal forms of activity in terms of importance to themselves the banks interviewed all agree that probably the major contribution these institutions have made to facilitate the tremendous growth in world trade and capital movements has been the granting of credit. In addition the banks have been adept at patterning lending activities to the needs of different industries. In particular, the widespread application of cash flow lending, instead of the traditional practice of lending solely on the strength of the pledge of real assets, has substantially broadened the lending base. Overall, there is little doubt that the flows of trade and capital would be seriously circumscribed if self-financing was required.

According to those bankers interviewed, the largest share of foreign trade financing lies in the short-term sphere. Loans of less
than one-year maturity are most common for two probable reasons. One, the banks have traditionally tended to regard themselves primarily as sources of short-term credit. Second, the loans may have been accorded to exporters to finance export receivables normally due in less than 180 days or granted to importers to ensure adequacy of funds to meet drawings under a letter of credit or other forms of overseas accounts payable.

Direct lending for the financing of international long-term capital movements is also dominated by short-term loans. Medium term lending is a secondary but increasingly important part. By establishing a line of credit in Canadian dollars with a domestic corporation which utilizes the funds for direct or portfolio investment in another country the banks are in effect, participating in an international transaction. By granting a similar line in U.S. dollars to a U.S. corporation or subsidiary for the purpose of investment in Canada the banks are directly engaging in foreign capital movements as a foreign currency is involved. In the former case a contrast between the Canadian and American situation may be noted. In Canada, since there is virtually complete freedom of capital movement out of the country, it is common practice for the chartered banks to grant domestic lines of credit to their larger customers operating internationally without being informed specifically of the sums to be absorbed by manufacture for the domestic or export markets or for the financing of overseas subsidiaries. The company, itself, allocates the funds. On the other
hand, in the U.S. the mandatory controls which have been imposed on U.S. direct investment abroad means that both the company and the banks must establish clearly at the outset the funds which are to be employed abroad. These same controls limit the holdings of liquid foreign assets by U.S. direct investors thus the banks must be fully acquainted with the short-term capital movements as well.

What the banks also agree has been a significant contribution which they have made to the facilitation of international trade and capital movements is often carried on in conjunction with the lending function. That is providing information, advice and guidance to individuals and corporations trading or investing internationally. As will be expanded on below the vast network of correspondent banks maintained enables the banks to acquire and transmit varied and reliable information concerning, for example, trade and investment opportunities in a certain country as the credit worthiness of a prospective importer. The same may be said of their overseas representatives, branches, subsidiaries and affiliates. At the same time their years of specialization in lending has seen the banks build up an expertise which has equipped them to offer constructive advice in organizing for and operating internationally. And too, they are able to counsel and guide traders and investors to assist them in recognizing and in overcoming any contingencies which develop.

In the foregoing paragraphs we have confined our discussion to the most significant assets of the banks, loans. However, the lia-
bility side of the balanced sheet also involves the Canadian banks substantially in short-term foreign investment through the fully-hedged swap deposit business. "Swaps" are created in the following manner: The banks purchase the C$ of the depositer for the foreign currency in question, normally U.S. $ but occasionally sterling, under an agreement to reverse the transaction at a pre-determined future date. In the meantime, the depositor carries his foreign currency balance on deposit with the bank, receiving a return made up of interest on the time deposit and any profit on the foreign currency swap. These transactions were fostered partly due to intense competition within Canada between banks, trust companies, investment dealers and finance companies for deposits and partly due to competition from a number of foreign banks active in the international money markets who were prepared to offer this facility to Canadian depositors. Thus, we might say that strong domestic competition inspired the banks to become increasingly international.

Thus, we have seen that bank drafts, commercial bills of exchange, letters of credit, "swaps", and, in some instances, even bank loans originating in Canada may embody transactions in foreign currencies. The presence of a foreign currency means that the banks, at some stage, have had to engage in foreign exchange trading to acquire the U.S. dollars or other currency involved. Thus, the buying and selling of foreign currencies is a requisite for participation in foreign trade and capital flows.
The aspect of the foreign exchange market which is most significant to merchandise trade and short-term capital flows is forward exchange trading. A forward exchange contract between a bank and a customer, or between two banks, calls for delivery at a future date of a specified sum of foreign currency against dollar payment, with the exchange rate fixed at the time the contract is made.

The forward exchange market enables individuals or companies, who anticipate either the receipt of foreign exchange, or the need to pay it out at a future date, to hedge against the risk of loss from exchange rate fluctuations. An exporter who arranges a sale in France for example, may protect himself against the risk of franc depreciation by arranging to sell his francs in the forward exchange market at the same time he makes his sales contract abroad. On the other hand, the importer must guard against the risk of currency appreciation, as he would be if now importing from Germany, between the time he acquires an obligation to make a payment in Deutsche marks and the time payment is made. His hedging procedure is opposite that of the exporter.

The commercial banks, themselves, consistently hedge their foreign currency positions. In other words, they are arbitrages who, as far as possible cover exchange risks by operating in the forward exchange market. As one international banker responded to the question whether or not the bank balanced its assets and liabilities denominated in particular currency, "Yes, every night everywhere we do not take "long" positions"! In other words, rather than to carry a surplus
of any one currency they attempt to keep an even balance between purchases and sales of all currencies. Arbitrage transactions involve either the purchase of domestic currency via a foreign country or the purchase of a foreign currency through a third or fourth country.

Generally speaking, commercial banks do very little trading on their own account as investors in foreign exchange, by far the largest part of their trading is conducted on behalf of their customers. However, covered interest arbitrage may occur not only on the basis of comparative rates available to the prospective investor but also on the basis of comparative rates for exporters or importers in need of trade financing and borrowers in general. It is this comparison of relative borrowing costs, known as the process of "trader arbitrage" in which the banks frequently engage and their actions in concert with similar activities by professional arbitragers tend to keep exchange rates in all centres in line with each other.

Over-all, the process of covering exchange risks through the forward exchange market is fundamentally a means for individuals, firms and banks to eliminate the uncertainties of the foreign exchange element from international transactions. The possibilities of arbitrage in the exchange market represents a sound explanation as to why the individual trading departments of all chartered banks maintain constant communication with the principal foreign exchange markets of the world located in New York, London, Paris, Frankfurt and Zurich.
Activities of the type discussed in this section may be con-
ducted by the banks from a domestic base without the necessity of loca-
ting abroad. However, as we have seen, sound communication links are
a requisite for this approach. One of these connections, alluded to
above, is the correspondent bank. Its relationship to the chartered
bank will be elaborated upon in the following chapter, together with a
description of the other types of foreign operations banks have established.
From an outline of the tasks these "offices" perform we are likely to
receive some indications as to why Canadian banks go abroad.
CHAPTER IV

A DESCRIPTION OF THE INTERNATIONAL OPERATING FORMS EMPLOYED AND THE APPROACH OF THIS STUDY

The international operating forms of the chartered banks are correspondent banks, resident representatives, agencies, branches, subsidiaries, equity investment in an established foreign bank (affiliates) or the multinational joint venture. Each of these types of foreign "office" is expected to perform certain services. This chapter will examine these "offices" in terms of the services they provide and their relative advantages and disadvantages.

CORRESPONDENT BANKING

Over the years the chartered banks have established a vast network of correspondent banks, numbering approximately 7,500, which span the globe from Abu Dhabi to Zambia. They are located in such unfamiliar cities as Aaru, Doha, Suva, Tegucigolpa and Uppsala although more familiar cities such as Chicago, London, Paris, and Tokyo also are sites of several correspondent offices.

Although Bank of Canada clearings have replaced the intricate mechanism of interbank balances for domestic purposes, internationally banks continue to complete clearings by this means. To facilitate this it is usual for the Canadian and foreign banks to have deposit balances with each other shown on the balance sheet in the currency of the bank holding the deposit as a liability. For example, the Canadian Imperial
Bank of Commerce may hold a deposit in Australian dollars with the Australia and New Zealand Bank Limited in Melbourne while that bank, at the same time, holds a Canadian $ deposit with the Commerce. These balances are carried on a demand rather than time basis and constitute a significant proportion of the foreign currency assets and liabilities of the chartered banks. For example, at October 31, 1968 "Deposits with other banks in Currencies other than Canadian" totalled Canadian $3.1 billion equal to 38.9 per cent of total foreign currency assets. At the same date "Deposits by other banks in Currency other than Canadian" amounted to Canadian $2.2 billion, or 29.1 per cent of total currency liabilities. In addition the correspondent banks also carried $243.7 million in deposits denominated in Canadian dollars.

Although deposits with other banks are exhibited in Canadian dollars on the balance sheets of the chartered banks they actually comprise several different currencies and constitute the chartered banks' immediate supply of foreign exchange. On the other hand, the foreign currency deposits of the foreign banks are primarily denominated in U.S. dollars, with a relatively small amount made up of pound sterling. This situation is not unusual since the U.S. $ and sterling are the "languages" of international transactions. As key currencies they are most in demand, consequently to reduce exchange risks and avoid conversion costs, it is quite normal for the foreign correspondent banks to hold a material proportion (90.2 per cent at October 31, 1968) of their deposit balances in these currencies, despite the fact that these assets are situated in Canada.
The relatively small amount of deposits in Canadian dollars are also useful to the foreign banks, however, for they constitute the correspondents' supply of our currency. Since the demand for Canadian dollars to settle international transactions is relatively limited these balances are comparatively small. However, as some demand exists the foreign banks find it suitable to carry Canadian dollar accounts for the same reasons that they maintain U.S. $ and sterling balances.

It is thus quite normal that banks will hold reciprocal balances with each other. When a Canadian bank purchases foreign currency, it augments its balances with its foreign correspondents. When the foreign correspondents buy Canadian dollars (or U.S. or sterling), they build up their balances in Canadian dollars.

Suppose that a customer wishes to remit 100,000 Dutch guilders. He buys a draft from his bank, paying $30,000 for it. He forwards the draft to The Netherlands where it is deposited in a Dutch bank. The Dutch bank may obtain settlement by debiting the account which the Canadian bank maintains with it. The banks' balance sheet changes would be as follows:

**Canadian Bank**

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<tr>
<td>Deposits with other banks</td>
<td>-$30,000</td>
<td>Domestic deposits -$30,000</td>
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**Dutch Bank**

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<tr>
<td>No change</td>
<td></td>
<td>Domestic Deposits + 100,000 Guilders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deposits by foreign banks - 100,000 Guilders</td>
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Maintenance of deposits, while the most significant, is by no means the only role of correspondent banking. Banks perform a number of services on a reciprocal basis. They supply information on economic and business conditions, assist in credit checks, serve each other's travelling customers, and generally act as each other's foreign office. In addition, the correspondent bank also provides a certain amount of exposure for the Canadian bank in its service area since it will direct any "Canadian" business emanating there through or to its Canadian counterpart. The advantages and disadvantages of this form of international operation will be discussed later when we look at direct branching in foreign countries.

RESIDENT REPRESENTATIVES

The resident representative operating form may be described as being mid-way between correspondent banking and a foreign branch network. In contrast to the operation of a correspondent system, where representation is by local bankers the Canadian bank is "represented" abroad by members of its own personnel. However, the representative position differs from a foreign branch in that it does not offer the complete range of banking services.

The resident representative office, however, performs a variety of important tasks for the chartered bank in its role as the marketing section of a chartered bank's International Region. The location of these offices is carefully chosen with regard to the potential market value of the region, the ease of communications and travel
to nearby centres and to the cost of operation. The cost involved in operating an office of this kind is likely to vary significantly depending upon the size of the territory it is designed to serve since transportation expenditures are a substantial part of the operating budget.

Where the potential of area is not considered sufficient to warrant the cost of establishing a resident representative's office, the chartered banks employ International Region Representatives. These bank officers are based at the Canadian head office and make several trips annually to the particular geographic area to which they are assigned. Essentially their role is the same as that of a resident representative.

A principal function of the representative is to maintain close liaison between the head office of the chartered bank and its correspondent banks to assure reasonable reciprocity in the exchange of business and acquire leads to potential customers for his employer.

Since the representative, in effect, serves as a "floating" foreign branch for the chartered bank he makes frequent calls on existing customers with foreign operations in areas where no permanent branch is located. Since, in the performance of this task, he is likely to represent the only personal contact the international corporation has with its "home" bank he must ascertain that the relationship between the customer and the correspondent bank recommended by the chartered bank to its customer is satisfactory.
A primary function of the representative office is to aid businessmen interested in establishing a venture in Canada or in trading with or investing in Canada. This assistance ranges from furnishing general information about Canada to compiling copious statistical data evaluating the market potential of the firm in different sections of Canada. The London representatives of at least one Canadian bank have become experts in applying to the Bank of England for approval on behalf of British companies who plan a Canadian subsidiary.

The representatives are not only concerned with marketing the services of their employer to business firms, but to individuals as well. Emigrants are encouraged to deal with this bank upon settling in Canada. Although they are not investment counsellors the representatives also aid clients in placing funds in Canada and recommend reliable investment dealers.

A substantial portion of the representative's time is spent seeking new business and following up possible business development leads which may originate with the Canadian federal and provincial governments or from correspondent banks. In fact a representative has been known to "wear out four pairs of shoes each year pounding the pavement looking for business."

The foreign representatives of the chartered banks thus perform the vital function of marketing the international services of the chartered banks in areas where the banks either cannot or do not consider it economical to establish a foreign branch. Perhaps their most important task is to cement relations with existing correspondent banks.
AGENCIES

While resident representative offices are a comparatively recent phenomena, the earliest established by the Royal Bank of Canada in Chicago in 1945, agencies are the oldest form of international operation conducted by the chartered banks. Each of the principal Canadian banks operate an agency in New York city. These offices were opened prior to 1900. The reasons for the concentration of agency operations in New York will be discussed specifically later in this treatise, however, several will become apparent as we discuss the activities of these agencies.

Agencies differ from branches in one important respect. Under the Banking Law of the State of New York they may issue letters of credit, buy, sell, pay and collect bills of exchange, accept money for remittance and remit same, and carry, for the account of others, deposit balances incidental to, or arising out of, their legal power. However, and here is the significant distinction, agencies may not accept deposits subject to withdrawal by checks.

Agencies, however, do conduct an active foreign and international banking business similar to that of a foreign branch. They look after the needs, originating in the U.S., of their head offices and branches both in Canada and elsewhere. Canadian agencies actively buy and sell securities on behalf of the Head Office. Evidence of this is the $794 million in foreign currency denominated securities in the portfolios of the chartered banks at October 31, 1968. These are largely assets of the New York agencies.
Canadian agencies do not try to compete with U.S. banks in the financing of commercial and industrial borrowers in the U.S. although they perform a relatively small lending business for subsidiaries, affiliates and branch offices of Canadian clients in the U.S. Nevertheless a substantial proportion of their assets are employed for loans. Specifically, in advances to brokers and investment dealers -- so-called "street loans". Table IV shows that at October 31, 1968 the secured day-to-day call and short loans in currencies other than Canadian amounted to $1,077 million, compared to $347 million at the end of 1956. A sizable proportion of these loans are advanced by the New York agencies of the chartered banks which have accounted for as much as 60 per cent of all street loans outstanding.

A relatively minor proportion of the liabilities of these agencies are in the form of deposits by correspondent banks the largest portion are due to their Canadian offices. This position is the source of an advantage of agency status over a foreign branch, as outlined below.

Although agencies are not permitted to receive deposits on their own, and branches are allowed a wider range of activities, agencies do have more freedom from regulation. This may be illustrated by a transaction in which an agency accepts a dollar deposit on behalf of its Head Office.

Suppose a U.S. corporation deposits $1 million in a Canadian bank through the bank's New York Agency. The chartered bank may, if
it desires, leave the funds for employment by the agency, which may then lend the money. Balance sheets would be altered as follows:

<table>
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<th></th>
<th>Canadian Bank</th>
<th>New York Agency</th>
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<tr>
<td>A</td>
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<tr>
<td>Due from New York agency:</td>
<td>United States deposits:</td>
<td>Loans:</td>
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<tr>
<td>+ $1 million</td>
<td>+ $1 million</td>
<td>+$1 million</td>
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The deposit is denominated in U.S. dollars, and the Canadian bank has the same total of U.S. dollar assets when it places the funds with the New York agency. Since the agency acquires its funds as an advance from the head office, the funds are not a deposit liability and reserves are not required. Had the agency been a branch accepting the deposit directly, it would have to carry the same reserves as any other state bank in New York.

Canadian agencies in New York are thus involved substantially in international capital movements, and its financing, rather than in the financing of foreign trade. More will be said of agency operations when their historical development is analyzed. We shall now turn to a discussion of the agency's more diversified brother, the foreign branch.

FOREIGN BRANCHES

A bank becomes truly international in scope when it establishes foreign branches. The branch has an important advantage over correspondent banks and resident representatives as, in contrast to these latter forms, the branch is able to accept and service deposits of residents of the foreign country whereas a correspondent bank enables
a chartered bank to provide only the international needs of its Canadian customers. Meanwhile the representative essentially is limited to a marketing role. At the same time, the branch is in an excellent position to acquire the business of domestic concerns operating abroad.

Identity is crucial to operating successfully in the international arena. A resident office is considered by at least one international banker interviewed as "the least thing you can do". To be recognized as a member of the international banking fraternity one's "name above the door" of a foreign branch office is a vital component.

The branch method of overseas operation is to be preferred in many instances because the home office holds complete control of management policy and practices and obtains "undiluted visibility in a foreign market." Operating in another country via subsidiaries or correspondents which are not controlled one must be prepared to "live with local management decisions." At the same time one's perspective of the local scene may be clouded since information flows through an intermediary, the local bank. On the other hand, a large system of branches offers substantially more administrative problems than any number of correspondent banks because of the need for day-to-day management.

Branches, too, are costly to set up and operate and may not yield quick profits. The start-up costs of a foreign branch office vary, however, depending upon several factors. Most important is the type of operation, that is, is principally a "wholesale" or "retail" banking activity to be conducted? "Wholesale" banking refers to opera-
tions carried on in an inter-bank market where banks with surplus loanable resources "lend" money to other banks which are experiencing liquidity pressures. Commonly these "loans" are made with the investing bank purchasing certificates of deposit of the borrowing institution. These certificates are transferable interest-bearing instruments with a definite maturity date. The most prominent wholesale banking operation today is the Euro-dollar market. "Retail" banking, on the other hand, entails the usual banking activities of deposit-taking and lending.

During the interviews of international bankers, referred to earlier, evidence was obtained concerning the costs concomitant with setting up a foreign branch. The standard retail banking office is generally much less expensive to set up costing somewhere in excess of $100,000 including rent, wages, equipment and supplies and, transportation. It is common for start-up costs to be amortized over a period of 4 to 5 years with from 2 to 3 years required before the branch becomes profitable. One international banker interviewed estimated that a retail banking office of 3 to 4 persons in the Caribbean is expected to show a profit within 3 years during which time rent, wages and operating costs are likely to be well in excess of $200,000. The initial inventory of equipment and supplies for a small branch of this type approximates $25,000 including a minimum of $10,000 for a vault. Supplies, and equipment, when available, are generally purchased locally which increases unit costs in many instances, however this is largely
offset by the avoidance of transportation expenses. Commonly buildings are leased thereby reducing the initial capital commitment.

The start-up costs of a prestige wholesale banking outlet in a city such as London is likely to be more than double those of the standard retail branch, a minimum of $200 to $250,000. Significant expenses are the transportation and moving expenses concomitant with the relocation of people internationally.

While the set-up costs of a wholesale banking operation are in general "very high", particularly in contrast to the normal retail outlet, the costs of both are likely to vary significantly depending upon the geographic location of the branch. The overhead of a wholesale outlet in Nassau, for example, is much cheaper than a similar outlet in London. A primarily retail branch in Athens is likely to be more costly to start up and operate than one in Tunapuna, Trinidad. At the same time, the significant prestige element is an important determinant of initial costs. To obtain the desired exposure in a city such as Athens will require a more impressive office than is necessary to make the desired impression in Tunapuna.

Foreign branches may also be "costly" in another sense. It is frequently difficult in many areas to attract an adequate deposit base. This problem of deposit acquisition means that the resources of Head Office or other branches in the area must be relied upon to fill the gap so that the loan demands upon the branch may be met. Funds which might more profitably be employed elsewhere thus may have to be
"loaned" to certain branches in the international area to make their operation viable. The banks are fully aware of the added costs involved as evidenced by a recent statement by Rudolph A. Peterson, the president of the Bank of America: "The bank has served notice to its overseas managers that they are to stand on their own feet, the days of heavy reliance upon Head Office for funds is past."

There are also a certain number of risks involved in operating foreign branches not the least of which is the possibility of expropriation. This is a real danger in many of the developing nations and a relatively recent example is afforded by the experience of foreign banks in Cuba in 1960. The First National City Bank of New York, for example, lost a total of eleven branches there while The First National Bank of Boston lost six for which they received no compensation. However, although expropriation means a loss of assets to the bank, at the same time, the branch is relieved of its deposit liabilities. As an American banker described the situation in Cuba, "Cubans owed Cubans," therefore, in most cases, the loss of invested capital is likely to be but a small percentage of total assets.

The more prevalent risks are the dangers which may be concomitant with a policy of aggressive competition with local banks for local business after the foreign branch is established. It is customary practice when a foreign branch is opened for the parent bank to transfer to it the business and deposits which hitherto went to its local correspondent banks. This longstanding practice is likely to be
accepted by the correspondents, however, they, and their local counterparts, may become rather unfriendly when these same branches actively and successfully solicit customers from the local banks. As succinctly described by "The Economist":

Here is a rude, unprecedented breach of hallowed banking custom. The invasion of sacred domestic preserves by foreign interlopers is a heresy offending the protectionist banker's deepest instincts.41

The "feathers which begin to fly" as a consequence may be unilateral restrictions against foreign branches or enforcement of stricter compliance with established local rules. The safest route from the point of view of long-run profits might be to adopt the more "gentlemanly behaviour" of British banks abroad and not solicit local deposits but accept them when offered.42

An American banker questioned by the writer in this regard responded that that bank, which has an extensive overseas network of branches, is "Cautious about aggressive competition for local deposits. Instead they emphasize service to multinational corporations, the area in which their expertise lies." At the same time, they "observe local protocol to the extent felt necessary" although probably due to their firmly established position internationally, the bank is "not now as concerned about damage to relationships with correspondents." Alternatively, overseas operations might be largely restricted to a number of carefully situated branches and representative offices to supplement a widespread network of correspondent banks. As one American banker
interviewed described that bank's policy of limited overseas branching, "We are not interested in stepping on our correspondents' toes in any way."

We have debated some of the advantages and disadvantages of operating a system of foreign branches. However, we have not yet answered the question, "What are the principal activities of these branches?" As might be expected they are the same as those performed by domestic branches -- deposit-taking and lending.

Data is available showing the volume of deposits of non-bank customers and foreign currency loans outside Canada for the period 1954 to 1963. This data will be referred to again when we discuss alternate approaches to measuring the international involvement of Canadian banks. At this stage we shall peruse only the respective positions at September 30, 1963.

On the liability side of the balance sheet "Deposits of Non-Bank Customers" outside Canada equalled $874 million or almost one-fifth of total foreign currency liabilities both inside and outside Canada. Unfortunately, no data is available to determine for this period total assets or liabilities outside Canada. On the asset side "Foreign Currency Loans" outside Canada amounted to $1,843 million or 42.4 per cent of combined total foreign currency assets. However, $1,150 million of these loans were "Call Loans", a principal activity of agencies as discussed above.
Foreign branches, then, conduct activities very similar to their domestic counterparts. They also possess certain advantages and disadvantages over other operating forms. However, there may be occasions when market potential appears to warrant the establishment of a branch but certain other conditions render this course inappropriate.

SUBSIDIARY CORPORATIONS AND AFFILIATES

The chartered banks have not made extensive use of wholly-owned subsidiaries. Two have recently, however, begun to employ the affiliate form of international operation more extensively, that is, a less than wholly-owned, but a controlling investment, or minority equity participation, in a foreign bank as a means of establishing closer banking connections in certain areas. Where regulation does not permit the establishment of foreign branches, but allows foreign equity participation, investment in a subsidiary or affiliate may be the only suitable alternative that is acceptable to local authorities.

An excellent example is provided by the establishment of wholly-owned subsidiaries in California by two Canadian chartered banks. These are separate state-chartered corporations and as such are permitted to accept deposits and conduct a full banking service. However, their policy may be controlled directly by the parent bank, as is the case with foreign branches, while the subsidiaries have the opportunity to participate fully in California's rapid growth.
An additional significant advantage of a wholly-owned or controlled subsidiary form of operation is that its use permits the chartered banks to invest in non-banking interests in other countries. The major Canadian banks each have utilized this technique to create trust companies in New York, the United Kingdom and the Caribbean. The New York companies were incorporated since New York agencies, who actively engage in securities dealings, are not permitted to exercise fiduciary powers. The stated objective of the companies established in New York and the U.K. is to "provide fiduciary services for the Bank's clients." The Caribbean corporations have as their stated purpose "to provide a full range of personal and corporate trust services."

Where the formation of a wholly-owned subsidiary is not acceptable or practical the purchase of controlling or minority interest in a foreign bank offers several advantages. Importantly, it may offer a relatively inexpensive means of initiating a branch system abroad since the unprofitable initial stages of new branches may be avoided by the acquisition of a going concern. At the same time, a deposit base is concurrently acquired, therefore the affiliated operation is better equipped to "stand on its own feet" than a branch. In other words, the tenuous problem of deposit acquisition may be largely overcome.

The affiliate route can also serve as a means of developing quickly a branch network in a foreign country. As one American banker responded, "If you want to be big in a certain country it's better to be a partner." An outstanding example in this sphere was the Bank of
America's acquisition of an Italian bank in 1957 which in one fell swoop endowed it with a network of 85 branches throughout the country.

An affiliated foreign bank can also be of substantial value because of the expertise it is likely to have in the conducting of banking business within the borders of its country. In other words, an affiliate compared to a branch offers the advantage of a local staff familiar with local conditions. This advantage may be somewhat illusory however if that staff is poorly trained. However, given that good local people are available, or readily trained, the branch operation can largely overcome this apparent disadvantage by substantially employing local people.

Another possible advantage of the affiliate form of operation might be to mitigate possible legislative repercussions which may emerge from a policy of aggressive competition for local business with local banks. The quandary between disregarding opportunities abroad and offending foreign banking friends may be overcome since domestic operations and those overseas are more clearly divided, being maintained at least at "half an arm's length". At the same time nationalistic fervour amongst the population is not likely to be as readily aroused since it is the name of an established local bank which appears "above the door", despite its foreign ties.

Overall banking is a very sensitive business, politically speaking, and there may be instances where a minority position in a foreign bank is most suitable to avoid the implementation of restrictive
legislation. However, such a country is not to be avoided since an avenue of acceptance is available and once "inside" the investing bank may partake of any collateral benefits which accrue and are unavailable to competitors on the "outside".

Thus far only possible advantages of the subsidiary form have been presented. Its disadvantages include some of those present in branches — greater administrative problems and risks of expropriation. However in direct contrast to a branch where you are "able to do things your own way" there is the very real danger that the interests of the directors of the local bank may not at all times coincide with those of the foreign bank. At the same time, the foreign bank may be subjected to considerable local pressures through this connection to increase loans beyond acceptable levels to local corporations or government agencies, particularly in a developing nation and especially if the local bank is a fiscal agent of the government or closely allied with its interests.

As stated at the outset of this section the chartered banks to date have made relatively little use of affiliations as a method of establishing a banking connection abroad, although their employment is expanding. Nevertheless, in concert with other investors, some Canadian banks have recently become engaged in a small number of joint ventures in which they are not the principal participant.
MULTINATIONAL JOINT VENTURE

The multinational joint venture is largely a product of the 1960's and represents a new type of financial institution. A new company is created in which each participant may have equal equity holdings or the alliance may have one or two major shareholders. The company incorporated does not represent a merger and is separate from the other operations of the participants. Thus the institutions retain their individual identity elsewhere. Commonly it is a consortium of three to six financial institutions. However, there is no restriction on the numbers involved and where the venture is created to engage in private development finance as many as fifty have participated.

It is necessary to emphasize the use of the term financial institution as opposed to banks since the alliances are not always exclusively between commercial banks but may involve, for example, insurance companies, investment banks and commercial banks as does a joint venture which has only recently been formed. This corporation, known as Manufacturers Hanover Limited, involves Manufacturers Hanover Trust Company of New York, N.M. Rothschild and Sons of London, an investment banking concern, and an Italian insurance company, Riunione Adriatica di Sicurtà.

The elaboration upon the nature of the multinational joint venture which follows will be in terms of outlining the general nature of the arrangements, some of the objectives of a commercial bank as a
partner, the evaluation of a prospective partner and some views on minority as opposed to majority equity participation. The relative advantages and disadvantages of the joint venture will be interspersed throughout the analysis.

Before outlining a number of objectives which the individual bank may seek to realize through a multinational joint venture it is useful to sketch the general nature of the arrangements concomitant with its creation. Significantly, the venture is a separate corporation established under the laws of one country. Thus, it has an important advantage over a merger since it avoids the hurdles of currency differences that render cross-border mergers impractical. The common procedure is for the individual participants to contribute capital, management talent and directors to the venture at the same time leaving the door open for future participants. The relative proportion of capital contributed is the basis for determining the number of members the individual participants is allowed on the board of directors. As in other corporations the board is the policy-making arm of the venture. Capital contributions too are the basis used in allocating any profits.

The resources available to the consortium in addition to its own paid-up capital will usually consist of medium- and long-term bonds issued on national and international capital markets, plus certificates of deposit and other forms of time deposits. In addition, the corporation generally has ready access to the financial resources of its members often in the form of a standby credit of a specified amount.
The fundamental objective behind the creation of a multinational joint venture is the acquisition of the ability to mobilize capital in the most efficient way to meet demands in certain areas. The needs, potential profitability and the collateral benefits present in new banking markets may be recognized by the individual commercial bank. However for a variety of reasons, including the resources required or the degree of risk involved, one bank may either be unwilling or unable to take advantage of the opportunity. But if suitable partners can be found in order to "spread the risks around" the individual bank may be quite willing to participate.

Because the venture represents a pooling of assets from a number of financial institutions it is analogous to the pooling arrangement employed by fire and casualty insurance companies when insuring large assets. Since no one company wishes to accept the possibility of being faced with a substantial claim which could exert serious pressures on the company's liquid position the risks to the individual firm are reduced by the joint participation of several firms in the contract. So too with the joint venture. The joint participation enables the member banks to engage in lending activities in circumstances not suitable for normal commercial lending. Specifically, they are able to depart from their customary emphasis upon short term loans and participate in such types of lending as medium-term export financing and long-term loans for large-scale development projects throughout the world through the mobilization of sizable resources. While no one com-
mercial bank may desire to engage, by itself, in these forms of lending where attendant risks are higher a consortium of a number of banks is likely to be much more amenable since the risk is divided among the participants. It may not be divided equally, of course, if the capital contribution to the venture is not equal, however, it is the fact that the risk is divided which is most significant in this instance.

A description of the role which one of the major multinational joint ventures is designed to fill should outline succinctly the departures from traditional international banking which may be taken by adopting this operating form. The Societe Financiere European is an equal partnership of one American and five of Europe's foremost banking houses. Total deposits of these institutions are over $ 40 billion. SFE extends medium- and long-term loans by itself or in association with member banks or with other banks. It participates in equity financing with the objective of providing additional capital without acquiring control. At the same time it offers important other varied services in addition to lending. SFE assists corporations seeking international or multinational mergers or consolidations by analyzing requirements of the companies, locating suitable partners, proposing solutions to technical, commercial, fiscal, legal, administrative and financial problems and conducting necessary negotiations. Thus it becomes readily apparent that the joint venture offers an individual commercial bank the opportunity to develop a greater expertise in the complex arena of international finance.
At the same time the commercial bank is obtaining added knowledge of international financial operations it will be realizing another important objective. Participation in a joint venture is evidence of a bank's desire to play an international role. As pointed out when discussing the merits of foreign branching, exposure on the international scene is an essential ingredient for success. A collateral benefit may accrue to participation in a joint venture which is not present through branching and that is "identification with good people". The individual bank may achieve desirable prestige from association with prominent international financial institutions.

Other important collateral benefits may accrue to the individual bank involved in a multinational joint venture. The adjective "multinational" is the key. There are many situations around the world in which a commercial bank, acting alone, might have its operations notably circumscribed. The venture often involves banks from several nations and, therefore, may dilute the strength of nationalistic sentiments in a particular country or countries. Since the corporation is owned and managed by the citizens of more than one nation this multinational approach to banking may mitigate the dangers of expropriation, restrictive legislation or forced financing of questionable enterprises favoured by the local government. In other words, the joint venture may be the only available acceptance vehicle in a particular country and if a bank wishes to establish a link there it must be done on a joint basis. At the same time, participation in a venture designed to
make loanable funds available for development projects may eventually lead to an individual participant being allowed to operate independently in a developing country where it has been seeking an outlet.

In summary, the objectives which may lead an individual bank to participate in a multinational joint venture are varied. The desire for international exposure, identification with good people to acquire prestige, participation in profitable medium- and long-term lending and acceptance in particular countries are the principal objectives which may be served via the venture route. How does a commercial bank evaluate the prospective partners in order to facilitate the realization of these objectives?

Essentially, the evaluation is conducted in the same manner that one would weigh the merits of any prospective partners. In the words of one banker interviewed it must be established that the "person, family or group which controls and/or manages the firm or bank are honest people of good faith who will become active, hard-working partners." In addition to the character of the organization its characteristics must also be distinguished. Here the expertise of the prospective partner, its financial resources and its importance on the international scene are features which must be investigated. Are these characteristics complementary, conflicting or excessively similar to those of your institution? A specific example should provide a useful illustration of the outcome of this evaluation process.
Once again we shall utilize Manufacturers Hanover Limited as an example. This multinational joint venture "combines the banking skills of a large U.S. commercial bank with the sophistication and more specialized knowledge of a private investment bank using the resources and placement power of a large insurance company." Since its objectives are to develop sources of funds for short, medium and long-term lending, along with arranging private placements and underwriting securities issues in the Euro-dollar and Euro-bond markets, it would appear that three complementary institutions have pooled resources in this instance.

A similar situation may apply in the contemplation of a joint venture solely involving commercial banks since it is common for a bank of another, and sometimes even the same, country to have developed an expertise in different functional and/or geographic areas. For example, a European bank may acquire notable expertise in the conduct of investment banking operations in contrast to a Canadian bank which is precluded by legislation from this activity. Or, in the United States, a New York bank with a large number of overseas "offices" will, no doubt, have acquired greater knowledge of the appropriate techniques of operation in areas virtually totally unfamiliar to a basically domestically oriented regional bank. The same may be said of the access to financial resources and the prestige attached to the larger banks of the world. A relatively small bank on the international scene, other things
being equal, is likely to look favourably upon an association with a large and renowned international bank with substantial resources under its control. Such an association may be most beneficial in terms of the mirror image effect provided for the smaller hitherto less known bank.

In general, it is identification not only with good but with useful people which is the crux of the evaluation of prospective partners. However, the evaluative process does not end with the selection of suitable partners. The bank which is contemplating participation in a joint venture must also weigh the relative merits of a minority as opposed to a majority equity position. Where the partnership is not equal and there are one or two major participants there may be difficulties. It is natural that the thinking of those institutions should govern the policies and practices of the venture since it is they who have contributed a major proportion of the initial capital and thus are exposed to proportionately greater risks. Therefore, a bank considering minor equity participation must be willing to accede to the wishes of the majority holders in many instances. Nevertheless the majority participant(s) although exercising control must not attempt to dominate the other members or the viability of the venture is likely to be endangered.

The same difficulties may arise in a joint venture where each partner enjoys equal equity participation. However since each maintains equal footing the dangers of unwarranted domination are miti-
gated. There remains the possibility though that in certain tenuous situations matters may be permitted to slide as none feels primarily responsible.

Overall a commercial bank must enter any consortium with its eyes open to the fact that it will be unable to pursue the independent course to which it is normally accustomed. This applies whether the participation is to be as a majority or a minority partner. Of course, even with equal participation compromise and co-operation is a requisite to overcome possible conflicts of interest.

Generally speaking, the multinational joint venture approach to overseas operations appears to offer relatively greater advantages to the smaller banks on or entering the international scene, despite the strong likelihood that their participation will be by way of a minority equity position. The venture route is a relatively inexpensive way for a bank to obtain desirable exposure abroad. Association with an institution or institutions which have acquired prominence internationally is a useful means of building prestige for oneself. By working with capable and experienced partners those banks which are new to the international scene or have largely operated from a domestic base may develop necessary expertise for future independent or joint operations.

Naturally those commercial banks with already relatively large international operations can augment their identity and prestige abroad through participation with renowned foreign banks. However, the gain is
proportionately less than that for the smaller bank which begins from a narrower base. It is also true that the larger commercial banks on the international scene can acquire valuable knowledge through an association with other financial institutions, particularly merchant or investment bankers, but we are primarily concerned here with joint ventures between commercial banks only. Indeed there is not a remote possibility that the joint venture route may be inappropriate simply because the bank already has developed a large network of overseas "offices". Particularly where a bank has expanded abroad primarily via equity investments in foreign banks a notable constraint is placed upon participation in a joint venture. Since the bank does not wish to disturb its working relationship with these affiliates it is likely not to use the venture vehicle except on a very limited scale. There are, however, very few banks in this position today.

At this stage, then, the multinational joint venture would appear to offer substantial net advantages to its members and seems, therefore, likely to become an increasingly common phenomenon on the international scene. It also is important to note, at the same time, that as more banks are able to obtain wider international exposure, the sharing of lending risks concomitant with this form of organization means that the financial resources available for the purposes of international finance are notably expanded. We shall have more to say on this form of international co-operation later in this study.
WHAT IS THE MOST APPROPRIATE INTERNATIONAL OPERATING FORM?

As a consequence of the foregoing discussion one might ask whether there is one "best" international operating form which might be employed by a commercial bank wishing to expand its range of operation beyond national boundaries. A brief excerpt from a recent address by the chairman to shareholders of Barclays Bank Limited (U.K.) answers this question succinctly:

Our policy for international banking relations must be the despair of tidy minds, but apart from the restrictions of national legislation, we believe that what is right for us for one territory could be wrong for another. We therefore vary between operating subsidiaries, affiliations with banks in which we have a minority holding, and correspondent relations accompanied in certain cases by a local representative our object being to provide economically a first class overseas service for our customers .... If profits were immaterial it would be easy enough to invent new organizations and alliances.

Thus, there is no one form which may suitably be universally employed and international involvement by commercial banks should, and does, take many forms. How may the degree of this involvement be measured? Since the answer to this question is fundamental to this study we shall now offer five possible approaches.

MEASURES OF INTERNATIONAL INVOLVEMENT AND THE APPROACH OF THIS STUDY

The degree of international involvement of commercial banks might be measured by perusing the gross revenue flows of operations conducted in other countries by these institutions, a compilation of the number of personnel each bank employs overseas or the total number of customers abroad, a study of the relative size of assets and
liabilities situated in foreign countries or, by gathering data concerning the number and variety of international operating forms.

It would be most useful if we were able to present data covering the annual gross revenue earned by the operations abroad of the chartered banks during the post-war period. Since they are private profit-oriented institutions the performance of this portion of their consolidated income statements might offer suitable data to support a contention arrived at via employment of any of the aforementioned alternate approaches. It would provide a very interesting comparison if available for individual banks as well. Unfortunately, not only is data unavailable for the individual banks, statistics covering consolidated revenue flows for Canadian banks is not available either. Therefore, it will not be possible to use this approach in this study.

A second approach might be to compile the number of personnel employed in other countries by the banks since the amount of activity could be expected to reflect fairly directly in the number of overseas staff. This technique, however, suffers from one major disadvantage which largely destroys its usefulness for this study at least. That is, the considerable difficulty concomitant with an attempt to gather the relevant data from the institutions. While at this stage we might be able to obtain current data for each of the post-war years, no doubt, only an estimate could be given which would serve to substantially weaken the validity of the data. However, if complete information were available this approach could, as the former, serve as an
effective contrast between the activities of the chartered banks and their American counterparts.

One might also accumulate data on the number of accounts which each bank services in their foreign "offices" as an indication of the number of customers served. This could be considered a measure of overseas involvement. However this approach has two important drawbacks which render it inappropriate as an "accurate" measure. One is the difficulty which would be experienced in accumulating complete data from branches, representative offices and foreign banks in which the domestic institution holds an equity interest. Indeed the information is likely to be confidential and therefore unavailable. Secondly, assuming satisfactory data could be gathered, by itself, it is not a useful indicator of international involvement since there is no indication of the size of the accounts. It would be necessary to combine this information with the dollar size of deposit balances abroad. What is obtained from this procedure, however, is not a real measure of involvement but merely the average balance per account. Thus for the purposes of this study the information gained by this approach would not be fruitful.

A fourth measure of involvement might be the total assets and liabilities abroad of the private banks. Tracing the historical growth of these assets would provide a clear indication of the expanding overseas activity of these institutions and would be especially effective in comparing the degree of involvement of Canadian and U.S. banks abroad.
Table VIII presents data concerning the historical growth of total foreign currency assets and liabilities of the chartered banks in the post-war period. Due to the revision in the method of classification of data, as noted at the foot of Table VIII, figures for 1955 and subsequent dates are not directly comparable with those of earlier dates. This is unfortunate but, nevertheless, the almost six-fold increase in total foreign currency assets and liabilities which has occurred between 1955 and 1967 is quite impressive and a useful indication of the growing international activity of the Canadian private banking system. However, this data does not reveal the total assets or liabilities which are situated in other countries. Unfortunately, only limited data is available to illustrate the change which has taken place in this sector.

Table IX offers data pertaining to foreign currency loans and deposits outside Canada for the period 1954 to 1963. Although figures for total foreign currency assets and liabilities outside Canada are not available for this period the data missing largely pertains to securities and loans of the New York agencies and deposits by and with foreign correspondent banks. We may thus consider the data available to relate primarily to the activity of foreign branches.

It will be noted that total foreign currency loans rose from $488 to $2,551 million, a five-fold increase and slightly under an effective compound annual growth rate of 24 per cent. Meanwhile, total deposits of non-bank customers underwent an almost four-fold rise,
slightly less than a 16 per cent annual rate of increase. One may hypothesize that the growing popularity of "swap" deposits described earlier was an important force behind the decline in the relative proportion of deposits of non-bank customers outside Canada. Table X reveals that the situation has stabilized since 1965 possibly due to the U.S. balance of payments guidelines implemented in that year.

Table X presents data comparing the total foreign currency assets and liabilities of the chartered banks and those booked in and outside Canada for the period 1963-1967. It will be noted that total foreign currency assets rose from $4.2 to $6.3 billion during this time, an increase of 40 per cent. At the same time, however, foreign currency assets situated outside Canada grew from $866 to $1,572 million, an increase of 58 per cent. At the same time, foreign currency assets booked in Canada rose from $3.4 to $4.8 billion, a gain of 34 per cent. The strong relative performance of those assets situated abroad is evidenced also by the fact that they moved from one-fifth of total foreign currency assets at the end of 1963 to one-quarter of these assets at December 31, 1967. Thus, it can be seen that overseas assets are becoming an increasingly important part of the foreign currency position of the chartered banks, although albeit still a relatively minor proportion of total assets.

Table XI presents similar, but more comprehensive, data for the United States in the form of consolidated statements of the assets
and liabilities of the foreign branches of national banks for selected years from 1945 to 1965. The tremendous growth of these assets, an eighty-fold expansion in twenty years, is apparent, despite the accounting change in 1965 which saw gross figures for amount, due from and to head office and branches, rather than net, used for the first time.

It should be emphasized here that the data exhibited in Table XI pertains only to national banks, that is those in possession of federal charters, and does not include relevant figures for the state-chartered banks who also hold assets outside the U.S.A., although they have recently declined in relative importance.

By way of explanation, in 1955 when the Chase National Bank of New York merged with and into the Bank of the Manhattan Company, a state-chartered institution, their overseas assets, previously included with those of their counterparts, were dropped from consideration. This not only effectively reduced the total assets abroad of national banks, a fact which is noted below Table XI, it also effectively increased the number of foreign branches of state-chartered banks. Thus at the end of 1955 the number of foreign branches operated by national banks equalled 85 which was 76.6 per cent of total foreign branches of 49 U.S. banks. In 1965 the Chase Manhattan Bank acquired a national charter and, as a consequence, 196 branches, or 93.5 per cent of total foreign branches of U.S. banks, were then operated by national banks.

Although complete information regarding the entire U.S. banking system is not presented the contrast with the size of the assets
of Canadian banks abroad is obvious. By 1960 the national banks of the U.S. held assets outside the country totalling $1.6 billion. This figure had not been reached by the chartered banks by December 31, 1967. In fact, before the change in classification of the Chase National Bank in 1955, with its sizable overseas investments, the U.S. national bank assets had exceeded $1.6 billion. For example in 1950 a figure of $1.7 billion was reached.

Such data, of course, may largely reflect the greater resources at the disposal of the U.S. banks. However, these funds could also have been invested in the U.S. and one may reasonably conclude that the statistics also are an indication of the greater international activity of American commercial banks. One of the objects of this study is to determine whether or not this is so. This leads us to the final alternative.

The fifth approach is to analyse data pertaining to the number and kind of operating forms employed by the banks in conducting their international activities. This is the approach which this study will use to investigate the pattern of growth of the international operations of the Canadian chartered banks and their American counterparts in the post-war era.

Specifically, historical and current information will be accumulated concerning, as far as possible, when and where the foreign "offices" of the five principal Canadian and U.S. banks were opened. At the same time, hypotheses will be tendered in an effort to explain
why a particular form was selected for a specific location at a certain time. It is possible that the motivations of the ten institutions canvassed will be virtually identical, however, it is more likely that different banks will emphasize different factors.

The several different international operating forms have been defined in terms of the services they are expected to perform and their relative advantages and disadvantages have been discussed. This discussion has supplied a foundation to explain, at least, the fundamental reasons why a certain type of operational form might be selected in a particular instance. None of the alternate approaches mentioned above would be likely to generate a number of hypotheses for these events, an aim of this treatise. Therefore it is advantageous to utilize the method chosen. In addition, it follows that as the number and variety of "offices" established overseas increases so too does international involvement.

This approach also offers other advantages to support its use in this study. A significant advantage stems from the fact that virtually complete information may be accumulated as to when and where particular "offices" were established, by correspondence with the banks involved, whereas the other approaches suggested suffer either from a total absence of data or the availability of crude or, at best, limited statistics for the post-war period.

It may be argued that the dollar value of assets abroad is the best measure of international involvement. However, aside from
the unfortunate fact that only limited Canadian data is available, and even when it is recognized that comprehensive annual data is available for the U.S. national banks, as exhibited in Table XI, this approach is decidedly more inflexible than the one adopted by this study. Total assets overseas for the banks of either country are not broken down, only world-wide figures are available. In contrast by examining the operational forms we may be quite flexible as the analysis may proceed country by country and/or by various regional groupings, including a distinction between the developed and developing nations.

In short, the basically qualitative approach selected, supported of course by relevant data, should enable us not only to offer more meaningful hypotheses to explain growing internationalization but to develop a much more interesting and informative picture of the pattern of international operations of both Canadian and U.S. banks than would be the case if the statistical analysis concomitant with utilization of the alternate methods were relied upon entirely.

COMPARABLE EFFORTS

The objective of this chapter has been to place the study in perspective. We trust the foregoing presentation has accomplished this purpose. However, there are a number of useful works which may be regarded as comparable efforts and illuminating references since each discuss at least some area which we have canvassed above.
A particularly relevant treatise to which the reader may refer to as a supplement to the information presented here is Richard Ward's "International Finance". Says Ward in the preface, "When money became the fiat issue of separate states, the finance of international transactions assumed a complexity all its own. It is this complexity that is the subject matter of this book."

In his ensuing analysis of "existing mechanisms" and "alternative interactional monetary systems" he looks at a number of the topics discussed in this chapter. One is international investment. Here Ward defines and elaborates upon direct investment abroad -- its forms, its motives, its effect upon United States balance of payments and historical pattern. The same technique is employed in his treatment of portfolio investment overseas. The contingency of government capital controls is also canvassed. In a later chapter the forward exchange market is surveyed as well. The forward contract is defined and the functions of the forward market outlined -- commercial coverage, hedging, speculation and interest arbitrage. The mechanics of forward rate determination and arbitrage operations are discussed. The policy of official intervention in the forward market is debated.

Of special relevance to this study is Ward's chapter which canvasses commercial banking institutions in the international arena. The "activities of commercial banks directly associated with international transactions" are presented. Foreign exchange trading by these banks is reviewed and importantly several overseas banking forms are
examined. Specifically the functions of a correspondent banking network are elaborated upon, the motivation and deterrents to United States foreign branching are discussed together with the major purposes of foreign banking subsidiaries for U.S. banks. The chapter closes with a survey of foreign banking activity in the United States. Although in some areas factors specific to the U.S. scene are discussed, most of what is said in the chapter on banking institutions has universal application, hence its value as a reference for this study.

A text with the same title as Ward's book written by Wasserman, Hultman and Zsoldos contains a brief discussion of the organization and services offered by the international department of a commercial bank. It also examines two of the principal instruments employed to facilitate international commerce. The bill of exchange is defined and its varied uses described. A similar approach is followed in a comprehensive examination of the letter of credit with the addition of an informative inspection of this instrument's advantages and disadvantages for international traders.

Yet another work entitled "International Finance", this one by Charles N. Henning offers material relevant to this study. Henning briefly describes some of the functions performed by banks in international finance, classifying them under three headings similar to those of this treatise -- transfer, credit and hedging. A later section contains a comprehensive examination of letters of credit -- nature, basic forms, mechanics and advantages to the trader and parti-
icipating banks. Henning also presents a description of the functions and organization of the foreign department of a U.S. commercial bank, its sources of income and expenses together with a very brief reference to some of the advantages and disadvantages of foreign branches.

An interesting text by John Parke Young contains a chapter which discusses the financing of foreign trade and the principal methods of payment, including the letter of credit. Immediately following this foreign exchange and the foreign exchange market are surveyed. Later in the book an informative chapter describes the nature of foreign investment, distinguishes between direct and portfolio investments and relates the meaning of capital transfer before offering a number of deterrents to foreign investment in the less developed countries.

The initial article in a particularly interesting work edited by Lee C. Nehrt, referred to earlier, is of relevance to this chapter of the study. It describes, in much more depth than Young, "one of the most important and least understood markets ... the foreign exchange market." The essay is "devoted to a study of the interrelationships among the participants" in this market and specifically examines the functions of the foreign exchange market, the methods of operation of professional risk-bearers and interest-arbitrageurs in today's market and the reactions of the foreign exchange market to current and to expected disturbances.

Young proposed several factors which discourage foreign investment especially in developing economies. An informative work pub-
lished by The Brooking Institute tenders a number of elements which have been significant influences upon foreign investment in the post-war period. The future prospects of these general factors are debated. The chapter goes on to present statistics for the United States and discuss portfolio investment in terms of the motivation behind these investments and prospects for bond flows and equity securities. After giving data on term loans and describing their direction and sources, direct investment is examined on a similar basis to portfolio investment, including, as well, specific reference to the reasons behind the growth of direct investment in manufacturing and the implications for the U.S. balance of payments.

Young, Ward and the article reproduced in Nehrt's book each offered accounts of the foreign exchange market in varied degrees of intensity. There are, however, two other particularly informative publications which offer excellent descriptions of the general workings of this important market. One ostensibly is devoted to a description of the New York foreign exchange market but what it says largely applies to any developed "trading centre" such as London or Paris. The second is written in the context of the Canadian foreign exchange market but it too has "universal" application.

The Federal Reserve Bank of New York has published a booklet which furnishes a most comprehensive examination of the New York foreign exchange market. The foreward aptly sums up the significance of gaining an understanding of the workings of the foreign exchange mar-
ket for international traders and investors in particular: "The New York foreign exchange market has always been important because it is a mirror of the complex of economic, political and psychological forces that affect the financial transactions of the United States with the outside world." The booklet describes the organization of the market, the market for individual currencies, the instruments used, the determination of exchange rates and importantly, for this study, the mechanics and techniques of commercial bank exchange trading, the forward exchange market and finally the relationship of spot and forward rates, including the opportunities for and obstacles to covered interest arbitrage.

The Canadian counterpart of the Federal Reserve Bank of New York publication may be found in the Porter Commission report. A chapter of the report which canvasses the entire spectrum of financial systems in Canada offers an informative analysis of the Canadian foreign exchange market "the link between the Canadian financial system and those of other countries." The Commission states that "in Canada, the chartered banks are the main financial institutions in this market, at its outer rim are their branches serving the exchange needs of their customers, and at its core is the highly centralized interbank market where the banks meet their own exchange needs in dealings with each other and with the authorities." It goes on to elaborate upon the banks' dealings with customers, the interbank market and specialized transactions in the market -- those involving the trading departments of the banks, speculative transactions and short-term capital flows.
A submission to the Porter Commission by the Canadian Bankers Association offers a relatively brief section which discusses the foreign currency business of the chartered banks. The sources of activity and organization of the foreign exchange market are described together with a discussion of the mechanics and the motives behind the growth of short-term deposits on the banks of Canadian banks denominated mainly in U.S. $.

The objective of this chapter has been to place the international operations of the banks in the context of the world in which they conduct their varied activities. It is hoped that the foregoing discussion, in concert with what may be regarded as comparable efforts, will have served this purpose. We now turn to an analysis of the objectives, the planning and the economic and political factors considered during the decision whether or not to make a resource commitment in a particular country.
CHAPTER V

THE DECISION TO GO ABROAD

This chapter will present what those Canadian and American bankers interviewed see as the principal long-term objectives of their banks in establishing "offices" abroad. Following this, separate sections will be devoted to discussions of the extent of formalized planning involved and the economic and political factors weighed prior to reaching a decision to establish a foreign "office". This approach is designed to place in perspective the hypotheses which will be introduced in the following chapters to explain why the banks go abroad, why they choose a particular location and why they select a particular type of "office" for that location.

OBJECTIVES IN "GOING INTERNATIONAL"

This section will present a brief outline of what are seen by the international bankers interviewed as the principal long-term objectives which guide their banks in the process of "going international", including locating abroad. It is possible that the expressed objectives and motives may be inescapably intertwined in more than one instance.

An excerpt from a recent annual report sets the tone for the responses received from the Canadian bankers interviewed. "Since the inception of our overseas business 60 years ago, our policy has been to have representation in any area which offers real opportunities to promote the interests of the bank with the added prospect of opening new trade outlets for Canada."
In response to a query as to what comparisons are made with domestic opportunities before financial commitments are made to international activities one Canadian banker replied that comparisons are made in terms of "profits, growth and exposure". Two others emphasized profits. Two also cited competition. We can reasonably conclude then that the "interests of the bank" alluded to in the quotation above are likely to encompass the aforementioned considerations.

We have thus introduced what are considered to be four important long-term objectives behind the internationalization of Canadian banks. Profitability in terms both of gaining access to profitable business opportunities and maintaining a profitable operation must rank as the most significant of the four since it was cited either directly or indirectly by each of the bankers interviewed. The objective of profitability was introduced indirectly by one banker who responded that "adequate compensation is sought" for the added risks of international resource commitment.

A recent statement by the Chief General Manager of the Canadian Imperial Bank of Commerce lends further credence to the view that profits are a significant objective. In response to a question as to why its (the Commerce) foreign assets and liabilities grew proportionately less than was the case with many banks Mr. Sharwood explained that it was "because margins in foreign operations were not wide enough to make us seek to expand these operations substantially."
This statement connotes a second objective, growth. However, it is not growth for growth's sake but profitable growth opportunities which are primarily sought. Participation in the large and rapidly growing "overseas market" referred to in Chapter II may take several forms but two principal means of achieving profitable growth in this area may be loans to exporters and importers or the setting up of retail banking operations in foreign countries.

The latter action is an important means of gaining international exposure in terms both of identity abroad and executive training, which are complementary objectives. As earlier mentioned in the discussion of international operating forms, identity abroad is considered vital to a bank wishing to establish itself and expand internationally. Domestic, foreign and multi-national corporations must be made aware of a bank's "international flavour" if greater profits and growth opportunities are to emerge. Importantly too, at the same time, that the bank, itself, is gaining international exposure members of its domestic personnel may acquire greater knowledge of the international scene thus equipping future executives with a firmer basis for decision-making than the predominantly intuitive "seat of the pants operation" which has prevailed due to lack of executive exposure overseas.

The fourth factor mentioned above was competition. In terms of an objective one banker's response was "it is basic to be where your competitors are". In other words, the goal is to retain established customers and acquire new ones and generally protest against the loss
of opportunities for profit. To facilitate the achievement of this on­
going objective leads the banks to commit resources both at home and abroad in order to meet, and possibly beat, competition whether it be domestic or foreign.

We have expanded upon four important objectives which guide resource commitments to international activities -- profits, growth, exposure and meeting competition. However, perhaps the overriding objective which, in varying degrees, encompasses each of the aforementioned objectives emerges from the ultimate phrase in the quotation presented near the outset of the chapter. "The prospect of opening new trade outlets for Canada" is an important segment of a pattern of thought which permeates the sections devoted to international operations in the annual reports of the chartered banks. It was emphasized by more than one Canadian banker interviewed but was summed up best by one who replied that the principal long-term objective internationally of that bank is "essentially to facilitate trade between Canada and foreign countries". The primary goal abroad is "looking after Canadian interests" which might entail aid to Canadian exporters or to companies who wish to invest in this country. Canada's position as a leading trading nation makes this a worthy working objective but is probable that the banks at all times will be cognizant of the profitability, or lack of it, in fulfilling this objective since they are, after all, private profit-seeking enterprises.
The foregoing has presented a view of the long-term objectives internationally of Canadian banks. To provide somewhat of a contrast we shall now turn to briefly recount the responses of the American bankers. Over-all the five U.S. banks interviewed are more firmly established on a wider scale internationally than are the Canadian banks. This is evidenced by two responses which give the impression that at least these bankers consider their banks to have reached a "treadmill" position where they must keep running just to keep up. One banker responded that his bank was primarily "interested in maintaining its established position in world markets"; another replied that his bank wished to maintain its position as "a strong and leading international bank". However, the former executive went on to say that growth was an important objective. Thus a state of dynamic equilibrium is implied since the growth is expected only to enable them to retain their existing relative position.

Another American banker whose bank is not as firmly established as a number of its counterparts expressed the view that it was that bank's short-run aim to undergo "definite expansion" with an eye to meeting the long-term objective of establishing a "completely integrated banking operation" offering a wide range of financial services with sound communication links to facilitate the efficient flow of information internationally. This is a normative goal but nonetheless an effective working objective.
Despite the fact that profits were not specifically mentioned there is little doubt that that object was implicit throughout, as suggested by the quotation cited below. One may be left with the impression that the world's largest banks have scaled the heights so successfully that their primary concern is with remaining at or near the peak. It is true, that the objectives regarding the maintenance of one's international position are an effective contrast to those of the Canadian banks, however, an excerpt from a recent annual report of one of the U.S. banks should correct any mistaken impression that these banks do not maintain working objectives. It should be emphasized here that choosing a quotation from the report of one bank is not designed to reflect poorly on the others. There is little doubt that each of the American banks interviewed has a set of working objectives which, but for the pressures of time, would have been expressly transmitted to the writer. What follows then is designed to provide a succinct accounting of a comprehensive set of normative, but working, objectives of an internationally established U.S. bank.

Our objectives overseas are clear: We want to aid the host countries and their business; we want to share our technology in co-operative efforts with the local banking communities; we want to develop greater co-operation within the world banking community; we want to further the cause of multinationalism; we want to play a role in the great task of raising living standards in the lesser developed countries; we want to further the course of free world trade; we want to assist U.S. business in its overseas operations. Because we believe each of these objectives fulfills a manifestly clear need we are confident our international banking activities will grow in scope and profitability in the years ahead.
This indeed is an impressive set of objectives and we shall comment upon them further in other contexts throughout the remainder of the study.

At the outset of this discussion we suggested that it might be difficult to separate expressed objectives from initiating forces behind a move overseas. This has proved to be so, particularly in the Canadian case. It might have been more precise to treat profits, growth, exposure and meeting competition solely as initiating forces and this will be done later in the study. What this treatment does show, however, is that to the banks involved objectives can be strong initiating forces and vice-versa.

The writer also recognizes that the aforementioned objectives are freely and easily said since their validity is difficult to question and, therefore, might suggest superficiality. However, each is fundamental to the viability of any business and what is most intriguing are the implicit assumptions which appear to have been made regarding their individual abilities to make an overseas operation profitable. In addition, while we have found them to be probable motivating forces as well we have yet to gain knowledge of how they interact in the decision process.

Before turning to the presentation of hypotheses to explain why the banks go abroad while introducing motives for locating in certain countries or areas, it is useful to expand upon two processes which bridge the gap between the establishment of objectives and the decision
to locate abroad. We are referring to the practices of planning and research.

FORMAL PLANNING PRIOR TO THE DECISION TO "GO ABROAD"

In this section we shall comment upon the extent of formalized planning which is conducted by the banks prior to reaching a decision to commit resources in a particular location abroad. The process applies equally to a bank making its initial commitment abroad or to an established international bank looking to a country in which it is not yet located other than through a possible correspondent relationship with a local bank.

The resource commitments referred to may take a variety of forms -- people, start-up costs or equipment and supplies for an overseas office, deposit balances with correspondents, equity investment in a foreign subsidiary or affiliate or, loans to foreign customers or branches. However, since each factor involves either directly or indirectly the outlay of funds, except where specific reference is made to one factor or another, we shall consider them to be "one big ball of wax" in the form of "resource commitments".

Surprisingly, little evidence of the existence of a master plan behind the commitment of resources in particular locations was discovered. In fact, the immediate response by an American banker was, "I wish we had one!" The lone exception to this statement appears to be one Canadian bank which has been aggressive and independent inter-
nationally throughout its history. As relayed to the writer the general procedure is for senior management to nominate a number of countries "where we would like to be". A list of up to ten countries is drawn up and a study of the individual countries is conducted utilizing the information available in Canada and importantly employing data obtained and impressions developed from on-the-spot surveys carried out from the office of a Resident Representative in the area and from personal visits by senior management. The experience and knowledge of international branch managers is also relied upon. The investigation process pays particular attention to supplying accurate information concerning three criteria. These standards are profitability, growth and acceptance. The prospective office must exhibit the potential for immediate profits or possibly the strong probability of becoming profitable in the near future with evidence of useful collateral benefits, such as domestic business generated through exposure in the country.

The importance of profitable growth opportunities have been discussed earlier. Senior management must carefully weight the risks of applying to enter a country and being turned down since a refusal is usually irrevocable in the short-run and it is possible that a mistake in timing could give a competitor the advantage. Thus, it must be determined as far as possible before hand whether or not it is suitable to apply for entry now or delay. The latter choice too could allow a competitor to gain access and important exposure before, or instead of, you.
The foregoing planning program does not connote unnecessary rigidity but what the writer regards as independent thinking with due cognizance of competitors. However, it is the writer’s impression that, generally, the bankers felt that too much inflexibility is built into a master plan in a world of rapid change and coincidence where opportunities to do business can literally "spring up overnight". This it is rendered a virtually ineffective instrument. This impression applies, in particular, to the American banks.

However, despite the foregoing there is considerable evidence of what might be described as "ad hoc" planning which reacts to opportunities as they present themselves. As one Canadian banker described his bank's planning process: "Primary demands are domestic, therefore, Canadian content is sought initially". Next, "we consider where we want to be". This essentially involves "birddogging major foreign corporations looking for those who might enter Canada" with the choice of location abroad "played by ear in the framework of policy". Also of some significance, the same banker responded that it is "basic to be where your competitors are". Thus it is reasonable to conclude that this bank "follows" a process of "reactionary" planning. In other words, it reacts to the moves of both customers and competitors. We shall elaborate upon the significance of bank policy in the context of the decision to establish a certain type of office in a certain location.
For American banks operating internationally the customer is clearly omnipotent. Although much more will be said concerning the influence multi-national corporations have upon the decision-making of U.S. banks abroad, at this stage we shall concentrate on the effect which they have upon the planning process. The attempt to adopt a formal planning program is made particularly tenuous and, by and large, ineffectual through their presence on the international scene. The key element in any planning program is "flexibility". One American banker described that bank's planning program as a "system of priorities which are adapted to opportunities". Two others agreed that "multi-national corporations impose part of the direction of overseas expansion" but that our "specific aims are not imposed upon us by clients or competitors." In fact one of these executives asserted that his bank "very rarely follows anyone."

Generally speaking, their appears to be more room for independent planning of overseas operations by Canadian banks because of the relative lack of domestic clients operating abroad in contrast to the American situation where multi-national corporations based in the U.S. operate on a wide scale (facts which will be elaborated upon shortly). The writer's impression, however, is that the room is by no means crowded.

THE ECONOMIC AND POLITICAL FACTORS CONSIDERED

In describing the formal planning process of one Canadian bank above we introduced two economic factors, profitability and growth, and one political factor, acceptance, as being critical standards of judge-
ment for that bank. However, there are other significant economic and political factors, both at home and abroad, which must be weighed in an evaluation of the suitability of committing resources abroad. A pervasive element is risk and the role it plays will be commented upon specifically in this section.

To the extent that the banks are able to control their individual commitments to international activities, and the consensus from the foregoing discussion of planning is that to a notable extent they "can", although they "do" in varying degrees, some comparisons are commonly made with domestic opportunities. To be expected, the principal comparison said to be made between foreign and domestic opportunities is in terms of relative profits. Primarily emphasized are the relative direct monetary rewards, however, the extent of anticipated collateral benefits to be gained are additional important considerations. A common example would be the opportunity to acquire new domestic business via an overseas branch, in addition to the direct deposits obtained.

One American banker stated, with regard to relative profitability, that they "think in bank-wide terms. Every part of the organization is scrutinized for earnings." The review is conducted "carefully and frequently" with attention not only to direct returns but indirect returns as well, "being of service to ourselves and to our customers." One of the significant "services" which the bank may perform for itself by making certain resource commitments is to bestow added "prestige" upon the bank's name. The relative degree of
prestige to be gained was expressed to be an important element in the decision to make a resource commitment at home or abroad. Another American bank adapts a similar global perspective. "Cost analysis may reveal service to be breaking even in a particular area but customer service is approached on a global basis and we may be making money elsewhere." These international banks then do not directly make a domestic-foreign comparison but use an all-inclusive base.

An American banker, whose bank has an extensive network of overseas "offices" stated that our foreign operations are "generally more profitable overall than the domestic." The prime reason -- "risk-return ratios are higher internationally." More will be said about risk below, however, it is important to note that more compensation for a risk can be, and is, often gained from foreign activity. A note of caution to this conclusion must be added, however, for the same banker added that although an "elaborate accounting system" is employed to determine whether or not an international commitment is beneficial to the bank there are "many intangibles in the evaluation" and the upshot is that frequently it is an "intuitive 'seat of the pants' decision" which is finally reached. An example of an intangible, he suggested might be "how many customers do you attract to Buenos Aires because you have branches in Chile?" He also stated that "a project is currently underway to determine as far as practicable the return from our international business." A Canadian banker asserted "that our international operations are the highest profit-making facet of our banking
operations," although we must caution that foreign activity from a domestic base was included as part of their "international operations". One may reasonably conclude, however, that profitable opportunities in the international sphere may often be more profitable than domestic commitments.

A second significant comparison is conducted in terms of the relative growth opportunities offered. Here the writer would like to comment that Canada's urban areas appear to be fast becoming saturated with bank branches while, at the same time, more and more Canadian businessmen are adopting an international outlook. These factors combined with the freedom of capital flows into and out of the country, other things being equal, should create more attractive growth opportunities through a foreign location than those of solely domestic orientation. As one American banker said of the international arena "there is much room today for growth."

A factor weighed which is related to growth is competition since its presence is likely to reduce the realization of available growth opportunities or, if particularly strong, virtually restrict growth completely. The competition alluded to here is that between banks who are working towards a decision whether to make either an initial or an increased commitment abroad in a certain area and/or activity or alternatively concentrating the available resources more upon domestic opportunities. An ideal example with respect to Canadian banks is provided by the Caribbean area. Here they are well repre-
sented and conduct a retail banking business similar to that performed in Canada in competition largely with other Canadian, British and, more recently, American banks. The competitive situation between banks in Canada is strong and the situation is similar in the Caribbean, thus it is conceivable that competitive circumstances could arise where it was considered preferable to open additional branches in Canada rather than the Caribbean. As one American banker described it, it has occurred that domestic competitors have "saturated a country" making it unattractive for that bank to commit resources there.

International activities may bring desirable "exposure" to a bank seeking to strengthen its "identity" as an "international bank" exposure which could not be obtained through a concentration upon entirely domestic opportunities. At the same time, however, foreign operations commonly carry a significant element of undesirable exposure in the form of additional risks. These risks may be either economic or political in nature.

We noted earlier the frequent use of the forward exchange market by the banks as a means of reducing exchange risks. There are situations, however, where the bank will be unable to utilize forward contracts to cover their exchange positions. One of these situations emerges fairly frequently especially if branch operations are being conducted in developing countries. It is not uncommon in these countries for loan demands to exceed the deposit base of the branch or branches in the country. However if the objective of deposit acquisition is to
be served loans are often a requisite that savings may be generated in the economy. The result is that "money must be brought in from outside." A Canadian bank operating a branch system in the Barbados, for example, may have to supply loans from head office to keep "money on the shelf." The absence of an adequate forward exchange market in the currency of the country usually renders it necessary to accept exposure to devaluation.

As one American banker described it, the objective is "to operate each area on its own soap." However, as we have suggested, an adequate supply of the currency of the foreign country may not always be available. When head office funds are supplied the bank is exposed to an additional risk which may be significant in some instances. The risks of expropriation normally may be discounted since the loss of invested capital is likely to be but a small percentage of total assets. Using the nationalization in Cuba as an example, the reason is because "Cubans owed Cubans". However when the "soap" is supplied from head office "Cubans no longer owe Cubans" since the bank has, in effect, increased its capital commitment in the country and these loans will become uncollectable should expropriation occur.

Loans to foreign branches are in a sense direct investments in a foreign country. This represents another important instance where a hedging operation to cover exchange risks is not possible. Consequently the banks must carefully appraise the currency stability of a country and keep its monetary commitment to a minimum in cases where
devaluation appears imminent. An important indicator here is the balance of payments position of the country.

However, economic conditions are not the prime concern when a commitment in a foreign country is contemplated. In the words of a Canadian banker, "Until a very few years ago every financial inter-country transaction was based upon an economic appraisal, now a political appraisal is most important." The political risk is omnipotent in the "game" of international banking since rule changes are common." The current situation in Peru is a case in point where nationalistic fervour is creating strong pressures upon foreign banks present. For example, the Peruvian government is demanding that a Canadian bank increase its capital commitment there but will not allow it to open additional branches.

An unstable political environment is likely to lead to a decision not to enter a country. It is interesting here to note a Canadian banker's comment concerning Czechoslovakia in this regard. "There is much room for additional banking business in the Eastern bloc countries and until the Russian invasion the political environment was increasingly conducive for foreign banks." However, if the bank has already made a financial commitment in the country it may not leave but will attempt to reduce its dollar commitment to a minimum. A current example arises out of the tense Middle East situation. At the time the Canadian bank and American banks entered Beirut, Lebanon it was the thriving money market center of the area. However, the polit-
ical situation has not only reduced this activity, but increased the risks of loss of capital. Therefore, the decision has been made to keep dollar commitments at a minimum until the situation improves.

Additionally, there are three economico-political factors which may be important considerations. One is inflation which is particularly strong in a number of Latin American republics where the governments have chosen continued expansion of the money supply as the prime means of financing progress. Inflation of this variety is often a prelude to devaluation, however, as one Canadian banker responded "we are not overly concerned with inflation, assuming repatriation of profits is possible." This introduces a second significant consideration the presence of exchange controls. Rapid inflation combined with excessive exchange restrictions which make it difficult or impossible to withdraw profits are likely to render a country unsuitable as a candidate for an "office". However, any country desirous of foreign investment is not likely to restrict the operations of foreign enterprises in this manner.

The frequent resort to an expansionary monetary policy as an instrument of growth in a number of developing economies is often the outgrowth of the lack of adequate fiscal tools. Specifically, an inadequate tax system. Among other factors, this situation commonly results from low taxpayer morality and poor collection machinery. These conditions may lead to discriminatory taxes being levied against foreign enterprises in the country. Thus, the taxation policy of a country must be noted. The significance of high taxation of profits earned by
the banks in these countries is mitigated in many instances, however, since in the words of a Canadian banker, "local borrowers often cooperate to minimize the tax." The means were not disclosed but one might surmise that one method could be for the borrower to agree to pay a higher "service charge" for the conduct of his account as compensation. The effective rate of interest on a loan would be increased, however, since the charge was levied for another "purpose" the apparent rate charged would be normal to the country and the credit worthiness of the borrower.

Nevertheless, the banks must take measures to compensate for the additional risks concomitant with foreign operations. We have cited the use of the foreign exchange market, the rapid repatriation of profits, and "arrangement to minimize taxation." There are a variety of other measures. One of these is to "allocate exposure within a country." Loans are not concentrated in one type of business despite its importance to the economy. For example, the Royal Bank of Canada is "not entirely in the fish meal business in Peru." Another means is by limiting the range of lending conducted. For instance, one American banker cited the fact that it was not that bank's policy to make loans secured by real estate in the less developed countries, a practice common in the U.S., because of the difficulties in ascertaining ownership. The methods cited here as operational techniques employed by the banks to reduce risks is not intended to be exhaustive but merely to provide some significant examples of this aspect of their activities.
However, despite the added risks, including frequent "rule" changes which may render a comprehensive prior appraisal of a country obsolete in a short time, Canadian and American banks continue to be active participants in the "game". One reason can be drawn out of an incident which happened while one of the Canadian bankers interviewed was a travelling International Representative. As the bank's Middle East representative he called upon the head of the central bank of Iraq. The executive who was a political appointment of the government of the day, conferred with the representative in a well appointed office bespeaking of his position. What was unusual, especially when we envisage a "typical" chief executive of a country's central bank, was not the fact that he wore Moslem attire but that his attire was embellished by a brown leather gun belt and a sizable pistol which jutted out of the holster at his side. Despite frequent political upheavals which result in the just as frequent appointment of a new chief executive the operations of the Iraqi bank have not been interfered with thus far. Even insecure governments thus recognize the importance of a viable banking system to a country. The lesson to be learned is that "despite political upheavals banking business has a way of going on."

One question asked of the banks during the interviews conducted by the writer was, "What, would you say, have been the principal disadvantages in your involvement in overseas activities?" Three banks cited political complications already discussed at length above. Two cited the higher costs of recruiting and training personnel for inter-
national positions, an aspect which will be discussed in another context later in the study. One banker suggested that for a bank with a "domestic preoccupation international problems taking up more than say 5 per cent of executive time might be a time-consuming disadvantage. Interestingly enough it is the writer's impression, all things considered, that this bank was the least internationally-oriented of all those interviewed.

Despite the foregoing remarks, however, even the banks citing those complications, considered "disadvantages" to be a poor choice of words. An apt consensus would be one banker's response, "I do not buy the word "disadvantages"!" A Canadian banker said there are "certain problems linked with any endeavour we enter a project to advance something at home." Another responded that the "marginal concept is taken so there is no loss of profit opportunities." One American banker replied that there are "additional risks and work but if one is willing to become involved there are no disadvantages. In fact we consider it an opportunity rather than risk." This position was strongly supported by another who expressed the view that although "operations are complicated, the risks of devaluation, exchange restrictions, etc. become less significant when a country is entered on a long-term basis."

It is interesting to note here the effect which contrasting "philosophies" of two Canadian banks had had upon their actions abroad in the face of increasing risks and declining business. A "basic philosophy" maintained by one with regard to entering a country has been that they
are "going today with 50 year thoughts." This "philosophy" led them to retain their offices in Latin America during the Depression while other Canadian banks were leaving. The view of one of the bankers whose bank closed a number of foreign branches in this period was that "the bank needed money at home", the implication being that this institution was domestically oriented. This position was supported by another executive of the same bank whose personal view was that "there was a great deal of apprehension by the bank concerning international operations because of the risks of lending currency devaluation and political situations. In addition, the international operations were directly under the administration of head office and policy and practices in each country were very oriented to the Canadian banking situation." This "philosophy" meant, then, that commitments, when made, were not necessarily for the long-term but were subject to the vagaries of the domestic scene. Consequently overseas operations were deliberately contracted and it has only been very recently that an apparent philosophy of expansion has emerged. This example provides us with an indication of why different banks behave differently abroad than others. We shall have much more to say on this subject when we elaborate upon why a particular type of "office" is selected for a particular country.

The same international banker who stated that a long term commitment can be viewed as a "risk-reducer" stressed that overseas involvement was considered by that bank as "a challenge and an opportunity" and rather than being a disadvantage was actually felt to be an advan-
take a "learning experience" in that the bank is provided with a "global perspective". These factors can be held out as important initiating forces behind the movement abroad of Canadian and American banks, however, there are more concrete forces at work which will be put forth in the following chapters.
CHAPTER VI

MAJOR PHASES AND THE FORCES LEADING TO THE MOVEMENT ABROAD

The principal objectives of this chapter are to offer hypotheses to explain why the banks go abroad to carry on operations from a foreign base. Concurrently forthcoming will be an indication as to why particular cities, countries or areas abroad are selected for the opening of an "office". The hypotheses will be supported, as far as possible, by appropriate quotes from annual reports of the banks involved, responses received during the conduct of field research by writer and other primary and secondary sources. We might add, at this stage, that the same sources of support will be relied upon in the following chapter to substantiate hypotheses tendered to explain why particular operating forms are chosen for a certain area. Also in order to avoid repetition, as stated in the opening chapter, no quantitative testing of any of these hypotheses will be carried out.

As a means of introducing the investigation the major phases of development of the international activities of the Canadian banks will be sketched and compared with the U.S. experience. The outline will proceed chronologically, essentially in terms of the operating forms employed but with important references to the principal forms of direct involvement as well.
MAJOR PHASES OF DEVELOPMENT OF INTERNATIONAL ACTIVITY

The chartered banks, whose operations we have selected for analysis have, in general, been international in outlook from their very beginnings. Substantial differences appear to have existed among these banks, however, in the amount of aggressiveness with which they pursued the establishment of "offices" in foreign countries. It is the writer's impression that differences in the degree of aggressiveness and domestic versus international emphasis continue today. More will be said on this subject when we discuss initiating forces.

Prior to the turn of the century there were four primary areas of interest outside Canada for the chartered banks. They were New York, California, London and the Caribbean.

In 1817, the year in which it was formed, the Bank of Montreal appointed a private agent in New York. The primary purpose of this office was to facilitate money transfers for the British government which was not permitted to operate directly in the New York acceptance market. The bank bought bills of exchange from the British and sold them, through their agents, in this market. It was not until 1859 that the bank established a permanent agency office of its own in New York. Nevertheless it was the first agency of a chartered bank in the U.S. It was subsequently followed by The Canadian Bank of Commerce (now the Canadian Imperial Bank of Commerce) in 1872, The Royal Bank of Canada in 1899, The Bank of Nova Scotia in 1907 and The Dominion Bank (now The Toronto-Dominion Bank) in 1919.
California was also early attractive to the Bank of Montreal which opened a branch in San Francisco in 1864. The Canadian Bank of Commerce was the next chartered bank to follow but its San Francisco office was not opened until May of 1929. Two years later it established its initial branch in Los Angeles. Earlier this institution had opened branches in Seattle, Washington in 1900 and Portland, Oregon in 1901. The latter office actually represents the take-over of an existing branch of the original Bank of British Columbia which became part of the Commerce system in that year. The Commerce remains today as the only chartered bank with branches in the Pacific Northwest of the U.S.A. The early heritage of this bank on the U.S. west coast is reflected today by the fact that its wholly-owned subsidiary the California Canadian Bank operates more branches in that state than all of the "offices" of the other chartered banks together.

The Canadian banks were not long in traversing the Atlantic to open a branch in London. The Bank of Montreal again led the way in 1870 with the other major Canadian banks following one by one until The Bank of Nova Scotia opened in 1920. The latter bank, however, had been concentrating its efforts elsewhere for by 1920 it had established 20 branches in the Caribbean.

The first foreign branch established by a Canadian bank outside the U.S. and the U.K. was opened by The Royal Bank of Canada in Bermuda in 1882. However, due to enactment of restrictive legislation then enacted this office was closed in 1889. Credit for the opening...
of the first permanent branch must go to The Bank of Nova Scotia which established an office in Kingston, Jamaica in 1889. The international outlook of this bank is emphasized by the fact that this office was opened before it had opened its initial branch in Toronto. The Royal Bank of Canada followed shortly thereafter by opening a branch in Havana, Cuba in 1899 and by 1920 this institution was operating 15 branches on the Caribbean islands.

The Royal Bank of Canada was also devoting considerable attention to the establishment of an extensive branch network throughout Latin America at this time. In Central America a branch, its first and only branch prior to 1963 (it now has 3), was opened in Belize, British Honduras in 1912. The initial South American branch was established in British Guiana (now Guyana) in 1914. By 1920 the bank operated 10 branches in the area. Today it continues to be the only chartered bank with direct branches in the area possibly a reflection of its early beginnings there.

Prior to World War I the principal international activity for the Canadian banks was the financing of the famous "Triangle Trade" between Canada, the United States and Britain illustrated by their early representation in New York, London and the Caribbean. At the same time, extensive trade between the Caribbean area, the seaboard states of the U.S. and the Maritimes required financing thereby strengthening the attraction of the Caribbean.
As expanded upon above, during World War I and immediately following The Royal Bank of Canada concentrated its expansionary efforts upon South America. At the same time, The Bank of Nova Scotia was opening thirteen branches in the Caribbean. Meanwhile, The Canadian Bank of Commerce set up its initial branches in the Caribbean entering Kingston, Jamaica and Bridgetown, Barbados in late 1920. During the international business buoyancy which prevailed during the late 1920's this bank established a branch in Havana, Rio de Janiero and, along with the Bank of Montreal, in Mexico City. Thus the 1920's was overall a period of expansion abroad for the chartered banks, albeit within a relatively small area.

The 1930's brought a complete reversal. The world-wide depression which led to a severe contraction of international intercourse also occasioned a reduction in the number of overseas branches of the Canadian banks. In fact, only one overseas branch was opened in the decade and that was by The Bank of Nova Scotia on May 5, 1930 in Christiana, Jamaica. Meanwhile, this same bank closed 3 branches in the Caribbean while the Montreal and Commerce were "pulling out" of Mexico. The Commerce also left Rio de Janiero in 1934. The reason given for the two closures at the time -- "it was found that changing conditions no longer permitted their operation at a fair margin of profit." Significantly, The Royal Bank of Canada maintained its Latin American network intact.
The post-World War II era, which will be extensively investigated in subsequent sections, has thus far been one of continued expansion in overseas representation with the variety of operating forms employed increasing. For those chartered banks already represented the immediate post-war period, up until the early 1960's, has been characterized by intensified branch representation in the Caribbean. The Bank of Montreal, previously lacking outlets in the area, entered Latin America in 1958 via a partnership with an established foreign bank, a new approach for Canadian banks.

This decade has witnessed a general departure from a process of international expansion in traditional areas with a view more to continental Europe and Asia, although the number of branches in the Caribbean continues to be augmented. Significantly too, the last of the major chartered banks established "offices" in the Caribbean. The special significance of The Toronto-Dominion Bank's entry into the Caribbean is the route taken, the multinational joint venture another new mode of representation for the chartered banks.

The foregoing paragraphs have briefly sketched the historical growth of Canadian banks abroad in terms of where, when and what. If one were to summarize the international operations historically in terms of "what", that is with regard to the type of "office" employed, it would be difficult to distinguish distinct phases from 1817 to 1960. Essentially, this period was characterized by growing branch representation in the Caribbean, and the use of the branch technique elsewhere
wherever an overseas "office" was established, with the notable exception of New York where the agency made of operation was employed exclusively. At the same time, except for the Caribbean, each bank built up an extensive world-wide network of correspondent banks to "represent" them abroad.

The 1960's has seen a relative departure from the branch and correspondent bank system of overseas operations. While both these types of operation continue to be of utmost importance they are now being supplemented, with varying degrees of emphasis from bank to bank, by the whole range of international operating forms discussed in the previous chapters.

If, on the other hand, we were to look at the development of the international operations of the Canadian banks from the point of view of the principal forms of their direct involvement the same date structure appears to apply. From their early beginnings at least until 1958, which brought the restoration of currency convertibility in Europe, the financing of trade clearly dominated the international activities of the chartered banks. However, since that time, the substantially augmented flow of capital around the world, both short- and long-term, has notably increased the importance of foreign exchange trading and the financing of capital movements in their international activities.

During the past ten years, alone, with the emergence of new types of operation and changes in the relative importance of forms of involvement we have also seen a relative decline in emphasis upon ex-
pansion in tradition geographic areas of operation replaced by greater stress upon on-the-spot representation elsewhere in the world. Any causal links between the changing importance of activities and areas should become clear as the study proceeds. At this stage, reference to Tables XII, XIII, XIV, XV, and XVI which will be referred to again, will illustrate these changes of emphasis.

Before turning to an elaboration upon what are seen as the primary initiating forces behind establishment of "offices" in other countries, it is useful to sketch the historical phases of the overseas activities of the U.S. banks. Useful especially in terms of the comparisons and contrasts provided with the phases of activities of Canadian banks.

It is somewhat surprising to note that the U.S. commercial banks are relative newcomers to the arena of international banking and finance. Despite their native strength the U.S. national banks did not appear on the international scene until The National City Bank of New York (now the First National City Bank) opened a branch in Buenos Aires in 1914. It has been primarily legislation, both U.S. and foreign, which allows us to distinguish the major phases of the operations abroad of U.S. banks. Not until the enactment of the Federal Reserve Act in 1913 could national banks (those with Federal charters) establish branches abroad. In 1916 Section 25 of the Act was amended to facilitate the participation of smaller national banks in overseas branching operations through special foreign banking corporations. Eligible banks
could invest up to 10 per cent of their capital and surplus in the stock of corporations chartered under the laws of the United States or any state thereof, and principally engaged in foreign banking. Since these corporations were required to agree to conduct their business under limitations prescribed by the Federal Reserve Board they became known as "agreement corporations". Section 25(a), enacted in 1919, authorizes the Federal Reserve board to charter corporations "for the purpose of engaging in international or foreign banking or other international or foreign financial operations ... either directly or through the agency, ownership, or control of local institutions in foreign countries ...." Those corporations chartered under Section 25 (a) are known as Edge Act subsidiaries after Senator Edge of New Jersey, the sponsor of the section.

The passage of this legislation led to a swift growth of foreign banking and financing corporations in the ten years following World War I. Between 1919 and 1929, 18 corporations were organized, made up of 15 agreement and 3 Edge corporations. However, this expansionary phase was quickly reversed by the worldwide depression of the 1930's and the widespread system of trade and exchange controls which seriously diminished foreign trade. By 1940 only one Edge corporation and four widespread systems of trade and exchange controls which seriously diminished foreign trade. By 1950 only one Edge corporation and four Agreement corporations were in operation. It was not until the late
1950's that the conduct of foreign banking through the use of these corporations emerged from a twenty year hiatus.

By 1959 there were a total of only 6 Edge Act and 3 agreement corporations in operation, however, by June 30, 1968 the numbers had increased to exactly fifty Edge Act and five agreement corporations. Clearly the late 1950's brought with them an expansionary phase in the overseas representation of U.S. banks. Once again the key was legislation, specifically the return to currency convertibility by the major nations of Western Europe which, as already mentioned, greatly augmented the volume of international capital flows.

The implementation of the Interest Equalization Tax in 1963, and the imposition of voluntary balance of payments restraints in 1966, transformed into a system of mandatory controls in 1968, have more recently led to increases both in the number of overseas "offices" established and the number of U.S. banks "going abroad".

We have thus far possibly created the impression that the American banks have moved overseas almost entirely by the use of a domestically chartered corporation designed to acquire equity interest, or outright ownership, of foreign banking or other financial institutions. While the banking corporation and financing affiliate have been important instruments direct branching has also been a frequently employed route. At June 30, 1968 there were 21 member banks of the Federal Reserve System operating 351 branches abroad. This is to be contrasted with the four national banks which maintained a total of but 66 branches
at the end of 1945, two-thirds of which were branches of the National City Bank of New York. Even as late as 1964 only eleven banks maintained the 180 branches of U.S. banks abroad so it becomes readily apparent that the proliferation of American banks and branches abroad has been a very recent phenomena.

Essentially American banks, following the enactment of consenting legislation, have experienced the same phases of development as have the Canadian banks. A general expansion occurred during the 1920's, followed by a significant contraction in the 1930's and a period of steady growth in the post-war era characterized by rapid and varied expansion in the 1960's. At the same time, the type of operating forms employed have been basically the same with overseas correspondent banks continuing to be important links abroad for the U.S. banks as well, despite increasing on-the-spot representation. Direct branches have also dominated the American movement abroad although a qualification of this statement is necessary. Prior to 1925 more foreign branches were maintained by banking corporations than by banks. However, today, by far the largest number is represented by direct branches of commercial banks. Reference to Table XII illustrates that the American banks early concentrated upon the establishment of a branch network in the Caribbean and Latin America as did the Canadian banks. A similar trend can be seen to continue through 1960 although the relative importance of the two areas to the two banking systems is reversed. However, a distinct contrast is to be found in the Far East where the U.S.
national banks exhibited early interest while the chartered banks as yet do not operate a single branch in that global region. We shall elaborate upon this contrast when we look at the Far East in Chapter VII.

In terms of the principal forms of direct involvement in international transactions trade financing clearly dominated until after World War II as was the case with the chartered banks. However, since the restoration of convertibility the financing of capital movements has at least gained equal status apparently fostering increased representation abroad, again similar to the Canadian experience.

However, despite the basic similarity in the phases of development of overseas activity at least one noteworthy contrast emerges from the foregoing discussion and that is the much greater weight which may be attached to domestic legislation as a contributory factor behind the move of U.S. banks abroad. Indeed, Canadian legislation has not been apparent as a force directly facilitating or fostering the movement of the chartered banks into foreign countries, although as will be expanded upon later, Canada's banking legislation may be a hindrance.

Legislation of the type mentioned above may, by itself, be an initiating force behind a movement abroad as evidenced by the U.S. experience. However, it is by no means the only one. What may be looked upon as the primary initiating forces behind the movement abroad of the chartered banks and what motivates a move into a particular coun-
try or area? The following two sections will offer answers to these questions.

WHY THE BANKS GO ABROAD

In Chapter III we broached several hypotheses to explain why the chartered banks have increasingly "internationalized" their activities through growing participation in world trade and private capital movements. Our emphasis at that time was directed towards furnishing motives behind greater foreign activity emanating from a domestic base. In this section a number of hypotheses will be tendered to demonstrate why the chartered banks "go abroad" to conduct banking activity from a foreign base. We noted earlier the immense difficulty concomitant with the attempt to distinguish between motives for increased foreign activity from a domestic base and those inducing the banks to locate abroad. Nevertheless, the repetition of reasons will be limited.

An added objective of this section is to introduce the initiating forces which may lead to the opening of an "office" in a particular country or area. While the terms of reference of the hypotheses put forth will be the world stage they will act as harbingers of specific country motives. This will become apparent as the section proceeds.

In Chapter V we noted that the expressed objectives guiding the moves abroad might be identical to several initiating forces behind this movement since the objectives, themselves, could be looked upon as motivators. This statement proved to be correct from the responses received to the question concerning initiating forces asked
during the interviews conducted by the writer. At the same time, there was notable overlap with hypotheses offered in Chapter III concerning growing "internationalization". Therefore, we will only outline these motives and anyone wishing to refresh his memory may refer to the relevant sections of Chapters III and V. These inducements included profitability, collateral benefits, growth opportunities, prestige and, exposure in the sense of establishing one's identity as an international banker.

In Chapter III another important initiating force was proposed -- "the desire to retain established, or obtain new customers". We may focus upon this consideration and break it down into three types of customers. One, the Canadian exporter or importer. Second, the Canadian corporation with direct investments in other countries. Third, the foreign direct investor in Canada. They may be looked upon as the "Canadian interests" which the chartered banks are most desirous of serving.

Canada is the sixth largest trading nation in the world. In 1967 her total trade (exports plus imports) totalled $28.34 million, 70 per cent of G.N.P. Per capita exports alone amounted to $702 thus placing Canada second only to the Netherlands in terms of relative importance of trade to the economy. It is not surprising, then that the "nature of the flow of trade" should be stressed by Canadian bankers as a force directing them abroad and into certain areas. The strength of this criterion of expansion for at least one chartered bank is to be
found in its annual reports. In 1948 the general manager of The Royal Bank of Canada stated, "We have expanded (our activity in foreign countries) in keeping with the progress of the foreign country and the development of Canada's external trade." In 1960 the statement was repeated, "The overseas development of this bank which dates back more than 60 years followed established or prospective trade channels in areas with sufficient potential to develop a profitable business for the bank." In 1964 the importance of trading patterns to the direction of its expansion was made unmistakably clear. "About three-quarters of Canada's foreign trade is with Great Britain and the United States where we have our banking offices and representatives, of the remaining one-quarter about one-third is also with countries where we have direct representation and in other countries who trade with Canada our correspondents are the foremost local banks."

While the above excerpts were drawn from the annual reports of just one chartered bank it is reasonable to assume that the pattern of expansion abroad has been similar for the other major Canadian banks although the form and intensity, no doubt, vary. Reference to Table XX which provides a geographical breakdown of Canada's foreign trade for selected years will indicate both increasing volume of trade and the growing importance of certain countries in the movement of goods. The impressive 2.5-fold increase in the 15 years from 1951 to 1966 represents a 6.5 per cent compound annual rate of growth. Table XXIV presents similar data for the U.S. It will be noted that U.S. merchandise
trade alone has only slightly more than doubled during a similar 17-year period. The effective annual growth rate of slightly over 5 per cent is notably less than the corresponding figure for Canada. Data from these tables will be utilized to support hypotheses as to why banks choose certain locations abroad for an "office".

A second group of customers which the chartered banks desire to serve abroad are the Canadian corporations with direct investments in foreign countries. We have selected the criterion of direct investment which we earlier defined as a greater than 25 per cent ownership of shares in a "foreign" corporation, since we consider it to be the most appropriate indicator of a permanent commitment in a certain country. It is reasonable to assume that in the absence of other forces, notable investments of a long-term nature by Canadians rather than substantially volatile short-term capital investment would be a requisite if the banks were to commit valuable resources to the country. We should note that wholly-owned subsidiaries and branches of Canadian corporations are forms of direct investment abroad.

Table XXI illustrates Canadian direct investment abroad by country or area. One will promptly notice that the dollar position quadrupled between 1949 and 1966. This represents an effective 9.5 per cent compound annual rate of growth, about one-half of one per cent greater than the rate of growth of merchandise trade. Table XXV offers similar U.S. data. Two differences with the Canadian data are immediately apparent. One, the value of U.S. direct investment abroad has virtually quin-
trupled in the 17-year period thus representing an effective compound annual growth rate of almost 13 per cent, or 3\frac{1}{2} per cent greater than the Canadian experience. Secondly, U.S. direct investment abroad is about 16 times that for Canada. Since the U.S. population is approximately 10 times the size, per capita direct investment abroad by U.S. citizens is greater than that for Canadians. It follows, principally from the absolute magnitude, but also from the larger per capita value, that these customers should provide a greater initiating force to the establishment of "offices" abroad for U.S. banks than their Canadian counterparts do for the chartered banks. This is borne out by the responses of the bankers interviewed. Three U.S. bankers stressed the importance of U.S. direct investment abroad as a motivating force behind both their movement abroad and their selection of countries for a commitment. The consensus of the position of the Canadian bankers was aptly expressed by one who stated that "there are not enough coat-tails for Canadian banks abroad at this time" and compared to the American situation the "loss of customers (by not being abroad in certain locations) is not as important a consideration."

Canadian bankers also asserted that their banks were motivated by the desire to obtain early access to corporations and individuals interested in investing in Canada. We, therefore, might hypothesize that the volume and source of direct investment in Canada is an initiating force behind both the movement abroad and the particular location selected. Table XXII offers data concerning foreign direct investment
in Canada at selected year-ends from 1949 to 1965. The almost fivefold expansion in the period represents an effective compound annual growth rate of almost 14 per cent. Similar data is shown in Table XXVI for the U.S. The contrast is immediately apparent. The value of foreign direct investment in the U.S. in 1965 was only one-half that in Canada. It is also important to note that about one-quarter of these funds have historically originated in Canada where legislation prohibits entry of all foreign banks and restricts the growth of the only U.S.-owned chartered bank. The relative insignificance of the value of the remainder indicates that the flow of these funds should not be an important motivation to the movement abroad and into certain countries for U.S. banks. This contention is supported by the fact that no American banker mentioned them as an initiating force.

We have noted one notable difference in forces behind the movement to other countries by Canadian and U.S. banks in the foregoing paragraph. Another salient contrast exists in the relative importance of domestic legislation as a motivating force. Canadian legislation has not been a direct influence on the behaviour of the chartered banks but U.S. legislation, as suggested in our discussion of the phases of activity, has been a prominent force behind the increasing overseas representation of U.S. banks. Recent legislation, in particular, has precipitated a proliferation of U.S. banks setting up "offices" abroad in certain locations although each piece of legislation to be introduced
has had an important bearing on both the direction and intensity of overseas activity of the already internationally established U.S. banks.

U.S. banking legislation has proven to be a notable force. In Chapter III we noted that the unit banking system of that country has been influential since it prohibits banks from maintaining a national branch network, and except in a few states precludes a state-wide system of branches. Thus several U.S. banks may have been led abroad by the growth opportunities present there. We also noted at that time that in contrast Canadian banks are permitted to have a nation-wide system of branches which might mitigate somewhat the urgency of going abroad.

The validity of the foregoing hypothesis may be questioned due to the relative small size of the Canadian market which must be shared between five major chartered banks which is little more than twice the size of the market available to the seven largest New York banks. However, one cannot doubt the importance of the amendments to the Federal Reserve Act in 1913, 1916 and 1919 introduced in this chapter in our discussion of the major phases of activity of U.S. banks internationally. It was not until the 1913 amendment that national banks were allowed abroad and the amendments shortly after provided the banks with suitable vehicles to go abroad. In contrast Canadian banks have never been prohibited from going abroad by legislation.
Our emphasis in this study, however, is on the post-war period and, here too, U.S. banking legislation has been a significant influence. In 1961 the stage was set for a big push internationally. One, U.S. banks found themselves with "ample liquidity" through the slight recession in the domestic economy in 1960 combined with an "easy money" policy of the Federal Reserve which created a build-up in reserves. The banks were encouraged to seek new ways to employ their funds. Lower interest rates attracted overseas borrowers, including Japanese bankers who proceeded from "city to city ... requesting ... acceptance financing." The result was "many U.S. bankers for the first time established personal contact with a country that was to become one of their largest overseas customers -- Japan."

This latter phenomenon encouraged several U.S. bankers to look to establishing an "office" in Japan, however, an important barrier remained and that was effectively removed by legislation in the same year. Banking is highly "reciprocity conscious" and Japan was one country which demanded reciprocal rights in New York. The general attitude of foreign bankers: "if New York bankers want to shop my territory, I want the same right in New York." Under the sponsorship of the First National City Bank the New York State banking law was amended. The new law permitted branches of foreign banks to accept deposits and to participate in a wide range of banking activity. It is important to note that permission to maintain a branch is granted on a reciprocal basis only, thus Canadian banks, at this time, are precluded from a branch
operation in New York. A significant hindrance to increased activity abroad remained.

Prior to 1962 under regulation "Q" of the Federal Reserve Act interest rate ceilings were imposed on time deposits of U.S. commercial banks. After 1958 rates in the Euro-dollar market rose significantly above the maximum that U.S. banks were allowed to pay. This contributed to the growth of the Euro-dollar market at the expense of the New York banks in particular, as U.S. dollar deposits of foreign banks were placed elsewhere for greater return. Finally, in October, 1962 the Act was amended to exempt foreign official time deposits from the interest rate provisions of Regulation "Q". This meant that higher interest rates could be paid to lure deposits to foreign branches. At the same time, these deposits are also exempt from reserve requirements imposed on domestic deposits and from assessments of the Federal Deposit Insurance Corporation.

Thus notable changes in Federal and state banking legislation laid the important groundwork for an increased intensity of activity abroad. This phenomenon was also facilitated by Federal legislation other than changes in banking laws. One of these was the Interest Equalization Tax Act of 1963. The tax, levied against foreign interest and dividend income, had the effect of substantially increasing interest costs for foreign borrowers in the New York market. The outcome (as described in the Appendix) was the creation of the Euro-bond market. The U.S. banks, in 1963 and 1964, "became the largest external source
of medium and long-term funds for all industrial countries except Canada."

"In the year to mid-1964 possibly as much as two-thirds of the increase in commercial and industrial term loans of New York banks represented lending to foreigners." Importantly, Euro-dollar lending by overseas branches of U.S. commercial banks in the ordinary course of their commercial banking business is exempt from the Interest Equalization Tax. This enables overseas branches to compete with foreign Euro-dollar lenders. However, until 1965 much foreign lending was carried out from a domestic base and it was not until that year, and again in 1968, that the real incentives to increased representation abroad were provided.

President Johnson's voluntary balance of payment guidelines implemented in 1965 to curb the U.S. balance of payments deficit to which foreign lending was making a critical contribution, included measures to restrain bank credit to foreigners. At the same time, U.S. corporations were requested to restrict direct investment in foreign projects. This voluntary program was transformed into a system of mandatory controls January 31, 1968. Thus it became obligatory that much corporate borrowing for this purpose be conducted overseas. The principal source of medium- and long-term funds became the Euro-bond market. "Since 1965 United States corporations or their overseas affiliates have become the most important single group of borrowers." This phenomenon encouraged several U.S. banks to become involved in investment or merchant banking corporations abroad.
The expansion of U.S. commercial banking operations abroad have been magnified by the presence of the Euro-dollar market as a source of short-term funds to be re-lent to overseas commercial customers, especially U.S. corporations operating abroad, to other banks and for overnight transfer to U.S. head offices to ease liquidity pressures at home. The importance of the latter activity is exemplified by the fact that the Chase Manhattan Bank estimates that during the severe credit crunch of 1966 U.S. banks were borrowing 32 per cent of total 82 Euro-dollar loans outstanding. However, most significant has been lending to U.S. corporations requiring funds to continue increasing operations abroad.

This most recent legislation has also contributed to the specific locations selected abroad by the U.S. banks and more will be said on this subject when the area studies are made. Concurrent Federal Reserve Board (FRB) curbs on foreign investment by banks has affected the general direction of their overseas commitments. The Board now requires that specific approval of the FRB must be obtained before any equity investment in a foreign business is made by an Edge Act or Agreement corporation. The design is to discourage new investment in the developed countries while encouraging those destined for the developing economies. Specifically, "equity investment in developed countries of continental Western Europe will not, while the new provisions remain in effect be approved by the Board, unless circumstances clearly demonstrate that the transaction will not be detrimental to the U.S.
balance of payments. But, applications to make equity investments elsewhere will be considered on their merits."

This rather extensive elaboration upon U.S. legislation which has directly, or indirectly, encouraged increased U.S. commercial bank activity abroad was presented to emphasize the contrast between the Canadian and U.S. banking situation. The relative lack of significance of Canadian legislation encouraging the movement abroad of the chartered banks is to be noted. However, before moving on to other forces, we alluded to the important role of reciprocity in international banking, and to Canadian legislation prohibiting the entry of foreign banks into Canada. One can hypothesize that the existence of such legislation, in some instances, may be an impediment to operations in certain foreign countries. Further will be said on this subject as the study proceeds.

The recent U.S. balance of payments guidelines have augmented the significance of the "bandwagon" effect as an impetus behind the movement abroad of the U.S. commercial banks. This imitation of the commitments of a leader is of special importance to the regional banks in the U.S. (those outside of New York and the Bank of America) who are learning that a direct source of Euro-dollars is needed to serve the requirements of multi-national corporations or, alternatively, risk loss of these valued customers to firmly entrenched multi-national banking giants. These "giants" include the Bank of America and the New York banks selected for analysis by this study.
Nevertheless, the actions of competitors do have an important influence on these "giants". These U.S. bankers have slightly varying views as to the relative importance of their principal competitors in the international arena. One New York banker with a large number of affiliates abroad felt that their chief competitors overseas were domestic banks in countries where they are represented. However, the consensus is that the actions of other New York banks and the Bank of America are most significant to the New York banks interviewed. The Bank of America considered the New York banks as their major competition. Other banks mentioned as ranking behind these leading rivals were the European banks, and the Canadian banks especially in the Caribbean. One American banker whose bank is relatively less extensively established abroad noted that U.S. regional banks were "moving into the picture".

The U.S. bankers interviewed stressed that the action of competitors was "by no means the most important" influence on their decision to go or not to go into international situations. One asserted that his bank "largely lead others" and that their "worries" are "creative problems". Two suggested that they "may not enter certain areas because a competitor has pre-empted the desirable business". The consensus, however, although stated in different words was that the "bandwagon" influence is a not unimportant factor. Only one banker said bluntly that they "may follow competitors". Another suggested that there was a "significant amount of "monkey see, monkey do". In the same vein another said "everybody is watching what everybody else is doing."
Canadian bankers, meanwhile were fairly evenly divided as to who they considered to be their primary competitors in the international sphere. One carefully sat on the fence and said "everyone". One, which the writer considers to be the least aggressive internationally at this time, felt that other Canadian banks were their chief rivals. Another, with an aggressive attitude internationally felt that "other Canadian banks are not necessarily competitors" although one with an "excellent name provides strong competition in areas where represented." The chartered bank which has the largest foreign branch network rated the largest New York banks as its chief rivals. This contention reflects its view that it is an "international bank".

These bankers were also divided on the degree of influence which competitors have upon their decision to make commitments abroad in certain areas. Not surprisingly, the bank which maintained that other Canadian banks were its principal competitors considered it "basic to be where your competitors are" and that their actions "can help shape policy". This banker was supported by another who stated that "since we must be competitive with the other chartered banks in the domestic field it stands to reason we must be competitive with them in the international field." One, whose banks has displayed recent aggressive expansion abroad, asserted that although we are "cognizant" of our competitors we are "going our own way, not pushed". Another, whose bank the writer feels has exhibited a notably independent attitude domestically since the 1967 Bank Act revision, stressed that we "follow our own
independent course to meet the needs of Canadian customers in overseas areas". The remaining bank which did not respond directly to this question has displayed its independence by its early leadership in establishing a relatively extensive overseas branch network.

Over-all then, on balance it seems that the respondents do not perceive themselves as following the "bandwagon". Nevertheless it is significant that each are very cognizant of their competitors action which to the writer, implies that imitation of the commitments of a leader in terms of location, if not operating form, is not a remote possibility.

A notable influence which may lead a bank to "jump onto the bandwagon" but is more apt to see it "pulling the wagon" is the presence of enthusiastic "internationalists" within the senior management of the bank. Two Canadian bankers stressed the existence of these executives as the guiding force behind their activity abroad. One of these banks has been particularly aggressive internationally in the past three years the other had within that time, pioneered the use by the chartered banks of a new international vehicle, the multinational joint venture. The importance of "internationalists" within the management hierarchy is more decisive among the U.S. banks as the four largest each stressed the significance of these executives in the achievement of their noteworthy international status today and their continued aggressive expansion abroad.

Whether or not there are "internationalists" within the senior management of a bank may have an important influence upon the organiza-
tional structure of the institution. In other words, the stature of the "international region" within the structure is probably a reflection of the attitude of management toward this sphere of business. The international leader, in terms of overseas "offices" at least, among the chartered banks has divided the Caribbean area into four sub-regions headed by District General Managers of similar status to those executives who head up the geographic regions within Canada. This, no doubt, reflects the importance of the international region to that bank. Another, which stressed the importance of "internationalists" in their overseas growth has an Assistant General Manager responsible for the United Kingdom, continental Europe and the Middle East resident in London. His status within the hierarchy is again similar to those executives leading the domestic divisions. This same bank also has an Assistant General Manager for the Caribbean region resident in Toronto.

The recent re-organization of the international division of the Bank of Montreal recounted in the Financial Post would appear to reflect an increased emphasis upon the significance of international business to that institution. The major change at this stage, according to the article, is the splitting up of the division on a geographical basis. This structure is identical to that employed by the U.S. banks interviewed, possibly a reflection of the fact that the division's new executive vice-president has been brought in from the United States. This reorganization and the existing organizational structures of the aforementioned banks can be contrasted with that which existed until
recently for one Canadian bank which has exhibited relatively little aggressiveness abroad to date. According to an officer interviewed, "the emphasis has been upon expanding in Canada" and "the international operations were directly under the administration of Head Office and policy and practices in each country were very oriented to the Canadian banking situation." The writer concurs with this banker's view that "this in itself has inhibited growth over the years."

In this section we have concentrated upon offering a number of hypotheses concerning initiating forces which direct the chartered banks abroad. Motivating forces mentioned included foreign trade, direct investment abroad by domestic corporations and direct investment in Canada by foreigners. Legislation was held out to be uniquely significant for U.S. banks. The "bandwagon" effect was discovered to have valuable influence upon behaviour. A significant force was found to be the presence of enthusiastic "internationalists" among senior management. In closing, it was hypothesized that the existence or absence of these "internationalists" could be viewed as a vital factor in the determination of the organizational structure which, in turn, could influence the international expansion of the particular bank.

This section also has provided us with a good perception of why banks select particular areas. The following chapter will adopt essentially a case study approach to elaborate upon this facet of their expansion abroad and concurrently offer hypotheses as to why a particular vehicle was chosen. Prior to the case studies an all-pervasive force will be presented.
CHAPTER VII

THE INITIATING FORCES BEHIND THE SELECTION

OF A PARTICULAR LOCATION AND VEHICLE

This chapter will offer an analysis of the operations of Canadian banks in foreign countries in terms of operating forms and geographic locations. Importantly, the study, limited largely to the post-war era, will tender a number of hypotheses to explain why these banks choose particular countries or areas and why a certain vehicle is selected as an operating form in these locations. Comparisons will be made concurrently with the "modus operandi" of the selected major American banks abroad. In the process of this analysis Tables XII through XIX which illustrate the historical and current overseas representation of the Canadian and U.S. banks by country and area will be referred to frequently.

In the preceding chapter we introduced important hypotheses as to why a particular location might be selected. We also provided quotations and other evidence that were generally consistent with these hypotheses. This chapter will make extensive use of Tables XX through XXVI which exhibit historical trade and investment patterns of the two countries to lend credence to our contentions in specific cases.

With regard to the hypotheses to be put forward to explain why a particular operating form was chosen for a certain location what was said earlier in Chapter IV is of significant value. It will be recalled that there are six distinct vehicles which may be employed as a
means of entering and operating in foreign countries, aside from correspon
dent banking which is conducted from a domestic base. They are resi
dent representatives, agencies, branches, subsidiaries, affiliates of the multinatio
nal joint venture.

Following an extensive examination of what may be regarded as a pervasive force, and concomitant practices, the subsequent section will be sub-divided geographically into seven countries or regions — the United States, United Kingdom, continental Europe, the Caribbean, South and Central America (Latin America), the Middle East and Africa and, the Far East, including Australasia. A further breakdown within these areas in terms of city and country, where appropriate, will also be carried out. At the same time, the Canadian forms of representation are to be compared with those of the selected U.S. banks in terms, not only of "where, why and what" but "how much" as well.

Essentially, then, a case study approach is to be adopted. It should be emphasized at the outset that no attempt will be made to cover each and all of the possible cases, but a sampling from each geographic location is to be analyzed.

POLICIES AND PRACTICES

The pervasive force which we alluded to above is bank policy. The importance of a plan of action is exemplified by the fact that virtually all the bankers interviewed contended that policy perhaps was the most significant force behind the choice of vehicle. Also, using
our definition, policy can be looked upon as a determinant of the choice of a particular country.

Before turning to canvass information pertaining to policy gathered in the interviews conducted it is most useful, as a support mechanism, to present excerpts from the annual reports of three of the chartered banks. These quotations clearly indicate the importance of policy to the choice of vehicle.

Initially, we offer an excerpt from an early post-war Annual Report of The Royal Bank of Canada:

Regarding our branches abroad ... it is our belief that there is no adequate substitute for direct representation by our own trained organization, experienced in Canadian ways and fully informed by close liaison of the needs and offerings of Canadian businessmen.

It is not surprising, then, that this bank has strongly relied upon the use of the branch vehicle and has built up the largest overseas branch network of any chartered bank.

At about the same time the Bank of Montreal expressed its policy:

It is our policy to develop our foreign business by expanding relations with banks already established in foreign countries, rather than by way of direct branch representation....

This bank has but five branches in other countries, three in the U.S. and two in the U.K., excluding the branches in Canadian Armed Forces bases in Germany. However, it has recently purchased equity interest in two European banks after earlier entering the Caribbean and Latin America simultaneously via a similar vehicle.
More recently policy of The Toronto-Dominion bank was espoused:

It has long been the policy of this Bank to work closely with our correspondent connections throughout the world and we have found that business entrusted to them in the areas in which they are native and most experienced has been handled in a very expeditious manner. We value highly these relationships and would wish them to know we greatly appreciate the opportunities we have to work with them in this manner.

This bank today has but two overseas branches, both in London.

During the interviews conducted another banker stressed the importance of correspondent relations in the decision whether or not to open an "office" in a particular country. The "relationship is cherished highly" and a not unimportant reason is because they "carry important balances with us."

Still another stated that "direct branching as far as possible" was the policy of that bank but the "most profitable course" was a material consideration as well. Timing was put forth as a significant strategy component since "refusal is irrevocable in the short-run."

The American bankers offered a variety of views as to policy but there was unanimity as to its supreme importance. One which also stressed the significance of timing of entry responded that the bank's strategy is to "get in while the door is still open." In other words, to enter while a banking license is available. Regarding the choice of vehicle, he added that a "branch is preferred as long as it is viable, comfortable and profitable since it means absolute control of policy and undiluted visibility in a foreign market." However, he observed
that the practice is to employ "whatever local conditions dictate is
the optimum vehicle." Consequently, this bank has run the gamut employ­
ing each of the seven possible vehicles.

Another U.S. banker whose bank is firmly established inter­
nationally stated that while there is "usually an American thread" we
have on occasion deliberately "established connections while we could." The policy of the bank is to establish "wholly-owned branches" abroad
making it "difficult for others to follow" and "forcing competitors to
buy equity." The bank has exhibited considerable aggressiveness in
seeking suitable branch sites abroad and has built up the largest net­
work of foreign branches, almost one-half the total of all other U.S.
banks combined. An interesting strategy has evolved out of this exten­sive representation. "We look at the world map and say, 'Where aren't we'?" and proceed from there.

A bank which has made wide use of the affiliate route and
relatively nominal use of branches impressed the writer with its con­
servative approach to foreign banking operations. The executive inter­
viewed responded that there are "no fixed rules" while stressing that
"banking is a politically sensitive business" and we consider ourselves
to be a "guest in a foreign country." Thus, "we look at each country"
in terms of "opportunities" and the "expense" of alternate approaches.
The procedure was outlined by him as follows: "What do we want? What
is permitted? Who is there to work with?"
In contrast another U.S. bank interviewed which also has made extensive use of the affiliate mode of operation abroad displayed a much more aggressive attitude. Its expressed policy was to "acquire a substantial equity position in an established foreign bank." The approach was held to be most profitable because "something to work with is acquired immediately." Specifically a deposit base and a "good local staff familiar with local conditions." Although, it conducted an "active relationship with correspondent banks" it was the banker's view that they were "not now as concerned about damage to relationships with correspondents" but were nonetheless "cautious about aggressive competition for local deposits."

In contrast, the remaining bankers interviewed stressed the significance of correspondent relationships, a la The Toronto-Dominion Bank, and asserted that in their foreign activity that bank is "not interested in stepping on their correspondents' toes in any way." At the same time, the bank is also strongly motivated by profits and does not desire unprofitable "gas stations". The outcome of these policies has been similar to that of its "Canadian counterpart". It has only two overseas branches, both in London. Its principal overseas vehicle has been the representative office.

The foregoing discussion of policy and practices clearly exhibits the importance of the former as a permeating force behind vehicle employment, in particular, and to a slightly lesser extent country selection. We shall now commence the consideration of specific cases.
THE COUNTRY OR AREA AND THE VEHICLE

Before turning to the analysis by geographic area it is useful to quickly sketch some of the specific initiating forces cited by the bankers interviewed which will be applied to particular situations. Some of these have already been discussed in other contexts, others have not been mentioned and several not listed here are applicable. The list includes the "amount of overseas Canadian business (trade and investment patterns), policy, political stability, risk, avenue of acceptance (foreign banking legislation), expense (profits), exposure, a desire to be "big" in some markets, availability of suitable partners, correspondent relations the existence of an international money market centre, and an approach by foreign governments or foreign banks."

Individual cases of approaches by foreign governments or foreign banks are considered to be confidential information, therefore, we are unable to reveal the particular instances where it is known to have occurred. However, it can be mentioned that it was cited as significant by the four largest U.S. banks and was not put forth as a factor by any of the Canadian bankers. And too, it can be noted that the invitations are received from foreign banks operating primarily in the less developed countries although their head offices may be in one of the advanced nations. We are now prepared to commence the case analysis.
The United States

We have already noted during our discussion of the major phases of their international activity that the U.S. was early entered by the Canadian banks. Three factors appear to have contributed to this early attraction; the nature of trade, the presence of an important money market centre and the opportunity to participate in the economic growth of the Pacific coast. Since World War II as revealed in Tables XII and XV representation has been notably expanded. Important contributory factors here have been the direction of trade and capital flows.

The U.S. for some time has been Canada's principal trading partner. As early as 1886 it accounted for 44.4 per cent of our total exports plus imports. By 1926 the proportion was about 50 per cent. Table XX reveals that in merchandise trade alone the U.S. is the source or destination of almost 70 per cent of these commodities a rise from 60 per cent in 1949. The dollar volume has experienced a four-fold expansion in the period about a 9 per cent compound annual rate of growth.

What has occurred to the pattern of direct investment is even more impressive. Reference to Table XXI will show that, despite a fall in relative importance from 78 to 56 per cent, Canadian direct investment in the U.S. tripled in dollar value between 1949 and 1966 approximately a 7.5 per cent annual rate of growth. Of utmost significance is the trend of U.S. direct investment in Canada. Table XXII
reveals that it has experienced an uninterrupted expansion in value since 1949 although as a proportion of total non-resident direct investment it has declined steadily, but overall slightly, from 86 to 51 per cent. It will be noted that its value has increased four and one-half times between 1949 and 1965 an effective annual rate of growth of slightly above 11 per cent.

From the foregoing it is readily apparent that "the amount of Canadian business" with our neighbour has been steadily increasing. It follows that the chartered banks could be expected to augment their representation in the U.S. since the war. Table XV illustrates that they have indeed by opening 13 representative offices in four different cities.

Before turning to the motives behind the selection of this vehicle and the location it is proper to briefly account for the emphasis upon New York and California as "office" sites. New York's attraction is evident. It has for some time been one of the world's foremost international money market centres. The exclusive employment of the agency vehicle, whose activities have been elaborated upon in Chapter IV, was occasioned in large part by New York state banking legislation which until 1961 prohibited branches of foreign banks in New York. The 1961 amendment permits foreign branching on a strict reciprocal basis only, however, and since Canadian banking legislation does not allow U.S., or any other foreign banks, to operate branches in Canada the chartered banks cannot operate branches there. The agency form has re-
mained attractive nevertheless for several reasons including the con-
tinued expansion of Canadian-U.S. trade; the large bond flotations of
Canadian provincial and municipal authorities which frequently yield
notable deposit balances for extended periods and an active U.S. $ 
"swap" deposit business in Canada which require a large supply of U.S. 
93 funds. Particularly from 1958 to 1962 before the amendment of Regu-
lation Q discussed earlier these agencies were in an excellent position
to capture Euro-dollar funds by offering attractive interest rates.
Nevertheless they continue to be active in this sphere. We must not for­
get to mention the important "street" lending segment of their business,
and note again that "Call and Short Loans outside Canada", substantially 
94 agency assets totalled some $1.1 billion at October 31, 1968.

Meanwhile, on the Pacific Coast, all but one of the chartered banks selected for analysis have established "offices" in California. Until 1964, California State banking law provided for the licensing of foreign bank branches. The branch was a suitable "avenue of acceptance" since it allowed the chartered banks to participate directly in the tremendous economic boom which the state did and has continued to ex­
perience. Thus "retail" banking opportunities were a major attraction in California in contrast to the desirable "wholesale" opportunities in New York.

The change in the state banking law in 1964 required that all branches be insured under the Federal Deposit Insurance Corporation 
95 (FDIC). However, since FDIC insurance is unavailable to foreign banks,
those wanting to do business in California have had to form subsidiaries chartered in the state. Consequently, the branches of the Bank of Montreal there were transferred to the Bank of Montreal (California) and the Canadian Imperial Bank of Commerce created the California Canadian Bank as its wholly-owned subsidiary. The Bank of Nova Scotia has recently opened agencies in Los Angeles and San Francisco. It is possible that a motivating factor was the desire to be represented there but to avoid the FDIC levies by conducting solely a "wholesale" business.

San Francisco is the trade and financial capital of the Pacific Coast and this, no doubt, accounts for its attraction. Sacramento is the state capital and one chartered bank has a branch there. Los Angeles is one of America's largest cities. Three banks have selected the resident representative route as an "inexpensive" means of direct access to the latter area.

We should also note, before leaving the Pacific Coast that, as shown in Table XIV, one chartered bank early entered Washington and Oregon. These are two of a few U.S. states which allow foreign bank branches. This plus the close links between the American and Canadian Pacific Northwest has been the attraction of this area.

We noted earlier that the chartered banks have made extensive use of representative offices in different cities within the U.S. Reference to Table XV shows that each of the major chartered banks have entered Chicago and Texas in this way. The attraction of Chicago is appropriately summed up by this brief excerpt from one bank's annual
report at the time its office was opened there. The Chicago office
will be "an important addition to our Business Development (Foreign)
Department" as it gives the bank "on-the-spot representation in the
heart of the great Mid-Western States' industrial area."

Between Dallas and Houston each of the banks are "represented"
in the heart of "oil country". One bank aptly described the motivating
force which, no doubt, moved the others to the area. The representa­tive office in Houston "covering the States of Kansas, Louisiana, New
Mexico, Oklahoma and Texas will strengthen our close connections with
the petroleum industry, which has such an important influence on our
economy."

The foregoing quotations remind us that the representative
offices are conveniently located to be responsible for a particular
geographic region of the U.S. For example, in addition to those men­tioned above, at least two chartered banks have Special Representatives
situated in New York who are assigned particular sections of the Eastern
seaboard, including New York city. An important task of those who act
in a representative capacity is to cultivate harmonious relations with
the extensive network of correspondent banks in the country. According
to the latest information available as shown in Table XIII, the chartered
banks have in the neighbourhood of 2,000 correspondents in the U.S.

It is quite possible that a number of these correspondents
would hasten to set up branch offices in Canada if permitted to do so.
This contention is supported by U.S. trade and investment patterns.
From Table XXIV we note that the volume of U.S. merchandise trade with Canada has not only increased in relative importance from one-fifth to one-quarter total trade but also absolutely. The 3.5 times expansion in the period represents a slightly greater than 7.5 per cent annual rate of growth.

Table XXVI reveals that Canadian direct investment in the U.S. ranks only behind the U.K. in value. However, its relative importance has dropped from 30 to 26 per cent while the value has increased but 2.5 times in the interim representing only a 6 per cent annual growth rate. However, as shown in Table XXV, virtually an opposite experience has occurred with U.S. direct investment in Canada and here lies the great attraction of this country to U.S. bankers. Since 1950, the proportion has been almost constant at 30 per cent of the total U.S. direct investment abroad. Meanwhile, however, an almost six-fold expansion has taken place. Over the seventeen years this represents an impressive compound annual growth rate of almost 13 per cent or greater than any calculated to date. Unfortunately, for the U.S. banks they are not able to take advantage of this tantalizing opportunity. Even The Mercantile Bank of Canada, wholly-owned by the First National City Bank of New York has had an effective ceiling placed upon its growth as we noted earlier. However, there are many countries of the world where U.S. bankers are welcomed. One of these is England and, in particular, London. We now turn to an analysis of the attractions of that country.
United Kingdom

As we noted in our discussion the chartered banks early entered England by setting up branches in London. Next to the U.S., the U.K. has historically been Canada's most important trading partner. As early as 1886 it accounted for 43.5 per cent of our total trade compared to 44.4 per cent for the U.S. By 1926, while the U.S. proportion had risen to near 50 per cent the U.K. proportion had fallen to 27 per cent. Nevertheless a nine-fold increase in volume occurred. Thus trade flows are likely to have been an early initiating force. An additional force of less significance was to keep "in touch with the Commonwealth" since other Commonwealth countries accounted for no more than 6 per cent of total Canadian trade during the period 1886-1926. Another force of notable importance, no doubt, was London's pre-eminence as an entrepot. An international centre of finance, foreign exchange and world trade and the home of world-wide insurance and shipping interests. In addition, substantial amounts of capital flowed from the U.K. to Canada up until World War I in particular.

Since the war the chartered banks have augmented their branch representation in London. Trade has continued as an important force although U.K.-Canada trade is becoming relatively less important to Canada. Its proportion of the total merchandise trade has halved since 1949 to 8 per cent in 1967. Meanwhile, according to Table XX, total volume has only doubled. It appears that direct investment flows may be of greater importance in this period. Although U.K. direct invest-
ment in Canada has proportionately remained constant at 11 per cent of the total throughout the entire period, as illustrated in Table XXII, the dollar value has quintupled between 1949 and 1965. This represents almost a 17 per cent annual growth rate, a more impressive performance than its U.S. counterpart of 13 per cent. Turning to Table XXI we note that Canadian direct investment in the U.K. is about one-quarter the size of the countervailing value. Starting from a small base in 1949 the value increased ten-fold by 1966 or just over 15 per cent per annum. Also noteworthy is the fact that its proportion of total direct investment abroad more than doubled from 6 to 15 per cent. It is possible that the added branches, each opened in the city's West End have been opened as a response to increased travel abroad by Canadians. As one chartered bank described its second office in London, it is "in a location most convenient for customers and friends of The Bank visiting the U.K."

We must not overlook the tremendous significance of the Euro-dollar market during the past ten years. London is the hub of this market and its focal role "is reflected in the $8.4 billion of short-term dollar assets held ... by banks and foreign branches operating in Britain vis-a-vis non-residents" in late 1967. This amounted to "almost one-half of all U.S.$7" dollar assets held by banks in Europe. This market may not have been a significant force behind the opening of new branches of the chartered banks but it has led their established offices there to greater activity and has been an important source of new custo-
mers. Its importance with regard to the latter was summed up recently in the annual report of one of the chartered banks.

In playing our part in this developing market, we have uncovered many new areas of business potential and established relationships with more and more overseas concerns. These connections not only broaden our base of service, they often add very directly to our domestic banking business and, in addition, put us in a position to find new business for our Canadian or international customers.

With regard to the former "Canadian banks from the first have played a significant role in the Euro-dollar market" and have usually been net suppliers of funds to the market but the "possibilities for further net growth are now distinctly limited by the foreign currency guidelines adopted by Canada to prevent pass-throughs of U.S. dollars to countries overseas."

At the same time, "the greater part of Canadian lending to Europe ... is transacted through the United Kingdom." The principal reason is that "London's financial facilities provide the media par excellence through which funds can be drawn off or poured into the foreign currency market."

Those U.S. national banks interviewed have also found London and the Euro-dollar market to be immensely attractive and, as described earlier, in concert with U.S. balance of payments guidelines has been the major impetus behind the movement of smaller regional banks into London. Table XII and XVIII combine to illustrate the noteworthy expansion of U.S. bank branches in London; it will be noted that the number has quintupled since 1950 and more than doubled since 1960. Table
XVII reveals that those banks selected for analysis by the writer have 12 U.K. branches, 10 of these are in London, or more than one-third of the London total. In contrast to the Canadian position the Bank of England encourages the opening of foreign branches in London since it believes new arrivals aid in expanding the range of financial services already in existence; to further refine them, and to "keep British banks keen on their competition." U.S. banks have responded to the "invitation" with such a proliferation of branches that Moorgate Street has become known as "Yankee Alley".

The importance of the Euro-dollar market as "the" factor behind the conducive atmosphere is attested by the fact that at the end of 1967 among the London banks American branches were the "single most important market participants, accounting for over one-half of all external short-term dollar assets reported by banks and foreign branches operating in Britain."

Before turning to discuss the selection of vehicles by the banks of both countries it is important to note the U.S.-U.K. trade and investment picture as a probable initiating force as well. In 1950, U.S.-U.K. merchandise trade amounted to only $855 million and as shown in Table XXIV the volume had quadrupled by the end of 1967. Table XXV illustrates the significant post-war rise in U.S direct investment in the U.K., not only has its relative importance risen, although stable since 1962, but the dollar value has increased almost 7.5 times in the period or about 14 per cent per year. Of lesser importance, as revealed
by Table XXVI, is U.K. direct investment in the U.S. Although the U.K. ranks as the largest single country source of these funds, accounting for about one-third of the total throughout the period, the value has risen little more than 2.5 times. It has been consistently less than the countervailing position since convertibility restoration in 1958 and by 1967 was virtually one-half that value.

The aforementioned elements -- the Euro-dollar, trade and direct investment trends and value contribute substantially to the choice of the branch vehicle or the prime method of operating in London. We have illustrated that good opportunities exist for the building up of an attractive "retail" banking business and the Euro-dollar market represents probably the most significant "wholesale" inter-bank lending market today. In this regard since the recent balance of payments guidelines were implemented "the main business of the American branch banks seems to be lending money to their head offices in the form of Euro-dollars." The branch represents the most effective vehicle to obtain the "best of both worlds".

Significantly, however, the Euro-dollar market has given rise to the emergence of an important new banking form, the multi-national joint venture. As one U.S. banker described its effect, "it has done much towards the establishing of multi-national enterprises." Notably, the U.S. regional bank influx into London in the past three years has been increasingly via this vehicle. The joint venture route apparently has been more attractive than the direct branch mode for several
reasons; the relative lack of resources of the smaller regional banks in contrast to the big international New York and San Francisco banks combined with the high start-up costs of a branch; the shortage of truly qualified international banking talent which, when available comes at a very high price; the already intense and entrenched competition from existing domestic and foreign institutions in London; the reluctance of the European financial fraternity to do business with these previously little-known regional American banks.

For the already internationally established U.S. banks the Euro-dollar market has stimulated the creation of new multinational wholesale intermediaries. In Chapter IV we described the objectives of Manufacturers Hanover Limited which is headquartered in London. This is but one example. We shall note later when we turn to look at continental Europe that several other joint ventures designed exclusively to top the Euro-dollar market have been created.

Only one chartered bank to date has employed a joint venture vehicle which has been active in the Euro-dollar market. In 1964, The Toronto-Dominion Bank, in partnership with the Midland Bank Limited (London), Standard Bank Limited (headquartered in London but operating over 1,200 branches in 15 countries in sub-Saharan Africa) and the Commercial Bank of Australia Limited, formed Midland and International Banks Limited (MAIBL) "for the purpose of providing finance in circumstances not suitable for normal commercial lending. This includes medium-term export financing and loans for large-scale development projects
Midland Bank Limited is the principal shareholder acquiring 45 per cent of the issued capital of £10 million pounds. The Toronto-Dominion Bank holds an equity interest of 26 per cent. Its assets in 1964 totalled £70 millions, by late 1967 its deposits were "in excess of £225 millions." The venture secures "most of its funds" by "quoting competitive rates for deposits at notice or on fixed terms in substantial mounts." It is headquartered in London and according to one U.S. banking executive interviewed it is today "the biggest single operating factor in the Euro-dollar market."

Reference to Table XIV will reveal that the chartered banks have very recently established branches outside of London in the U.K. Actually it has been the action of but one, The Bank of Nova Scotia, which opened branches in Glasgow and Dublin in 1964 and 1966. The vehicle is in keeping with their exhibited practice of undertaking "an aggressive branch expansion program." Since Irish-Canadian trade has remained near an annual level of $21 million between 1951 and 1966 and Ireland is not among Canada's leading trading partners, the direction of trade may not be a significant force. We do not have figures for the direct investment flows between the two countries but they are likely to be nominal. However, we can reasonably hypothesize that close cultural relations and growing tourist travel were contributing factors. Dublin, too is the capital city. Similar hypotheses can be applied to the Scottish case, except that Glasgow is an important port city but not the capital.
The 1968 entry into Ireland by The Chase Manhattan Bank via an association with the Bank of Ireland was defended in terms of a "long range view of the future." The executive interviewed replied that "Ireland is a reasonably attractive prospect as far as expansion of U.S. business over the next 10 to 20 years and is thus very opportune to be there at this time in keeping with our desire to offer service capability wherever our customers are going to go."

In the foregoing section we have canvassed the motives behind the lure of London and the United Kingdom for the Canadian and American banks we shall now turn to investigate why continental Europe has become increasingly attractive to these institutions.

**Continental Europe**

Reference to Table XII shows that the branch vehicle has been an infrequently employed vehicle in Europe. Table XIII reveals that representative offices are the prime method of direct access to complement a network of over 3,000 correspondents and Table XVI illustrates that the banking affiliate is a very recent innovation for Canadian banks in Europe. At this stage we may contrast the intensity of representation of the U.S. banks with that of their Canadian counterparts. The selected U.S. national banks maintain all of the 38 branches of U.S. banks in Europe (see Table XVII). They also operate 16 representative offices. These compare to three and six respectively for the chartered banks. In terms of affiliates in Europe these U.S. institutions
possess equity investments in six different commercial banks, the chartered banks only two. What is the attraction of Europe for these banks and what accounts for the greater number of "offices" of U.S. banks on this continent? Two possible answers are trade and investment patterns.

It is most appropriate that the analysis be conducted in terms of individual countries or economic areas due to the wide variety of situations involved. Nevertheless, at the outset, we shall offer a conglomerate view. Between 1951 and 1966 Canada-Western Europe (excluding U.K. and Ireland) trade has expanded from a level of $268 million to a sum of $1,552 million, almost a six-fold increase for an attractive annual growth rate of 13.5 per cent (see Table XX). Table XXIV illustrates that U.S.-Western European trade during a similar period has increased only 2.8 times (about 7 per cent per annum) but has consistently accounted for about one-quarter of its merchandise trade volume. Not surprisingly, in view of the relative population size, this sector of Canadian trade is but one-tenth the U.S. Volume.

The effective contrast is to be found in the value of direct investment. According to Table XXI although Canada's direct investment in Europe has increased twelve-fold since 1949 its inconsequential beginning meant that by 1966 the value reached only $223 million or 7 per cent of Canada's total. It becomes fairly clear that there are not enough "coat-tails" in Europe for the chartered banks at this time. At the same time, Table XXV shows that in contrast the U.S. banks have a considerable number of "coat-tails" to grasp. Total U.S. direct investment
has multiplied exactly ten-fold since 1950, a most impressive 17.5 per cent annual growth rate. One should also note that a very substantial portion of this growth has occurred since convertibility restoration in 1958. In fact, the total value has doubled since 1962, a 15 per cent effective annual rate of growth. Table XXVI reveals European direct investment to be almost 40 per cent of the total value but the value is but one-third of its outgoing counterpart. Thus to be "where the customers are or where they are going" may be regarded as Europe's primary attraction to the U.S. banks. This may account for the relatively large number of U.S. bank branches in Europe while Canadian banks have concentrated upon the less costly representative route.

Before turning to peruse the individual cases the European Economic Community (EEC), better known as the European Common Market, deserves special treatment. It was formed in 1957 and its members are Belgium, France, Germany, Italy, Luxembourg and the Netherlands. It will be recalled that the chartered banks have an "office" or "offices" in each of these countries and at the close of 1968 were represented elsewhere in Europe solely by correspondents. As for the U.S. banks it will be noted from Tables XVIII and XIX that 30 of their 38 branches, 9 of 16 representative offices and 4 of six commercial banking affiliates in Europe are located in the Common Market countries. What has attracted the banks of both countries to this economic area? Once again it may be the "nature of the flow of trade" and investment patterns.
By reference to Table XX we note that trade with the EEC countries totalled $639 million in 1957 by 1966 it had almost doubled to equal $1,187 million about an 8 per cent annual growth rate. In 1957 it represented 88 per cent, and by 1966 it still was 70 per cent, of total Canadian trade with continental Western Europe. Meanwhile, Table XXIV reveals that in 1967 U.S.-EEC trade accounted for 69 per cent of total U.S. trade with that continent. The volume was also eight times that for Canada although as illustrated in Table XX Canada-EEC trade accounted for 70 per cent of Canadian trade with continental Europe in 1966.

Turning to Table XXI, it is significant to note that the EEC countries accounted for 64 per cent of Canadian direct investment in Europe in 1966 while Table XXIII shows that, without including Italy, the EEC countries contributed 77 per cent of European direct investment in Canada. The corresponding proportion for the U.S., as can be seen from Table XXVI, is 60 per cent, however, as we have suggested above the relatively small value renders access to the origin of these funds a relatively minor force. Once again, it is U.S. direct investment abroad which can be viewed as the principal attraction. In 1958 the value of these investments in the EEC countries equalled 41 per cent of the total for Western Europe according to Table XXV. The proportion had increased to 47 per cent by the end of 1967 with the value more than doubling. At the same time its value was 60 times the corresponding sum for Canada.
It should be fairly clear from the foregoing analysis that the representation of U.S. banks in Europe should be and is, much greater than that of the Canadian banks. It is also not surprising that the branch system of the chartered banks should be much smaller than that of their American counterparts due to the relative lack of Canadian customers abroad in contrast to the apparent large and growing number of American clients with "permanent" commitments in Europe. The shortage of opportunities for notable "retail" banking business short of aggressive competition for indigenous customers thus makes the representative office a suitable vehicle for the existing circumstances.

We shall now turn to analyze specific cases, beginning with France since the branch established in Paris by a wholly-owned subsidiary of The Royal Bank of Canada in 1919 represented the initial European entry by the chartered banks. This early entry may be attributed to trade and investment flows but also is likely to reflect the close cultural relations between France and Quebec where the chartered bank has its head office.

In 1956 the Bank of Montreal established a representative office in Paris. Its function, stated at the time, was "to maintain a close liaison with our banking correspondents on the continent of Europe, and to assist, in any way possible, those firms and individuals in Europe who are looking to Canada as a field of business expansion." The principal initiating force was thus to sell the bank's services to prospective foreign investors. In 1968 the same institution acquired an equity
interest in the Banque Transatlantique of Paris. The affiliate form is in keeping with the bank's policy, noted earlier, of preferring cementing relations with established banks rather than employing direct branches. An initiating force might have been Canada's growing trade with France which in 1966 ranked as our ninth largest trading partner. (See Table XX).

Morgan Guaranty Trust Company which has been "100 years in France" noted recently that "after the war, France's remarkable economic recovery and American interest in doing business there opened important new opportunities for banking." Table XXV reveals that U.S. direct investment in France increased ten-fold between 1950 and 1967 attesting to the existence of increasing "opportunities". Another of these opportunities has been the emergence of Paris as a leading international money market centre. Specifically, since 1958 it has become the scene of a significant volume of Euro-dollar transactions. While the U.S. national banks were already "there" when it started, as in London, the presence of the market gave rise to the creation of multinational joint ventures headquartered in Paris "to mobilize capital in the most efficient way to meet demands in certain areas" as one American banker described it. The Societe Financiere Europeene is a "wholesale intermediary" whose objectives and activities were elaborated upon in Chapter IV is an important example. The Bank of America entered this venture in keeping with two of its objectives. They are firm believers in the multi-national approach to banking and business, one because it
is "helpful in protecting profitability in a political and nationalistic world"; secondly, because they seek "greater international cooperation in the future."

We now turn to look at chartered bank operations in Germany which is now Canada's third largest trading partner (see Table XX). This factor, then, is likely to have been an important force behind the opening of an "office" in Germany. For U.S. banks, however, the principal attraction is likely to have been the notable and growing volume of U.S. direct investment there. At the end of 1958 the value of these funds in Germany were 34 per cent of the EEC total, this proportion increased to 41.5 per cent at the close of 1967. Concurrently, as shown in Table XXV, the value quintupled thus experiencing an impressive annual growth rate of 20 per cent.

It will be noted from Tables XIV, XV and XVIII that in contrast to the U.S. banks which presently maintain ten branches in Germany the limited entrance of the chartered banks has been by way of the representative office. In addition to the expense of a branch and the shortage of "coat-tails" for a profitable branch operation there are more unique factors which apply. One of these was explained by a Canadian banker interviewed in terms of inhibiting legislation. Canadian banking legislation! "It is our policy that branches should never be opened in certain parts of the world." He cited Germany as an important example saying that "Germans do not welcome competition with Germany's "Big Three" banks. At the same time they are highly reciprocity
conscious and "U.S. banks can get in because New York is open "through
the 1961 legislation discussed earlier. Thus, even if a Canadian bank
wished to set up a branch in Germany it would probably prove most dif­
ficult to obtain a banking license since the German banks are not per­
mitted to operate in Canada.

Another Canadian banker explained why that particular bank
had selected the representative as opposed to the branch route in terms
of correspondent relations. "Correspondent banking is an important
factor in considering whether or not to open an office. They carry
important balances with this bank and the relationships are cherished
highly. Germany is a case in point. We do a substantial good business
with German banks and although there is no actual German law against
opening a branch we are opening a representative office there as a
compromise. A representative can work with the correspondent banks
and service the business of German subsidiaries in Canada without
trampling on our correspondents' toes."

We shall now briefly canvass some specific cases. In 1962
The Bank of Nova Scotia opened a representative office in Munich. In
1960 the bank's President had said: "Growing confidence in Western
Europe is reflected in the sizable flow of investment capital to London,
Paris and Munich in the last few years. It is not just short-term in
character; it includes serious long-term investment." According to
a U.S. banker similar motives existed when it opened its branch there.
In 1962 the Bank of Montreal opened its representative office in Dusseldorf. It explained, at the time, that it was to be "an additional point of liaison for our European business with special reference to West Germany, Switzerland, Austria and Denmark." Noting the area it is to serve, the particular site was probably selected having in mind the potential market value of the area, the ease of communications to adjacent cities and the cost of operation.

Since the beginning of 1969 The Royal Bank of Canada has established a representative office in Frankfurt. "It will enable us to offer a better service to our customers who have dealings with West Germany, and to our German banking friends and their clients interested in trade and investment in Canada, the Caribbean and Latin America," according to the bank's chairman. Thus, it was trade and investment patterns which precipitated the choice of this country for an office.

Not mentioned above, but possibly a decisive factor behind the selection of Frankfurt as a site has been that city's emergence as a money market centre in concert with the growing importance of the Deutsche Mark. One American banker offered that it was "the need to deal in Deutsche Marks directly" which had occasioned the recent opening of its branch there to replace a previously existing representative office. The annual report of that bank explained the opening in terms of its policy regarding the choice of vehicles and location.

"The Frankfurt branch will complement the Bank's representative offices on the Continent. MHT has not developed a network of over-
seas branches, nor does it intend to do so. But as new money centers evolve, in the way Frankfurt has, new branches to serve customers as Manufacturers Hanover now does in London will be opened."

We have now completed our case study of Germany and have learned that trade and investment patterns, legislation, correspondent relations, a central location and an international money market centre each have played roles in initiating entrance into Germany by certain vehicles. We shall now turn to investigate the operations of the banks in Belgium.

From Tables XIV and XVI it will be noted that the chartered banks limited representation in this country consist of one branch and one banking affiliate. Meanwhile, the national banks maintain two representative offices, one affiliate and eight branches according to Tables XVIII and XIX. One attraction for the chartered banks might have been Canada's growing trade with Belgium and Luxembourg which as illustrated in Table XX ranks as this country's tenth ranking trade partner. These countries also ranked second to Holland a source of foreign direct investment in Canada in 1965 but were the destination of but a nominal amount of Canadian overseas direct investment (See Tables XXI and XXIII). Thus investment ties are not strong. For the national banks once again U.S. direct investment overseas is likely to be a motivating force since the value has tripled since 1962. However, a more significant force appears to exist for the selection of Belgium, and specifically Brussels as a site for overseas operations.
Except for three U.S. bank branches in Antwerp, Belgium's bustling port centre, each of the aforementioned "offices" are in Brussels. Why? To present and support an hypothesis we offer an excerpt from "The Economist" followed by two recent cases.

"One of the things that makes banking interesting here is that you are dealing with businessmen whose decisions affect all Europe." This remark from a foreign banker in Brussels goes far to explain the rash of foreign banks that have come into this city over the past half-dozen years. Top businessmen are expected to attach growing importance to being at the executive and administrative centre of the EEC; and as top management of international companies move into Brussels they will want their own banks on the spot.

The article goes on to say that "investment incentives in Belgium are attracting big American business (especially when combined with the Common Market's tariff walls)." Thus it is the EEC and U.S. direct investment which is the significant attraction for the U.S. banks.

For the chartered banks EEC-Canada trade may be a greater attraction than capital. The Bank of Nova Scotia stated that "we opened an important new office with full branch status in Brussels, Belgium which is increasingly becoming a focal point within the European Common Market." The branch vehicle is in keeping with their expressed policy of "aggressive branch expansion", as noted earlier.

The Royal Bank of Canada clearly expressed the importance of EEC trade and defended the selection of the affiliate vehicle in its 1968 Annual Report.
Canada's role as a leading trading nation continues to expand and our bank has endeavoured to enlarge its international representation by way of imaginative and profitable expansion. In some areas, this is practical by way of additional branches and, in others, by ways of association with well established national banks. As an example we purchased an interest in Banque Belge pour l'Industrie of Brussels. This is an old and highly regarded Belgian bank and we believe that our participation is an excellent means of strengthening our banking ties within the Common Market.

We have completed our canvass of the forces behind the move to Belgium and have hypothesized that the existence of the EEC is an important attraction. We now turn briefly to look at the banks in Italy, the Netherlands, Switzerland and Greece.

The representative office of the Bank of Montreal opened in 1968 in Milan is the only office of a Canadian bank in Italy. According to "The Financial Post", "the bank's move reflects a tremendous expansion recently in Italian-Canadian trade." The article notes that in 1967 Canada's trade with Italy amounted to $250 million, a 2.5 times multiplication since 1957 (see Table XX). It also notes that "the number of Canadian companies investing in Italy has increased," however reference to Table XXI reveals that total value in 1966 was only $27 but no doubt notable in terms of Canadian direct investment in individual countries if a complete breakdown was provided. Apparently too, "several major Italian firms have extensive interests in Canada" although we do not have data at hand to support this assertion.

In contrast the selected U.S. banks have three representatives, one affiliate and two branches in Italy. This, no doubt, partly reflects the trend and value of U.S. direct investment there since, as Table XXV
The choice of Milan as the site for the office of the Bank of Montreal is consistent with the hypotheses that trade and investment flows are important motivating forces since it's the centre of the industrial north where most foreign investment activity occurs. The U.S. banks are evenly divided between Milan and Rome, the capital to the south as locations for their "offices".

Before turning to the Netherlands it is interesting to note the case of the Bank of America's acquisition of its affiliate, Banca d'America e d'Italia with 85 offices throughout Italy. This U.S. bank has a strong Italian heritage as it was founded in 1904 by A.P. Giannini in the Italian district of San Francisco. Thus one could reasonably attribute this bank's interest in Italy to "cultural ties". According to an executive of the Bank of America interviewed the Bank was early a controlling investor in the Italian bank but due to Federal anti-trust action in the late thirties it was required to divest itself of its interest.
Only one Canadian bank operates an office in Holland and that is a branch of The Bank of Nova Scotia in Rotterdam. U.S. banks meanwhile have four branches and two affiliates. Canadian direct investment in the Netherlands, although still relatively nominal, doubled between 1965 and 1966 and that country in 1965 was continental Europe's largest single source of foreign direct investment in Canada although it was but one-quarter the value of its U.S. counterpart. (See Tables XXI, XXIII and XXVI). U.S. banks can be expected to be relatively more attracted by U.S. direct investment there since as shown in Table XXV the value has not only more than quadrupled since 1958 but is $900 million larger than the Canadian commitment there.

Most important for the chartered banks is Canada-Holland trade which Table XX shows to have multiplied 2.5 times since 1957. Significantly too, the Netherlands in 1966 was Canada's seventh largest trading partner. The selection of Rotterdam as the branch site reflects this contention since it is the major port city of Holland and a leader in Europe. The branch vehicle once again reflects the expressed policy of the institution.

In 1959 the Canadian Imperial Bank of Commerce established its only link in Europe, except for correspondents of course, by opening a European representative office in Zurich, Switzerland. The bank stated, at the time, that the "office will provide information facilities and assistance for European interests now doing business in Canada or wishing to establish new operations here...." A consideration behind
the selection of Zurich as a base for European operations was, no doubt, the ease of communication and travel to adjacent cities. However, perhaps even more significant is the renown of Switzerland as a centre of international banking and Zurich as an international money market centre.

The selection of Athens, Greece by The Bank of Nova Scotia is interesting since Canada's trade with that country has historically been meagre and in 1966 totalled only $11.5 million. However, according to the executive interviewed The Bank expects to combine a profitable "retail and good element of wholesaling banking" operation. He also noted candidly that there are "many wealthy Greeks" to lend support to his statement, implying as well that the initial Canadian exposure there might attract a flow of investment funds from that country to Canada. One special interest might be the large shipping interests in Greece, particularly considering the importance of trade to Canada's economy. Additionally, he asserted that they were "fully welcomed by local bankers" and since, outside Athens, they "want to work closely with correspondents they anticipate no harm to come to important correspondent relations."

The choice of Athens enables us to offer another hypothesis concerning the forces leading to a decision to set up a banking office in a particular area. It is possible that some are confident that "We can compete! We can develop ties!" Indeed one could say that it reflects an aggressive approach to international banking.
Our extensive examination of the operations of the Canadian and U.S. banks in Europe has ended and we are now prepared to traverse the Atlantic to the sunny shores of the Caribbean. Here we shall find that the chartered banks are firmly established and more widely represented than their U.S. counterparts.

The Caribbean

Table XII reveals that the chartered banks at the beginning of 1969 were operating a total of 154 branches in the Caribbean islands (Antilles). They represented almost three-quarters of the world total and the number has doubled, and the proportion increased from 61 per cent, in 1960. The Canadian bankers interviewed were asked to explain the origin of this phenomenon. Trading patterns, Commonwealth ties, political stability and an obligation was the gist of their response.

We have already noted the importance of Canadian-Caribbean trade as the significant early initiating force when we outlined the major phases of international activity of the chartered banks. However, Canadian banks also possessed what may be termed a natural advantage there since both Canada and a substantial part of the Antilles were British possessions. At the same time, since many of these islands were British colonies the political climate was controlled and, as we emphasized earlier, political stability is a significant plus factor. One may question why, with a "natural advantage", the chartered banks do not have branches in all existing, or former, Commonwealth countries.
One important determining factor must be mentioned and that is legislation. For example, Australia prohibits foreign ownership of banking facilities, while India demands reciprocal treatment in an applicant's home country.

It is appropriate here to utilize a case study of Cuba to further stress the importance of political stability, trade and acceptance and introduce an additional initiating force. In 1898 an executive of The Royal Bank of Canada visited Cuba to make a general survey of conditions there. What follows are his impressions as recorded in the bank's Annual Report of 1952.

He was favourably impressed with the potentialities of the field and his conclusions were that the country, which was about to enjoy stable government after a long period of civil commotion, offered excellent prospects to traders, and that banking facilities then available were totally inadequate for the needs of the country. He was encouraged by representative Cuban groups, ... application was made to the competent authorities; approval was granted and we opened our doors in Havana early in 1899.

The story continues:

To keep pace with the banking needs of a young and rapidly developing country and as the bank was then regarded as an integral part of this development, we opened branches throughout the Island as the need arose.

It is ironic that 60 years later changed political circumstances were to force all foreign banks out of Cuba.

The foregoing case has served also to illustrate that the Canadian banks helped to "fill a vacuum" since either a "totally inadequate" or no local banking system existed on these islands. In Jamaica, for example, the first local bank was The Bank of Nova Scotia (Jamaica)
Limited was formed in 1967 with 25 per cent local ownership. The chartered banks, thus became "the banking system and an obligation was acquired to grow with the islands." The chartered banks, then, have conducted essentially a normal retail banking business in the Caribbean, the range of services offered being very similar to those transacted in Canada. This fact, combined with the aforementioned elements explains why the branch vehicle has been used exclusively until very recently.

In the following investigation of chartered banks in the Caribbean, following an investigation of the trend and volume of Canada-Antilles and Canada-West Indies trade, we shall restrict our analysis of individual island situations to Jamaica. Table XIV illustrates that 107, or 70 per cent of chartered bank branches in the Antilles are located within the West Indies Federation and 46 or 43 per cent of this total are in Jamaica. Concurrently, Jamaican branches account for 30 per cent of the Caribbean total. We shall also look at a number of the new vehicles employed in the Antilles recently by the chartered banks in terms of objectives and motives and also comment upon the U.S. banking activity in the area.

From Table XX it will be noted that Canada-Caribbean trade in 1966 totalled $265 million dollars. The same table will show that, as a group, these islands ranked as Canada's sixth largest trading partners. At the same time, the West Indies portion of this trade equalled $130 million or about one-half the Caribbean total and a per-
usal of the figures reveals that this has historically been the case. Thus the nature of the flow of trade likely remains an area attraction.

It will also be seen by reference to Table XX that Canada-Jamaica trade was equal to more than one-half the West Indies trade total in 1966. And too, the Jamaican trade has been expanding at a greater rate than West Indies or Caribbean trade by more than tripling since 1951. This performance may largely account for increasing Canadian bank interest in Jamaica exhibited by the opening of 30 branches there since 1951.

In 1967 The Bank of Nova Scotia departed from the traditional direct branch system of operation by transferring its Jamaican banking business to The Bank of Nova Scotia (Jamaica) Limited. The bank sold to the public 25 per cent of the capital stock and retained a 75 per cent interest. As mentioned above it represented the first "local" bank in Jamaican history. It is "banker to the government and handles some 42 per cent of all Jamaica's banking business." This move may have been precipitated by the news that another "local" bank was in the process of formation for at the same time that this subsidiary was created a U.S. bank was moving towards the creation of the Jamaica Citizen Bank. Its shares were to be 51 per cent locally owned with the majority shareholder, Citizens and Southern National Bank of Atlanta holding 49 per cent of the stock.

According to the 1967 annual statement of the bank it may have overcome a problem which, according to bankers interviewed, has sometimes plagued the banks operating in the Caribbean area -- the
difficulty encountered in generating a deposit base adequate to meet loan demands, necessitating inter-area or head office loans. At October 31, 1967 deposits equalled £39 Jamaica sterling while loans amounted to £33. This "statement" is supported by the executive interviewed who said that "deposit acquisition was no longer a problem."

The Bank of Nova Scotia early established a branch network in Jamaica and the Caribbean. We noted in our discussion of the major phases of international activity of the banks that The Royal Bank of Canada and The Canadian Imperial Bank of Commerce were also active in setting up Caribbean branches prior to World War II. Each has continued to expand its network of branches, however, the remaining two major chartered banks as "late-comers" selected different vehicles to enter the area. The Bank of Montreal chose the affiliate route in keeping with its policy which we have noted. The Toronto-Dominion Bank selected the multi-national joint venture.

In 1958 the Bank of London and Montreal Limited (BOLAM) was formed "initially bringing together the specialized experience and a number of established offices of the Bank of London and South America, Limited (BOLSA), its London parent, and the financial resources of its Montreal parent, the new bank will develop as a joint enterprise in every way, growing with, and facilitating the expanding economy and trade of the Caribbean area and providing the Bank of Montreal with direct representation there."
Significantly, BOLAM technically became a multinational joint venture in 1964 "when it issued capital was increased ... to enable Barclays Bank DCO to join ... becoming a one-third equal partner."

The association with Barclays Bank DCO was termed advantageous because of "that bank's international network of some 1,400 offices in 40 countries outside the U.K." and the international renown of its parent Barclays Bank Limited. Thus profits and prestige may be said to have combined to precipitate the acceptance of this partner.

BOLAM is headquartered in Nassau and has six branches in the Antilles. However, its most extensive representation is in Latin America where it now maintains 38 branches. Thus in one fell swoop the Bank of Montreal gained initial direct access to two important areas. We shall comment further upon the latter area below.

Prestige could be considered a force behind the association of The Toronto-Dominion Bank (T-D) World Banking Corporation Limited (WOBACO) a multi-national joint venture which was formed in 1966 to act as a full-service bank. The T-D together with the Bank of America holds about 2/3 of the issued capital of 500,000 shares. (The T-D maintains a 28 per cent participation). The bank reported, at the time, that WOBACO "provides us a significant entry into the Caribbean area."

Later the President of the bank said that participation in WOBACO would "enable the bank to extend complete banking service to its clientele and Canadian interests in the Bahamas (it is headquartered in Nassau) as well as offer the advantages of direct association with the
international owner group of WOBACO." Thus association with "useful partners" appears to have been a significant force behind the selection of this vehicle. Another factor, which applies equally to BOLAM, is that the bank may have felt that competitors had saturated the area soaking up most of the opportunities for building up a profitable retail banking business from scratch.

It is interesting to note the forces which motivated the Bank of America to enter WOBACO, according to the executives interviewed. Most important was acquisition of an "outlet to the Bahamas market and easy access to Euro-dollars." Nassau has become a favoured expansion area for U.S. banks, he suggested, because it is "possibly the most economical location from which a U.S. bank branch may participate directly in the Euro-dollar market." The Bahamas are a noted tax haven thus "tax advantages are implicit." Also, a "substantial number of American tourists travel to the Caribbean," he added. It was further stressed that there is "considerable prestige in the Bahamas in having a Canadian bank as a partner." One executive candidly admitted that "Americans are not totally accepted in the Bahamas since it is a black government which now governs, not the local establishment, and the brute force of America is diluted by having other partners, especially Canadian." The implication here is that political nationalism in the form of "Anti-Americanism" is a force which U.S. banks must face and consider in the choice of vehicles to employ in certain areas.
In closing, it is interesting to note the contrast between the number of chartered bank branches and those of their U.S. counterparts. Table XII shows that U.S. bank branches in the Caribbean have quadrupled since 1960 while those of the chartered banks have doubled. Nevertheless, the total U.S. branch representation is but one-third of the Canadian total. The difference is even more pronounced when it is noted that 28 of these branches are located in the U.S. overseas territories of Puerto Rico and the Virgin Islands. (See Table XVIII). We now turn to study chartered bank activity in South and Central America where the positions are reversed.

South and Central (Latin) America

We noted in our discussion of the major phases of international activity that The Royal Bank of Canada early set out to build an extensive branch system in Latin America. We can only hypothesize that the promise of expanding trade with these countries, since their products are complementary to our own, was an important initiating force behind this move. Today, of the 24 direct branches maintained by chartered banks in the country, 21 were opened prior to World War II. Only two chartered banks employ the branch vehicle, to this date, on the continent is The Bank of Nova Scotia which opened an office in Guyana in 1968. We may reasonably hypothesize that the political instability and frequent exchange devaluation which have characterized many of these republics have been forces inhibiting additional branch
openings. The credibility of this contention is enhanced when we note from Table XIV that ten of the 24 branches are concentrated in British Honduras and the former British Guiana (now unified with French Guiana to form Guyana). Trade with these countries in 1966 amounted to but $41 million. In the past it has been less than this, thus trade relations seem not to offer a complete explanation. What is important about these countries is that historically their political climate has been controlled by the British. Thus political stability may have been a significant attraction of these countries.

Another major problem in these developing countries which are striving, in varying degrees, for self-sustaining economic growth is likely to be the difficulty in generating an adequate deposit base and the reluctance, for the aforementioned reasons, to bring in more than the minimum capital required. Since a bank which expects to grow and gain profits in a foreign country, indeed any country, must have "money on the shelf" it may be preferable to sacrifice complete management independence and seek out an established bank in the area as a partner.

This we intimated above to be a possibly significant motive behind BOLAM, the Bank of Montreal affiliate which now operates 38 branches in Latin America. BOLAM represented the vehicle of entry to Latin America for the Bank of Montreal and it now has "offices" in Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Panama and in Venezuela the bank is represented through its shareholdings.
in Banco La Guaira International C.A. What might have been the important initiating force behind this banks' commitment?

Table XXI reveals that Canadian direct investment in Latin America was only $137 million, or 6 per cent of the total, in 1958 when the investment was made although the value had almost doubled since 1954. Thus the "coat-tails" for a new branch system appear to have been relatively "short". However, Canada-Latin America trade figures are fairly impressive, as shown in Table XX the volume has multiplied 1.5 times since 1951 and totalled $730 million in 1966. The area thus ranked as Canada's fourth largest trading partner. One may have noted the concentration of BOLAM's offices in Central America. Significantly perhaps, Canada's trade with that area had expanded 1.75 times between 1951 and 1957 to reach a total of $161 million.

It is interesting, at this stage, before investigating several other recent cases to contrast the commitments of the U.S. banks in the area with those of the chartered banks. The Federal Reserve banks as shown in Table XII maintained 130 branches in the area, five-fold more than their Canadian counterparts. At the same time the number has quadrupled since 1955. Table XIX reveals that they have also made extensive use of representative offices (16) and affiliates (10).

Two probably significant attractions may account largely for the difference in intensity of representation. These are the volume of trade and the size of U.S. direct investment in Latin America. Reference to Table XXIV reveals U.S. trade with this area to be 13 times
its Canadian counterpart. It is also relatively more important, recently comprising between 15 to 18 per cent of total U.S. trade whereas Canada-Latin America trade has recently been from 4 to 6 per cent of the total despite the fact that for both countries the proportion has shown a steady decline although total dollar volume has increased.

What may be interpreted as a more significant initiating force for U.S. banks is the amount of U.S. direct investment in the area which gives them much longer "coat-tails" to hang onto. Not only has the value been about fifty times the Canadian counterpart, meaning that there are likely to be many more U.S. customers in the area, according to Table XXV its value more than doubled between 1950 and 1965, which means a steady influx of U.S. customers into the area has been taking place. The relative proportion has exhibited a declining trend, however, halving between 1955 and 1967. (One might reasonably hypothesize that this decline has been precipitated by the growing attraction of Europe since U.S. direct investment there as a percentage of the world total doubled in the same period.) Nevertheless, it remains 17 per cent of the U.S. total compared to an historically constant Canadian-Latin American proportion of 5 to 6 per cent.

The greater number of "coat-tails" for the U.S. banks renders the operation of a branch system more viable. But, as noted, the U.S. banks employ representative offices extensively as well, an indication that for some banks although the "ties" are there the "tails" have been taken by a competitor. The U.S. banks have also employed
the affiliate vehicle. One of the factors to explain this phenomenon may have been the desire to overcome nationalistic sentiments, prevalent in many of these republics, by retaining an established local bank's name "above the door" or by becoming associated with local interests to create a new institution. In the two cases which follow we shall see that these same pressures may have initiated specific action by two of the chartered banks.

In 1965 "The Board of Directors of BOLAM decided that it would be advantageous for the bank to associate its operations in Venezuela with local interests." To this end a new bank known as Banco la Guaira International C.A., was formed in which BOLAM has "a substantial, but minority interest."

One year later, The Royal Bank of Canada "for a variety of reasons" incorporated in Brazil, Banco Real do Canada, S.A. to take over operation of its branches there. A number of reasons are of possible significance. One might have been that there are tax advantages to be gained from incorporation. Another, that should expropriation of assets occur, exposure on the liability side is clearly limited since any deposits of foreigners would be held, not by a Canadian bank operating a branch abroad but in a separate vehicle, a foreign-incorporated subsidiary. Thus any claims arising could not be directed at the Canadian bank but against the Brazilian government. Of special significance, as will become clear shortly, the formation of the subsidiary may have taken place in preparation for bringing local funds into the operation.
In 1968 The Royal Bank accepted the Bank of America as an equal partner in its Brazilian subsidiary. It was announced that "the world-wide association of the Bank of America will complement our own resources in a most useful way." According to an executive of the U.S. bank interviewed that bank had been actively seeking a full-service Brazilian banking outlet. He explained that "Brazil is a particular problem area, one cannot expand on local resources because of the inflationary situation." He added that there are "thousands of banks" thus implying that deposit generation would be difficult for that reason alone and, in view of the rapid inflation taking place in Brazil with the constant danger of exchange devaluation, the bank would be subject to undesirable currency exposure by bringing in outside funds in order to keep "money on the shelf" to meet loan demands. The implication which arises out of the foregoing is that equity investment in an established bank was a preferred entrance vehicle in these circumstances. Thus the partnership was mutually advantageous. An unstated additional, but important, force behind the initial incorporation and subsequent acquisition of a U.S. partner may have been Brazilian xenophobia.

It is known that in Brazil and Venezuela prior to 1961 and the amendment in New York State banking laws which subsequently allowed foreign bank branching recurrent proposals were made for legislation that would have prevented American branches in these countries from receiving deposits. The probable reluctance of their headquarters
to transfer substantial dollar balances to these countries, for reasons cited above, might well have forced the closure of certain branches. Since Canadian banking law continues to prohibit foreign bank entry into this country it is reasonable to hypothesize that some pressure was brought to bear against BOLAM and The Royal Bank of Canada to initiate the aforementioned actions.

We shall offer one more indication of the effect which political and economic nationalism may have upon the selection of suitable vehicles for operations in Latin America. In 1963 The Bank of Montreal "re-established a connection which existed prior to 1934" by opening a representative office in Mexico City "designed to serve as an information and liaison bureau to assist Canadian businessmen in developing their interests in Mexico and to provide on-the-spot information about this rapidly growing market." Table XX reveals that Canada-Mexico trade has doubled since 1951 and represents one-half the total for Central America. The statement also implies that Canadian investment in Mexico is growing. Unfortunately for the future Mexico has subsequently passed legislation, similar to Canada's, which prohibits the further use of the branch vehicle as a means of entrance by foreign banks.

A more optimistic note for the future of the chartered banks is to be found in a statement issued by The Bank of Nova Scotia following the opening of its Buenos Aires representative office to "develop connections in South America." The General Manager stated that the bank was "keenly interested in Latin America ... Canada is more and more
looking toward the south and we believe that our economic as well as political relations with the countries of the Caribbean and South America will develop notably in the years to come." On this note of optimism we leave Latin America and travel to the Middle East (and Africa) where the Arab-Israeli conflict gives rise to notes of pessimism.

The Middle East and Africa

One is immediately impressed, upon reference to Table XIII, that the chartered banks have but one branch in the entire Middle East and Africa combined. The single branch belongs to The Bank of Nova Scotia. It opened in 1965 in Beirut, Lebanon. Table XVI reveals that The Royal Bank of Canada acquired an equity interest in a Lebanese bank in 1966 to account for the only other "office", excluding correspondents, in the wide geographic area.

This limited representation is not surprising when one becomes aware of the relatively nominal Canadian ties in this area of the globe. Reference to Table XX shows the small volume of Canadian trade with the area. Although total trade with Africa and the Middle East has doubled in absolute value since 1951 its proportion of total world trade by Canada has remained static at a low level of about 2 per cent. Table XXI reveals that investment ties are lacking as well. Despite a four-fold increase since 1950, Canadian direct investment in Africa remained at but 2 per cent of the world total. We do not have similar data for the Middle East, however, the combined Asian total in 1966 was but 2 per cent of the gross as well. Canadian direct investment in Asia has,
however, undergone an impressive expansion; it doubled between 1960 and 1965, effectively a 15 per cent annual rate of growth. It seems reasonable to assume, however, that the bulk of this growth has been concentrated elsewhere, particularly India and Japan where our trade ties are expanding, due to the increasing nationalistic forces at work in the Middle East during the 1960's.

The branch vehicle employed by The Bank of Nova Scotia in Beirut is in keeping with their policy of "aggressive branch expansion" and The Royal Bank of Canada's investment in La Banque Des Activités Economiques, S.A.L., follows from their flexible policy regarding vehicle selection which we noted in commenting upon their recent investment in a Belgian affiliate. But why Beirut? Prior to the recent Middle East crisis Lebanon enjoyed a relatively stable economic and political environment and due to the country's central geographic location Beirut was the money centre of the Middle East and very substantial sums of money flowed out from this city seeking profitable investment opportunities in the advanced nations. Thus those Canadian banks which established direct representation in Beirut may have been motivated by the desire to steal a march on their Canadian counterparts by setting up shop, so to speak, at the source in an effort to gain early access to any funds which might be destined for Canada. An added attraction could have been the possibility of acquiring impressive deposit balances.
The entry of these banks into Beirut where perceptible Canadian connections would appear to be lacking may reflect a motivation which we introduced when looking at a chartered bank branch in Greece. The force is the confidence of these institutions that they can compete with other banks in the city and develop a "successful" business within the terms of the objectives the "office" is designed to serve which might include profitable deposit acquisition as an example.

The U.S. banks with offices there were no doubt similarly attracted although the U.S. investment funds flowing into the Middle East are likely to have been an extra attraction for these institutions. Table XXV shows that U.S. direct investment in the Middle East has multiplied 2.5 times since 1950 and accounts for 3 per cent of the global total. However, its expansion has been unimpressive, and proportionately, it has exhibited a decline since the Suez crisis of the late fifties and the subsequent nationalistic sentiments which have dominated the political scenery of the region. The most recent Arab-Israeli tension apparently has had serious repercussions on the activities of the American banks there, and one can reasonably assume the Canadian banks have been similarly affected although on a smaller scale. In the words of one American bank executive the "recent political instability has occasioned the substantial reduction of a large and profitable commitment."

It is reasonable to assume that as long as existing conditions prevail these commitments will not be restored and no new U.S. or Canadian bank commitments will be made in the area.
As for Africa U.S. direct investment on that continent tripled between 1958 and 1967, a compound annual growth rate of almost 14 per cent, although it has remained near 4 per cent of global investments since 1962 according to Table XXV. Meanwhile, U.S.-African trade less than doubled in the period and it too has accounted for a relatively static 4 per cent of the U.S. world total. Nevertheless, we find from Tables XVII, XVIII and XIX that the U.S. banks have 19 affiliated commercial banks throughout Africa accounted for in total by those banks interviewed, but only three branches. What has been the attraction of Africa? Without revealing specific cases, the writer learned that invitation from African governments and from other foreign banks operating there have each been contributing factors. The basis for the invitation apparently to instal the American-way of banking in a number of these countries. Thus the existence of inadequate local banking facilities and the desire on the part of the parties concerned appears to have been an important force.

Another contributory factor, we might hypothesize is the interest which the American banks expressed in participating in the financing of international trade, rather than solely trade with direct U.S. involvement. Africa's trade volume expanded from $10 to 15 billion, between 1960 and 1967, excluding South Africa and Egypt. This sum combined with possibly inadequate trade financing facilities may have provided the impetus for U.S. banks to accept any invitations, or act themselves, when combined with the aforementioned U.S. trade with and direct investment on the continent.
What accounts for the prevalence of the affiliate vehicle in Africa, aside from invitation? According to one U.S. banker whose bank is active on the continent in many countries, it is politically important that "the American bank's name not appear on the door." Also, "an acute lack of capable local nationals to staff branches." This has led the U.S. banks to "rely on previous German, French, Belgian, and English bank expertise in these areas."

We have shown that Africa, in particular, provides clear examples of the contrasting forces which may motivate the U.S. or Canadian banks to establish an "office" in a particular area. It was noted that U.S. banks have on occasion received invitations from foreign governments or banks as a means of effectively entering a country. These forces were not expressed as present by any of the Canadian bankers interviewed. Another especially significant contrast arises from the willingness of the large U.S. banks to participate extensively in international, as opposed to U.S., trade. The Canadian bankers meanwhile were, in general, strongly interested in Canadian, as opposed to international, trade as the majority of their motivations expressed thus far have tended to reveal. These sentiments have been supported by several of the excerpts drawn from annual reports and possibly by their exhibited relative lack of interest in Africa as well.

We are now prepared to leave Africa and the Middle East and travel to the exotic Far East where, despite the controversial Viet-Nam conflict, important attractions exist for Canadian and U.S. banks.
Upon reference to Table XII one is immediately made aware of the contrast in the number of branches operated by the Canadian and U.S. banks in the Far East, including for our purposes, Australia. While the chartered banks have none their American counterparts maintain 74 branches or almost one-quarter of their global total. At the same time, Table XV shows that five representative offices, all opened since 1957, are maintained by the chartered banks compared to nine by the U.S. banks (see Table XIX). Also it will be noted that neither has utilized the affiliate vehicle. What accounts for the notable diversity in the degree of direct representation and the vehicles employed?

We can account substantially for the difference in the exhibited extent of physical location in the area in terms of "ties" and "tails" once we offer explanations for the move of the chartered banks into the Orient. Table XXI, as we noted earlier, reveals that Canadian direct investment on the entire Asian continent doubled between 1960 and 1966 but at the latter date it still accounted for but 2 per cent of the global sum and only amounted to $66 million. Thus the chartered banks appear to have been relatively short of "coat-tails" at the time their offices were opened in Hong Kong and Japan.

On the other hand, the "ties" appear to have been strong. Table XX shows that the value of Canada-Far East trade, excluding Australia, expanded 3.5 times from 1951 to 1966, a 9 per cent annual rate of growth, to become 5 per cent of Canada's world trade. Had it not
been for the tremendous trade boom which occurred with one country. Between 1951 and 1957, or prior to the opening of the initial representative office by a chartered bank, Canada-Japan trade multiplied 2.5 times, an annual growth rate of 16.5 per cent. Between 1957 and 1966, the period in which the two offices were established, the rate of growth slowed somewhat, as the volume increased, to 14 per cent per annum. Nevertheless, a most impressive 7.5-fold expansion took place over the entire period yielding an equally impressive growth rate of 14.75 per cent per year. In 1951, Japan had accounted for 28 per cent of Canada-Far East trade by 1957 this proportion had doubled to 59 per cent and by 1966 it had climbed to two-thirds of the total. Meanwhile, Japan rapidly climbed the ranks of Canada's leading trade partners, rising to number five by 1957 and passing Germany and Venezuela to achieve position number three by 1966. Thus it seems reasonable to conclude that expanding Japanese trading relations with Canada was an influential factor behind the move of the two chartered banks to set up an "office" in Japan.

Although each of these offices were designed to be the base of operations of the banks' Far Eastern Representative the selection of Japan as the site was based largely upon relations with Japan. For example, The Bank of Nova Scotia declared that the purpose of the office was to "help foster the growing trading and financial relations of Canada with Japan." Meanwhile, the Bank of Montreal asserted that their of-
office would provide "a valuable link between our Canadian customers and the important markets of the Far East, exemplified by the tremendous industrial growth of Japan."

Why a representative office rather than a branch since The Bank of Nova Scotia has customarily followed the branch route wherever it goes? The reason is not the shortage of "coat-tails" as implied by our look at Canadian direct investment in the Far East, but legislation. Specifically, Canadian legislation. As was the case with Brazil and Venezuela, Japan requires "demonstration of reciprocity on the part of the applicant's home country" before a banking license will be granted. Thus even if a branch operation had been considered suitable, Canadian banking legislation which prohibits foreign branch banks in this country effectively closed the door to a branch of a chartered bank in Japan. According to one Canadian banker interviewed, Japan is "stringent in granting the privilege to operate a foreign bank office of any kind."

One is then led to conjecture that since the entry of the Canadian banks in 1962 followed "hard on the heels" of the reciprocity-granting New York State legislation of 1961, these offices might be all that are desired by the Japanese at this time.

Meanwhile, three of the chartered banks chose a representative office in Hong Kong as their vehicle of entry into the Far East. The Royal Bank of Canada which was first to enter in 1958 based their selection of this site as the headquarters of their Far Eastern representative upon policy and trade.
In its Annual Report of that year it was declared that "our policy has been to have representation in any area which offers real opportunities to promote the interests of the bank with the added prospect of opening new trade outlets for Canada." After noting the special significance of China and Japan the report further states that "it is our firm belief that opportunities exist for further important expansion of trade between Canada and Far Eastern countries." Thus the "nature of the flow of trade" can be seen as a principal motivating force. The office was also termed "strategically placed to keep abreast of trends in the area at large" and here we can say that, not only is Hong Kong geographically central to the area thereby facilitating travel to other centres, it is also the financial centre of the Far East boasting a network of highly developed banking, insurance and brokerage facilities."

The Canadian Imperial Bank of Commerce asserted that the decision to open its office there in 1968 followed "the expansion in trade ... between Canada and Southeast Asia" and was "also prompted by the dynamic commercial, industrial and tourist activity in the area and, in particular, the increasingly close ties between the residents of Hong Kong and Canada." Thus with the important addition of tourism and the "close ties" the motivations of this bank appear similar to those of their predecessor.

The "close ties" deserve special comment. In 1967 a financial panic occurred in Hong Kong which precipitated a substantial move-
ment of local funds out of the country. According to the above institution, "a substantial investment from Hong Kong is going into fixed U.S. and Canadian dollar deposits." A recent article in the "Vancouver Sun" noted that "the wealthiest Chinese are still not happy and are looking for investments in Canada which offers tax advantages over the United States." It added that "as a result the top two or three per cent are slowly pulling out." One must conjecture that the panic and the consequent notable outflow of funds was the key force behind Hong Kong's selection for this bank at least if not for The Toronto-Dominion which opened in late 1967. An executive of the former bank stated frankly that "the bank needed a man on the spot to get a good share of the money moving out."

We have now canvassed the motives behind the move of the chartered banks into the Orient. What explains the greater U.S. representation in the area and the preponderance of the branch vehicle? The former can be explained largely in terms of the "ties and tails" argument which will provide us with a basis for offering some answers to the latter. You will recall from Table XII the tremendous growth in the number of branches of U.S. banks in the Far East. Between 1955 and 1968 the number quadrupled an annual rate of increase of some 11.75 per cent. Since we do not have figures for total Far East trade, let us concentrate upon Japan as a "leading indicator" of the trend of trade, leading in the sense that its performance is likely to be above the average for the region. From 1956 to 1967, a similar period to that used
for the branches U.S.-Japanese trade grew at an annual rate of about 13.75 per cent, and from 1965 accounted for more than 9 per cent of global U.S. trade. Meanwhile, Table XXV reveals that U.S. direct investment in Japan grew at an effective rate of 16.75 per cent from 1955 to 1967.

A similar relationship exists for a later period. Between 1960 and 1968 U.S. branches in the Far East showed a 16 per cent annual growth rate. Meanwhile, from 1962 to 1967 U.S.-Japanese trade had slowed to a 15 per cent expansion rate but U.S. direct investment there had picked up velocity to achieve a rate of growth of 18 per cent. It can be seen that in both instances the growth of trade little more than kept pace overall with the increase in branches but that in both periods direct investment was expanding at a faster rate. Thus, we may reasonably conclude, if the Japanese experience is accepted as a suitable indicator, that "the desire to serve U.S. customers abroad is indeed an initiating factor."

It will have been observed from reference to the relevant tables above that U.S. direct investment in Japan alone is 13 times as great as Canadian direct investment on the entire continent of Asia! Also, U.S.-Japanese trade has historically been about seven times larger than its Canadian counterpart. Thus U.S. banks have substantially more "ties and tails" to lead them to the Far East than are present for the chartered banks. This fact alone may account notably for the relatively large number of branches in the Far East. Another factor of
some significance may be that the nature of business in much of the area is of the kind usually conducted in a standard retail banking operation for which the branch is the most suitable vehicle. This is in contrast to Europe where wholesale banking is of prime importance requiring less branches in selected key areas. Thus we have a possible explanation for the fact that Europe has but one-half the complement of U.S. foreign bank branches that are present in the Far East. However, this does not explain why affiliates have not been used.

There are at least six possible reasons for the absence of affiliates. One, the First National City Bank accounts for 29, or almost 40 per cent of the total number. This bank has clearly exhibited its policy of employing the branch vehicle wherever possible since at June 30, 1968 its 163 foreign branches comprised 50 per cent of the total number for all U.S. banks. In the words of the respondent at Citibank the "branch is best because you have complete control and complete responsibility." In other words, independence of operation within the banking laws of the country. This desire for independence in itself may be offered to explain the dominance of the branch rather than an affiliate in the area. A third factor might be that it is politically acceptable and preferred from the point of view of obtaining desirable exposure to have one's "name above the door" in the trade, commercial and financial entrepots of Hong Kong and Singapore where as shown in Table XVIII these banks maintained 24, or about one-third, of the Far Eastern complement. In Japan the nature of its banking system
where a very few giants account for all of the Japanese banks, the affiliate route is unavailable. A fifth factor, related to the second, may be the lack of suitable partners in the area. This is likely to be true especially where an otherwise acceptable partner might be closely connected with the local government, thus possibly leading to continuing pressures upon the U.S. bank to serve vested interests or to unduly increase its commitment. Sixthly, and as an adjunct to the previous factor, local authorities may welcome U.S. branch banking to augment an otherwise inadequate domestic banking system.

An example to support the latter contention is to be found in Indonesia. Here the Chase Manhattan Bank, under a program of guarantees administered by the U.S. Agency for International Development, obtained for its branch in Djarkarta insurance against loss due to currency inconvertibility, expropriation or nationalization, or war, revolution or insurrection. In order to obtain a guarantee of this nature, the government of the host country must also approve it, which means that the investment must contribute to economic growth and development of the country. Thus not only may the insurance be looked upon as a decisive factor initiating Chase's move into Indonesia it also reveals that the Indonesian authorities welcomed its entry.

Before leaving the Far East it is interesting to look at a country where foreign banks are not welcome. Table XXV reveals the U.S. direct investment in Australia in 1967 accounted for 4 per cent of the global total more than the entire Middle East or all of Africa.
It has achieved this position by expanding at an impressive annual rate of 16 per cent, per annum between 1950 and 1967 with the pace quickening to achieve a 20 per cent annual rate of growth since 1962. Yet you will recall from Table XIX that the only commercial banking connection the U.S. banks maintain there are three representative offices. The explanation is simple. Legislation. Australia prohibits the conduct of commercial banking business by foreign banks. Thus its legislation is similar to Canada's which precludes the further entry of foreign banks.

Two U.S. banks as a consequence have used other financial vehicles to gain entrance to the country. In 1966 the First National City Bank acquired 50 per cent interest in a leading finance company there. Meanwhile, in 1968 as related to the writer during the interview the Bank of America, "after years of effort to gain some entry" succeeded through the creation of Partnership Pacific Limited, a development bank in which they are equal partners with the Bank of Tokyo and the Bank of New South Wales. The joint venture will act as an investment bank supplying medium-term funds and equity capital to the corporation extracting Australia's natural resources, principally for processing in Japan. Entry was achieved once "the Australians were persuaded of the advantages to them". However, the vehicle can also be expected to be advantageous to the Bank of America, since the majority of the extractive corporations are American-owned.
The Canadian banks too are shut out by the legislation. However, despite the fact that Australia in 1966 was Canada's eleventh ranking trading partner and each are Commonwealth members thus creating close cultural and trade ties no chartered bank maintains even a representative office there. One might reasonably conjecture that it is a site being considered.

One cannot bid adieu to the Far East without some comment upon how U.S. overseas involvement can become indirectly an initiating force for a U.S. bank move into a particular country. War time conditions are very unlikely to lead the chartered banks to open offices in a certain area but the Viet-Nam conflict has done just that for two U.S. banks. As an executive of a bank concerned described the situation, "the U.S. troop commitment there has created an attractive retail banking business." And too, "there is considerable construction and commercial shipping activity taking place. He went on to say that Viet-Nam is an obvious example of the dollar drain and the U.S. government naturally prefers the retention of dollars in the U.S. One means was through American bank branches in Viet-Nam thus the authorities encouraged U.S. banks to set up a branch there. Thus the Viet-Nam branches can be seen as serving a variety of "American interests" abroad.

We have now completed our investigation of some of the initiating forces at work in the Far East. Indeed, our trip around the world has almost ended and we are prepared to embark upon a tour of the future. Before we do we would like to make a brief closing comment to this important chapter and introduce that which follows.
SUMMARY COMMENTS

It has been the objective of this chapter to present the heart of the study, the tendering and examination of hypotheses to explain why the commercial banks select a particular country and/or particular vehicle. By and large a case study approach was taken although the list of individual cases which might have been covered was by no means exhausted. In each geographical area we attempted as far as possible to vary our format in order to arouse the feeling that differences in motivation do exist between areas. We have also earnestly attempted, without becoming repetitious, to indicate that different forces are often at work behind the actions of the banks. In other words, the chartered banks individually are often motivated differently as are each of the U.S. banks. At the same time, important diversity exists between the initiating forces of the U.S. and Canadian banks, although similarities do exist.

We shall not recount here all of the various forces seen to be at work, however, some which the writer regards as most important bear repeating. A basic similarity exists in the all-pervasive force of policy which we elaborated upon in a separate section. Policy would appear to substantially determine the reaction of each bank to a particular situation and for the banks of each country the shaping of policy as it affects foreign operations appears to be closely related to the presence or absence of "internationalists" in senior management. Each of the banks are attracted to international money market centres.
The difference in the intensity of the overseas involvement of the banks of each country in terms of vehicles of entry it appears can be largely explained by the "ties and tails" argument we have employed throughout the chapter. The U.S. banks it appears are strongly motivated by the desire to serve domestic customers with "permanent" commitments abroad as reflected in the direction and volume of U.S. direct investment overseas. The relative smallness of foreign direct investment in the U.S. means that this is an inconsequential force for the U.S. banks, supported by the fact that none of the American bankers interviewed made specific reference to it. It appears also largely due to the size of U.S. overseas direct investment that U.S. trading patterns are a secondary force behind physical location abroad as well.

On the other hand, the chartered banks lacking the "coat-tails" available to the U.S. banks throughout the world have, in general, been forced to look more closely at the nature of the flow of Canadian trade. Bank policy, of course, plays a significant role here in determining the amount of overseas Canadian business considered necessary for entry into a particular location but over-all it would appear that trade "ties" are one of the strongest motivating forces for the chartered banks actions abroad. The other, it appears, is access to the origin of the flow of foreign investment into Canada. Indeed, one may say that over-all in terms of "ties and tails" the U.S. banks are better dressed leading them to become wider world travellers.
We also have noted, on more than one occasion, the apparent impediment which restrictive Canadian banking legislation places upon the operations of the chartered banks in certain areas. The existence of state banking legislation in New York and California, on the other hand, which allows the entry of foreign banks has in several instances enabled the New York and San Francisco banks to exercise more freedom of choice of country and vehicle. Thus the Bank Act of 1967 may have important implications for the future conduct of banking activity abroad by the chartered banks.

In closing, we must emphasize that we have by no means covered all the cases nor all the contributory forces in those cases analyzed but we believe we have selected a sufficient number and variety, and canvassed each adequately, to give the reader a clear indication of the various initiating forces involved.

Before turning to look specifically at the implications and reflections which may be drawn out of the study it is appropriate to discuss briefly the activity of the Canadian and U.S. banks which relates to the developing countries. In other words, what contributions are these banks making to the economic development of the less advanced nations? Some discussion is important because of the stress placed upon the achievement of self-sustaining economic growth in these countries by local authorities, foreign governments, international agencies and the United Nations. The Canadian and U.S. banks, as a part of the private sector of advanced nations, have an important role to play in this
process, particularly in terms of funds and expertise supplied. Thus we may effectively bridge the gap between the past, present and future by supplying some comments upon the "assistance" which the banks provide to these developing economies.
A significant problem in today's world is how to reverse the widening gap between the standards of living enjoyed by the peoples of the developed and developing nations. The solution is to generate a process of uninterrupted growth in these countries. But prior to economic growth comes economic development. The latter may be defined as a clearly definable change in the attitudes of the people and the institutions of a country which are intended to stimulate economic growth. Thus development is the explanatory process leading to economic growth which is commonly measured by the increase of per capita national income and is thus a reflection of a rising standard of living within the country. What contributions are the chartered banks making to the progress of economic development of the developing countries and how do their contributions compare with those of the U.S. national banks the writer interviewed? We shall measure this "assistance" in terms of expertise, technology and funds either directly or indirectly provided.

EXPERTISE AND TECHNOLOGY

The developing nations of the world, in general, are to be found throughout South and Central America, the Caribbean, the Middle East, Africa and the Far East. Japan, Australia and New Zealand are notable exceptions which must be mentioned specifically since, in this
study, we have assigned each to the Far East. The provision of improved banking facilities is an important means of improving the institutional arrangements of many of these countries. From Tables XIV and XVIII it can be seen that in terms of sheer numbers of branches maintained in these countries in 1968, the U.S. banks are making a larger contribution. At the same time, the direction of this form of "aid" is by the chartered banks is highly concentrated since 154 of their 179 branches in developing economies are situated in the Caribbean. Meanwhile, the U.S. banks have 250 branches in the developing areas and, although about one-half are located in Latin America, each of the other regions receives varying degrees of benefit from the application of American banking techniques. The contrast of numbers is magnified when it is observed from Tables XVI and XIX that while the chartered banks have but three, the selected U.S. banks have acquired equity in 33 commercial banking affiliates in these regions.

Significantly, both the Canadian and U.S. banks employ from "95 to 99 per cent" local nationals in their foreign branches and the expressed objective is to, as far as possible, "employ all locals." To this end, each of the banks engage in extensive training programs to upgrade the calibre of employees available in these countries. Much of this training is accomplished locally through training schools established in the area but the New York bankers, in particular, made mention of the large numbers of personnel from abroad that are brought to New York for training. The training is an expensive process, espe-
cially when the nationals are flown in from overseas. It also can be, costly as an executive at The Royal Bank of Canada explained; "foreign bankers are brought to Canada for training and a continuing problem is that the extended family system prevalent in Latin America causes considerable attrition as the individual leave to become the 'financial manager' for the family." Thus the process is often "train and lose."

However, the employment of local people can also be very advantageous as described in an Annual Report of the same institution. "Since the inception of operations abroad ... local staff has been encouraged to aspire to senior positions." The statement went on to say that "we believe that our policy with regard to employment of local staff has been a factor in our being accorded equal treatment with national institutions under the governing banking laws."

According to several of the respondents the banks have been under general nationalistic pressures to employ, and continue to increase the proportion of, local nationals among their branch personnel. It is also becoming more and more difficult to obtain work permits required before domestic staff can be transferred to the Caribbean. Nevertheless what is important is that they "do" employ substantially local people thereby making a notable direct contribution to the incomes and skills of these nationals.

We noted that the U.S. banks have made notable use of the affiliate vehicle in the developing countries. One national bank makes it a policy to employ the affiliate method as far as possible wherever it operates overseas. It is interesting to look at its apparent attitude
as it affects the developing economies. According to an executive of
the bank interviewed "we generally desire a substantial base in an
associated bank acquired; they are not looked upon as just an invest­
ment because of the contributions made by ourselves." The "active con­
tributions" made is the "application of American management skills
and operational abilities through such devices computer technology and
staff services, including counsel, management training and forward
planning." Another basis for contribution arises from their frequent
choice of partners who are "strong domestically, but spotty internation­
ally." The partner obtains "access to a world-wide network of affiliates
and branches" with all of the concomitant advantages. In concise terms
the bank "actively participates in the management and modernization
assistance" of its acquired affiliates.

The foregoing bank, however, is not the only institution to
actively engage in the "transfer of technology" between countries. The
part played by the banks in this process was best described by two U.S.
executives who suggested that the banks essentially "acted in the role
of a catalyst." This role, of course, is distinct from their direct
action taken regarding the personnel and practices of their own branches
and banking affiliates.

The Canadian banks are very interested and, with the expanding
internationalization of business in general, are becoming increasingly
active in the sphere of stimulation of licensing arrangements. Unfor­
tunately, relatively little direct benefit appears to accrue to the dev-
oping countries out of this activity by these institutions at this time. One Canadian executive outlined the process which often occurs. A commonly followed course is for branches or resident representatives to make contact with a foreign corporation in the U.S. or Europe which wishes to license a suitable Canadian firm to produce and market its product in Canada. The Head Office marketing department is informed of this interest and, in turn, all branches in Canada are advised of the situation. The branch managers are asked to contact customers who they regard as suitable licensees and to advise Head Office of any who are receptive. The counter-flow of Canadian corporations seeking licensees in foreign countries was said to be relatively small and again primarily affects the developed countries. Naturally the banks have an important interest in playing this intermediary role since, as one executive said, "we expect to profit from the resulting business."

Over-all the position of the chartered banks concerning their role in the transfer of management know-how (as distinct from the technology which may accompany licensing) between countries, appears to be relatively minor. It was best summed up by one Canadian banker who said the practice was "largely undeveloped in Canada, largely due to a question of demand." This might be interpreted as an implication that Canadian management and production techniques are not widely sought abroad since foreigners consider that much of this technology entering Canada comes directly from the U.S. to business affiliates and subsidiaries operating in this country. He also added,
significantly, that "people competent in this role are generally not available in the chartered banks; we have much more to learn than to advise; the U.S. banks are much better qualified."

In general, the U.S. banks interviewed appear to play a much more significant catalytic role in both the stimulation of licensing arrangements as they affect the developing countries and in the provision of direct technological assistance. The "better qualifications" of the U.S. "international" banks, undoubtedly, in large part arise from their wider experience in the field. "We play a very active role in the stimulation of licensing arrangements, both ways" was the response of one U.S. executive to a question regarding this facet of their activity. This experience seems concomitant with a greater demand for American management and production techniques abroad and the larger number of U.S. corporations investing or seeking outlets abroad. The latter is reflected in the tremendous expansion of U.S. direct investment abroad since World War II. Meanwhile, Canadian capital investment abroad has been growing rapidly but, as we observed in the preceding chapter, it is significantly smaller in value than its U.S. counterpart.

A fine example of the former case is provided by the relatively numerous number of invitations which the large U.S. banks are said to have received to enter a developing country via the affiliate or branch vehicle.

One American executive described a significant role which that bank has played in some developing countries. "Our partners like a lot
of skill from us; for example, we have set up foreign exchange, short-term money and bond markets in countries where they are lacking." He then added what may be regarded as a not insignificant motivation behind this action; "we are most welcome when we give this help."

Another U.S. banker described how management technology often accompanies or precedes project loans which are made in developing countries. He described it in the context of a loan application from a poultry farmer in Nicaragua then under consideration. The application had been directed through the branch of the bank in that country by the local government-supported finance company which considered the project too large to handle itself and wished the U.S. bank to participate. Importantly, the finance company had been set up with the aid of U.S. experts in consumer lending and equity funds supplied by the U.S. institution, thereby creating a close relationship between it and the American bank and providing them with the opportunity to participate in this and other projects. In order to obtain information concerning the latest methods employed in poultry farming in the U.S. an agricultural officer of the bank contacted a university in the area and a tour of the large poultry farms of the state was conducted. The consensus was that, since the best in technical know-how was needed for an operation of this scale the Nicaraguan applicant should bring in a partner. The next step would be to inform the applicant of this decision and offer him their services in obtaining a suitable American partner, if possible. He candidly described the latter approach as arising from a "selfish
interest", since "it is our desire to have the best technical management available to manage a project, especially an American partner in whom the bank has confidence." This "selfish interest" then may be implied as a possibly significant factor to account for a notable involvement of U.S. banks in this type of technology transfer, together with the desire of the banks to act as "good corporate citizens" by participating in the country's economic development. The latter too may be viewed in terms of a "selfish interest" since participation in worthy projects may ensure that U.S. banks will be allowed "banking offices" in these countries.

The foregoing case is but one small example of the loanable funds which the U.S. banks make available either directly or indirectly in developing nations. In the following section we shall outline the assistance provided by the chartered banks in this important sphere of activity and compare these contributions to those of the U.S. banks.

INTERNATIONAL LENDING

It is true that the chartered banks made a notable contribution to the supply of short-term credit in the Caribbean, in particular, where they conduct a wide-scale retail banking operation. However, our concern here is with the contributions which are made by them in lending spheres which are considered as generally not suitable for normal commercial lending and are of special significance to the developing countries. In other words, do the chartered banks make loanable funds
available to private and/or public corporations in developing nations?
Also, what is the extent of their involvement with government overseas
lending, loans of international financial concerns such as the World
Bank and development loans by other bodies?

In general it was the opinion of the Canadian respondent that
the extent of chartered bank involvement in direct lending or participa-
tion with other bodies making loans to the developing countries is
small, although no indication was given of the approximate dollar vol-
ume. There would appear to be three important considerations which
have in large part contributed to this relatively minor involvement.
In the words of one executive, "not only must you feel competency in di-
rect lending in these areas but one must justify the loan." This
appeared to the writer to be a consensus of the feelings of each of the
respondents. In other words, there is a general feeling among these in-
dividuals that the chartered banks generally lack the ability and ex-
pertise to engage in this sphere of lending on their own. A second
important consideration can be drawn from the response. It appears to
be implied that justification of the loan in terms of its contribution
to the realization of the bank's objectives internationally is a signi-
ficant factor. If so, when the importance attached to Canadian ties
abroad is recalled it seems that unless direct Canadian business is in-
volved or unless it can be shown that Canadian business in the area will
expand as a direct result of the project any attempt to justify the loan
would prove most difficult. The general sentiment of the executives
might best be succinctly, albeit bluntly, described in the words of a U.S. banker, "We are a commercial bank not a development bank."

The third important consideration was outlined in these words by one of the respondents; "Our bank does make loanable funds available in developing nations, such as those in South America, but because of the political instability common to many of these nations it is far more desirable to lend in already advanced economies." What is implied is that any extra return which can be obtained may not justify the important added risks, such as political instability, which are concomitant with "development lending."

Despite the relatively insignificant part which this type of activity appears to play in the over-all international involvement of the chartered banks it is interesting, nevertheless, to recount some of the responses received regarding activity of this nature which does take place and to provide several other specific examples of involvement in this sphere which has occurred.

The chartered banks contribute indirectly to international development by purchasing bonds of the World Bank and those of other international financial corporations for their portfolios. One Canadian executive also stated that "their participation was restricted to efforts guaranteed by the World Bank," at the same time, creating the impression that their involvement was small. It might be hypothesized that the chartered banks consider the "portfolio" participation to be obligations of a bank with international operations, with the "project
participation" arising out of a similar motivation with the added possibility that it could be a means of gaining acceptance in developing countries.

A specific example of chartered bank involvement with an affiliate of the World Bank is provided by a tourist hotel in Jamaica. According to "The Financial Post", The Royal Bank of Canada, through its international arm, Royal Bank of Canada International Ltd., 160 Nassau, is assisting in the financing of an $8.5 million convention and tourist hotel in Kingston, Jamaica. The Royal's commitment is part of a loan provided by International Finance Corporation (IFC) an affiliate of the World Bank. Significantly, it is understood to be Royal's first venture with IFC, although it has participated in somewhat similar ventures with the World Bank. The project may be justified as a contribution to economic development since "tourism, an $80 million industry in Jamaica, is contributing one-fifth of the country's foreign exchange earnings" and "is one of Jamaica's fastest-growing employment sectors but earnings are threatened by the slow growth of hotel building."

Recently too, The Bank of Nova Scotia participated with the Canadian government in a development loan to Brazil. Again according to "The Financial Post", "Canada is lending $847,000 to finance a technical, economic and location feasibility study for a jumbo jet airport in Brazil" and the bank "is joining in helping to finance the project, with a loan equivalent to U.S. $354,000." When questioned concerning
the background behind this participation the executive responded that it was "relatively unique" since the Canadian government has not been active "in this type of lending." It is interesting to note that the initial knowledge of the project came from conversation with the consulting engineers involved who were customers of the bank. Thus, the bank's participation was apparently not initiated by the Federal government.

It is significant to note that the foregoing examples apparently represent departures from the traditional involvement of these institutions in developing lending. Thus, they may be indications of future expansion of activity in this sphere by the chartered banks.

In general, then, the chartered banks apparently have not been active in participating with "international lending agencies" or the Canadian government. In the Caribbean, however, at least three of them completely own, or are major shareholders in, institutions which are designed to contribute to economic development in that region. We can reasonably assume that the profit-motive is of prime importance as well.

The Royal Bank of Canada in 1965 became a principal participant in a multi-national joint venture designed to assist in development of particular areas in the Caribbean. In August of that year, "the formation of Roy West Banking Corporation Limited, with headquarters in Nassau, was announced." The principal corporate shareholders include the Westminster Bank Limited, a Hong Kong bank, a London investment
bank, an Edge Act subsidiary of Morgan Guaranty Trust Company of New York, Montreal Trust Company and Power Corporation Limited. "Roy West was formed to undertake mortgage and development financing in the Bahamas and the British Caribbean territories" and was expected to "help fill a long-felt need in these areas." The selection of this area as a site for participation in a development financing corporation is a reflection of the extensive branch network which The Royal Bank of Canada operates in the area.

The Royal Bank of Canada, and two other chartered banks, operate trust companies in the Caribbean as shown in Table XVI. The West Indies Trust Corporation Limited, incorporated under the laws of the Bahama islands, is a wholly-owned subsidiary of The Royal Bank of Canada and is the holding company for trust companies which operate in the Barbados, Grand Cayman, Guyana, Jamaica and Trinidad. Canadian Imperial Bank of Commerce (Cayman) Limited is a wholly-owned subsidiary of that bank. It is a holding company for trust companies in the Barbados, Jamaica, Trinidad and Grand Cayman. The Bank of Nova Scotia Trust Company (Bahamas) Limited is 60 per cent owned by that chartered bank and is the holding company for trust companies in the Bahamas, Jamaica and Grand Cayman. This corporation was formed in 1957 in partnership with British financial interests and represented the initial entry into trust business in the Caribbean for the chartered banks. Tax advantages are implicit in the corporate arrangement employed by each of the banks, however, it is their contribution to economic development which we are
concerned with here. This contribution is best summed by an excerpt from a recent annual report of one of the banks concerned. "The availability of medium to long term funds in the Caribbean is quite limited and through our network of trust companies we are playing an... important part in filling this sector of our customers financing requirements."

Meanwhile, The Toronto-Dominion Bank, as we described earlier, is a principal participant in MAIBL a multinational joint venture. One sphere of its activity is of special relevance to the developing economies, and that is its announced intention to make loans for large-scale development projects throughout the world. Its activities then are not circumscribed geographically as are those of the aforementioned institutions.

The major chartered banks are involved in two private international development corporations whose lending activities are delineated regionally. They are ADELA Investment Company, S.A. and Private Investment Corporation for Asia (PICA). The former, incorporated in Luxembourg in 1965, we assume principally for tax purposes, is intended to provide private enterprise in Latin America with equity and loan capital and technical and managerial resources. Its partners include a number of industrial corporations, banks and financial institutions in Canada, the U.S., Western Europe and Japan. ADELA has already made significant contributions to the economic development of the region. By mid-1967 its total assets were U.S. $48 million and it had partici-
pated in over $300 million of private investment in 17 Latin American
countries.

At least three of the chartered banks are initial participants
in PICA a Tokyo-based regional development institution formed in 1968
and said to involve "40 to 50 major world banks." The new institution
is expected to provide assistance in South-East Asia similar to that
supplied by ADELA in Latin America.

The writer was informed that the commitment of funds to
these institutions by the chartered banks was relatively minimal in
relation to their total overseas financial commitments, the implication
being that participation was considered an obligation more than an in­
vestment. As one executive described that bank's participation, "How
can one remain aloof when one has branches located in the area?"
Interestingly, institutions such as ADELA and PICA and the like were
viewed by the respondents substantially as useful vehicles which could
be of direct benefit to the individual banks involved. One respondent,
whose bank maintained offices in Latin America considered participation
as "evidence of the international role of the bank and a useful means
of keeping in touch with local areas." Another respondent, whose bank
had no branches in either area viewed participation as being of "future
market importance and a possible vehicle to get in." In other words,
it is implied that by exhibiting a willingness to contribute to the eco­
nomics development of a country local authorities may be more amenable
to a future request from the bank to set up a banking office there.
This same executive also termed participation as a useful means of
gaining "international exposure and identification with good people."
Thus these institutions are looked upon in much the same manner as the
"ordinary" multinational joint venture described earlier.

The large U.S. banks interviewed also participate in re-
gional development institutions such as ADELA and PICA although commit-
ments of this nature are a relatively minor part of the loanable funds
which they make available to finance projects designed to further eco-
nomic development in the developing nations. While the chartered banks
may be described as only nominally involved with loans of international
financial concerns and development loans by other bodies, such as gov-
ernment lending agencies these U.S. banks participate actively with a
variety of lending organizations. Here we shall mention one which ap-
ppears to be most significant.

One of these is the International Finance Corporation (IFC),
the affiliate of the World Bank whose purpose it is to facilitate pri-
vate investment, particularly in the developing countries. As one
U.S. executive described it, "the bank participates to a large extent
here; IFC does all the work (particularly feasibility studies) and we
then take what we like."

The most interesting aspect of the international banking
activity of these giant U.S. banking institutions with respect to the
developing countries arises out of their employment of wholly-owned
Edge Act corporations as vehicles to provide venture capital financing.
But one example of the number, variety and global nature of their activities is provided by the First National City Overseas Investment Corporation formed in 1961. At the end of 1968 this Edge Act investment company of the First National City Bank of New York had made equity and debt investments and commitments in 36 projects in 23 countries ranging from an air taxi service in the Caribbean to co-sponsorship of PICA.

It is important to note that ostensibly these subsidiaries were designed to provide financing in both the developed and developing countries. Recently, however, due to the Federal Reserve Board position discouraging new foreign investment in the developed countries while encouraging those destined for the developing economies the trend of activity has been increasingly towards the latter. It will be recalled that the FRB policy is concomitant with the U.S. balance of payments guidelines introduced in 1968, both elaborated upon earlier in Chapter VI. In order to outline the activities of these corporations we shall describe the purpose and practices of one of these organizations which may be regarded as typical of those carried out by competitors. The Edge Act subsidiary is Bamerical International Financial Corporation (BIFC) and what follows is drawn either from an executive of the Bank of America interviewed or from an advertising pamphlet produced by that institution. The implications drawn are those of the writer.

BIFC provides venture capital financing -- in the form of both equity and medium-term loans -- for new industrial and natural resource
developing projects in foreign countries. It provides advisory, technical and promotional services for new development projects to be financed by BIFC. Its stated purpose is to participate in the preparation and over-all financing of projects in the developing countries which are accorded high priority and which will make substantial contributions to the economic development programs of the countries or region. The respondent added, however, that "due to the reasons stated above, "the trend of the unit has been towards lesser-developed countries although this is not a firm policy."

Typically investments are made in development banks or other foreign government lending institutions rather than direct lending for individual projects. The implication is that the concomitant risk is reduced significantly since the failure of one project is more probable than the failure of the development agency, in most instances. BIFC's equity participation is on a minority basis, normally not more than 20 per cent. The implication here is that BIFC approaches the investment from a purely collateral benefit point of view through its show of overt support for the economic development of the country.

BIFC's participation in an over-all project plan might take the form of straight equity and a medium-term loan, convertible debentures, or debentures with warrants, or stock options, depending upon the requirements of the project and the interests of all concerned. The respondent added that in practice there may be times when a loan would be granted on less than normal bank terms to obtain equity, for
example a subordination of the loan to senior debt, if attractive capital gain possibilities are present.

A typical case of an individual project in which BIFC might become involved would be in a situation where the economic and technical soundness seems assured but the corporation is up to the limit on its mortgage and credit from suppliers. In this case BIFC would enter to supply the gap financing needed. The financing would be tailored to the individual needs of the client and the security is essentially residual, for example, a second mortgage. Negative conditions are likely to be imposed, such as specifying minimum working capital requirements. In addition, a portion of the equity of the enterprise would be expected as compensation for the extra risk taken by BIFC. The term of such loans is usually medium-term from four to five years, except that with IFC participation the term often reaches ten years.

In all cases local investor participation is desired. In the words of the respondent it is looked upon as "insurance since there is less likelihood of mistreatment or expropriation"when the majority of the equity is held by local individuals or institutions.

The collateral benefit aspect of their involvement seems clear with the pamphlets statement that in most cases the project would be in countries where Bank of America branches or its commercial banking affiliates are located. These offices are expected to share in providing local banking services to the projects. One of these services mentioned by the respondent was provision of a working capital credit line by the
local branch. He also explained that the Bank of America considered BIFC to be part of its service to customers, therefore, operations are generally confined to where collateral benefits for its "offices" are available.

The foregoing paragraphs have outlined the form of participation in development lending taken by the Edge Act subsidiary of a major U.S. bank. It is interesting now to sketch the considerations and initiating forces the respondents see as sitting behind development lending of this nature. It should be stressed that the following comments are not necessarily those obtained from the executives interviewed at the Bank of America. The similarity with the views expressed by Canadian bankers should be apparent in a number of the following statements.

We have already noted the legislative, the collateral benefits and the public relations aspects of this involvement; each may be seen as initiating forces. As one respondent explained in this context "accounts are maintained with the central banks of the countries where the bank is represented and close relations are maintained with government officials." It is possible that "the bank may be asked to make an investment and it is good public relations to participate to demonstrate support of worthy projects."

It is also possible to be forced into making commitments. As one executive replied, "We are involved in 15 development banks around the world and are under duress to do so in many cases in order to stay
in a country's good graces." Another considered development lending to be "one of the costs of developing business in certain markets."

Where a bank is desirous of gaining entry to a country to set up a banking office participation in development loans with international lending agencies was either implied, or directly expressed, by each of the respondents, to be a "possible acceptance vehicle."

The comments of one executive in this regard are particularly interesting to the writer. "We do participate," he stated. "We especially like loans to foreign governments, they yield lower returns but offer less risk and may open the door to the country for a banking office." This statement of course has universal applicability and loans to governments of developed nations are likely to be more prevalent for this particular purpose.

Let us close our brief look at the forces initiating commitments to development financing by mentioning a specific example of what may be considered the implied fundamental force -- profits. As one respondent described it, "Investments in development banks or finance companies may be very lucrative, especially where the Agency for International Development (AID -- a U.S. government agency) is involved. AID makes long-term loans at bargain rates of interest, the funds are lent by these local institutions at higher rates on a short-term basis."

The profitability, of course, comes from the opportunity to "roll-over" these loans.
In sum, it would appear that although the initiating forces behind involvement in development financing are quite similar, with U.S. legislation once again the notable exception, the participation of the selected U.S. banks in this lending sphere is greater and more regionally diversified. Nevertheless, it is the impression of the writer that the chartered banks are beginning to slowly expand their lending activity in this area. Currently their activities in this regard are concentrated in the Caribbean, and to a lesser extent Latin America, but the implication seems to be that if they expect to broaden their base of overseas representation by setting up initial or additional banking offices in several of these developing countries a notable expansion of medium-term development lending may be required on their part. This seems so since a substantial majority of the lesser-developed nations are actively seeking means to further economic development and participatory lending by private foreign financial institutions should more and more appear as a lucrative source of funds to the governments of many of these nations as U.S. bank lending in these areas expands. Succinctly said, medium-term development loans appear to the writer to be useful acceptance vehicles in a nationalistic world where banking is particularly politically sensitive.

Indeed, it would appear that much of the added flow of funds into development financing institutions and projects recently is the direct result of U.S. balance of payments legislation. Therefore, should the current restrictions on new investments in the developed
countries of continental Western Europe be lifted we might expect some of the funds which would otherwise have been directed to the developing economies to flow instead to Europe. This contention is supported by one U.S. executive who stated that "when a commercial bank lends money in the lesser-developed countries all that is received in return is money (i.e. interest); others employ levered funds for a greater return, therefore, why not put our funds to use in the developed countries."

An implication of this quote is that adequate compensation is often not received for the extra risks involved in loans in developing countries. It would appear, therefore, that if the chartered banks are willing to take on increased risks for what might seem to be inadequate direct compensation the collateral benefits may be notable since a notable increase in medium-term lending when U.S. commitments may be exhibiting a relative decline can be viewed as good "public relations."
The favourable impression created may, in turn, lead to acceptance of an application for a banking license.

This is but one manner in which the writer believes the overseas involvement of the chartered banks may become more diversified regionally. Additional significant implications concerning the future of international banking, particularly as it affects the chartered banks, which can be drawn out of the study thus far will be offered in the concluding chapter which follows.
CHAPTER IX
A HINT OF THE FUTURE OF INTERNATIONAL BANKING

This concluding chapter will present a number of implications for the future of international banking which may be drawn out of this study. Initially, the future will be viewed in terms of trends toward increasing internationalization of banking and any perceived changes in operating forms. Secondly, the future will be surveyed in the context of possible changes in operating methods, organizational structure and management techniques. The discussion of the implications derived from the study will be interspersed with comments of the international bankers interviewed.

We asked the respondents to reflect upon their bank's experience in international activities in the context of difficulties encountered. Specifically, they were asked to identify what they perceived to be the most persistent types of problems in the foreign operations of their individual institutions. The problems themselves offer hints to the future course of international banking as it affects the chartered banks. Therefore, they will be outlined here to set the stage, so to speak, for our look into the future.

PERSISTENT PROBLEMS PERCEIVED

Two distinct difficulties were most mentioned by the respondents. They were political nationalism and the human resources problem. Two others were stressed less over-all but are nevertheless significant.
They were deposit generation and the concomitant complication of currency exposure, especially in the underdeveloped economies and, communication.

Political nationalism was put forth particularly in the context of restrictive legislation, not only in terms of entry but also in terms of frequent changes in the "rules of the game" even after one has set up a banking operation. As one U.S. respondent noted, "banking is a politically sensitive business." Significantly, this same individual observed that problems of "anti-Americanism" had to be faced and American corporations and banks were "whipping boys" at times." Importantly too, one Canadian banker responded that "although legislation varies from country to country, nationalism has not been felt, countries can see what we are doing." On balance, the U.S. bankers tended to attach more weight to political nationalism as a problem area.

The human resources problem was approached from two angles. Two American bankers placed major stress upon the shortage of "adequate" or "quality" personnel ranking this problem ahead of nationalism. Another observed that although there is a "shortage of well-trained bankers it is not the most critical problem today." In the words of a U.S. executive who ranked the personnel problem at the top of the list, "experience is lacking, it is a natural result of rapid expansion and we are just getting our feet wet in the line functions of international banking." The other described the difficulty as a "question of demand, the banks 'train' many people for international corporations." Interestingly,
the Canadian bankers as a group did not perceive the availability of adequate domestic personnel as a significant problem. In fact, only one executive noted it at all and he ranked it number one. Possibly significant here is the fact that the organizational structure of the international division of this institution was only recently reorganized. One respondent stated that the bank "did not have any problems in the area of availability of personnel." Significant perhaps is his failure to "qualify" personnel and the fact that this institution does not have a large number of overseas branches. In general, one might say that the lack of emphasis upon a domestic personnel problem arises out of a "question of demand" by the chartered banks, particularly when it is recalled that in the Caribbean, where their overseas offices are concentrated, the chartered banks conduct substantially a standard retail banking operation. Thus, relatively speaking, the Canadian institutions have at this stage less need for "skilled international bankers" than their U.S. counterparts.

On the other hand, one Canadian banker stressed as most important the problems encountered with the employment of a substantial proportion of foreign nationals in their overseas branch complement. The process is one of constantly training new personnel since, in Latin America where the extended family system prevails, the attrition rate is high. Notable expenses are encountered in training which is necessary to upgrade the skills of local nationals to suitable standards for branch employment and government policy in most of these countries.
requires that mainly local nationals be employed. He was supported by another respondent who ranked "legislation, including personnel legislation" as second only to personnel per se as a problem. It may be significant that this bank has exclusively followed the equity route in the Caribbean and Latin America. In another context one respondent, whose bank has an extensive Caribbean branch network, noted that work permits necessary to transfer Canadian personnel to the area are becoming increasingly difficult to acquire. Commonly, an important number of the branch managers are supplied from Canada since local people must be intensively trained before they are ready to assume managerial positions. The implication is that the "human resources problem" can be expected to increase in this area since an increasing number of local nationals will have to be trained to fill a growing number of positions as the Canadian complement is cut back and/or new branches are established.

The U.S. banker who perceived personnel as that bank's second ranking problem ranked "despoit acquisition" as its most persistent difficulty. Of possible significance the institution has relatively few overseas branches but makes much use of the affiliate vehicle. Another banker, whose bank has chosen to emphasize the affiliate route abroad, defended its policy by asserting that a "branch is necessarily a small undertaking at the outset due to the deposit acquisition problem; buying equity in an established bank gives one a better start, something to work with immediately including a good local staff familiar with local business conditions." Thus it would appear that the problems of
personnel and deposit acquisition are closely related to the choice of an affiliate rather than a direct branch in certain countries.

Meanwhile, two Canadian executives perceived "deposit generation in underdeveloped countries" as an important continuing difficulty. Significantly, one also ranked "currency exposure" as a persistent problem and both cited the disassociation of the Bahamian dollar from the British pound following the latter's devaluation in November, 1967 as an example of how the "rules of the game" can suddenly change to cause exchange losses. According to one respondent, the currency of the Bahamas was legally tied to the pound, but, in "one half hour" the law was changed. An implication may be drawn from this example. It is that loan demand in developing countries frequently outruns deposit acquisition requiring the banks to bring in funds from head office, or in this instance, possibly from other sterling area branches, especially London, in order to keep "money on the shelf." These funds would not normally be hedged, as we described earlier in Chapter V, thus leaving the banks exposed to losses through devaluation. Thus, a close relationship may exist between "deposit generation" and "currency exposure."

We have listed political nationalism, deposit generation, currency exposure and the human resources problem as perceived persistent types of problems by the respondents. A fifth significant problem was stressed by two American executives and mentioned by a Canadian banker. The U.S. respondent, who ranked it second only to "quality personnel" as a problem, termed it the problem of "creating and maintaining adequate
facilities for communication and feedback." He elaborated that it is "difficult to implement uniform policies and procedures in diverse areas," the attempt "may sap incentive and creativeness" but, at the same time, "without some control uniform objectives may be lacking."

One implication of this statement may be that traditional organizational structures developed for the domestic scene are inadequate when applied to the international scene. The hint is given strength by the fact that the respondent also observed, in the context of "quality personnel", that due to the recent rapid expansion abroad management people were only "getting their feet wet in the line functions of international banking."

The second U.S. executive, in the context of organizational structure and cultural differences, which we shall comment on below, remarked that because the bank is "so big there was a constant conflict from trying to operate on a standardized basis," however, "a recent reorganization has set out a decentralized pattern of management thus taking care of the cultural differences." It is interesting to note the confidence which the executive holds in the recently adopted structure, nevertheless, the transformation which has occurred is a further indication of the fact that traditional organizational structures may not be suitable for an "international" bank. The writer will have more to say shortly on the subject of the possible prevalent pattern of organizational structure in the near future.
In the context of complications we also asked the respondents for their views as to the problems, if any, created by cultural differences which exist between many countries. Two, one Canadian and one U.S. banker, did not perceive these differences as creating any problems for their particular banks. Of possible significance, the former bank has no foreign branches except in England, where cultural ties with Canada are strong and the latter, although it has branches, principally follows the affiliate route overseas, particularly in developing countries. A Canadian banker observed that "cultural factors may be largely overcome by hiring local nationals" thus implying that, even in the absence of compelling legislation, the banks may be required to increasingly employ these people in management positions.

We are now prepared to turn from problems to the realm of prognostications. However, it is not the writer's intention to make any firm predictions of the future, rather the objective is to outline the implications for the future of international banking which have been drawn from the study and the specific comments concerning future expectations forthcoming from the respondents.

IMPLICATIONS CONCERNING THE FUTURE OF INTERNATIONAL BANKING

Our primary concern in the subsequent sub-sections is to view the future of international banking in the context of the effects it may engender for the Canadian banks. Initially, we will look at international banking from an over-all perspective. Secondly, we will comment upon what can be perceived reasonably to be the trend in oper-
ating vehicles of the future. Finally, we will survey what may be expected in the way of changes in operating methods, organization and management techniques.

INCREASING INTERNATIONALIZATION

Throughout the study we have observed the apparent importance of world trade and international private capital movements. If the overriding importance of these transactions are accepted one can be quite optimistic about the future for international banking.

It will be observed from Table I that total world trade has undergone a notable and uninterrupted expansion since World War II. In the twenty-one years ending in 1967 a five-fold increase took place, a compound annual rate of growth of 10 per cent. The pace slowed from 1958 to 1967 when volume doubled, an effective increase of 8 per cent per annum. While the decline in the rate of expansion is disappointing it is important that the rise has been continuous, as we may reasonably imply continued growth.

The implication that trade should continue to expand becomes more plausible when we peruse Slater's data pertaining to the relative performance of world production and trade volume. He calculated that in a recent post-war period, 1957-59 to 1963-65, world production of manufactures increased at a compound annual rate of 6 per cent, while the trade volume of these items expanded at a rate of 8.2 per cent. Meanwhile, the output of primary products grew at a rate of only 2.4 per cent but trade in these commodities increased at an annual rate of
5.4 per cent. This over-all more rapid expansion of trade relative to production bodes well for international banking.

The future performance of international private capital movements can also be expected to have an important effect upon the course of international banking activity in years to come. Unfortunately, we do not have adequate data pertaining to annual gross international private capital flows to permit us to see a clear trend developing. It will be recalled that in Table II we calculated a crude measure of these movements for selected post-war years. Turning to this table, it will be noted that in the selected years from 1958 through 1967 "gross flows" have oscillated about an average of virtually $9 billion per annum and have not exhibited the clear upward trend one might expect since the return to convertibility in Europe in the former year. An important factor here may be the U.S. balance of payments guidelines introduced in 1965 which, as we have elaborated upon earlier, requested clamps on capital outflows from that country since the 1967 U.S. net outflows returned to below the 1963 level. However, despite these guidelines "net outflows" have tended to expand steadily, a possible reflection of continuous growth in gross world flows, especially since the developed nations which have recently been net suppliers of capital are included in the table.

Despite the difficulty experienced in attempting to develop a trend for gross international private capital movements, two significant elements which combine to auger well for future international flows
must be mentioned. They are the Euro-dollar and Euro-bond markets.
The Euro-dollar market has grown tremendously during its relative brief
existence of some ten years. The Bank for International Settlements
estimated the "true market" in Euro-dollars to be $5 billions in 1963
rising impressively to some $16 billions at the end of 1967. Meanwhile, the total new issue volume in the Euro-bond market "soared" to
$2.2 billion in 1967. Despite the fact that U.S. legislation may
have importantly contributed to the tremendous growth of these markets,
when it is recalled that borrowers and lenders come from all over the
globe, it would seem that they play a vital role in international fi­
nance. Therefore, they are unlikely to disappear with U.S. legislation,
in particular, the Foreign Direct Investment Regulations and the Interest
Equalization Tax.

Over-all, then, it would appear that we may reasonably expect
a continued growth of international banking activity in the future.
But, can we expect an increasing internationalization of the chartered
banks with more "offices" established on a wider geographic scale? We
noted on several occasions in the foregoing chapters the significance
which the Canadian respondents, and the chartered banks, themselves,
through the medium of their annual reports, appeared to attach to the
growth of Canada's exports and imports and the nature of the flow of
this trade as factors contributing to the growth of their international
activity both at home and abroad.
The implication of these hypotheses is that as the external trade of Canada expands over-all, so too, will the over-all international operations of the banks. That is, not only will export financing, for example, from a domestic base increase but, it could lead to stepped up activity for them from their existing foreign bases. Meanwhile, the direction of any increased trade volume, or even "prospective trade channels," are forces which may be important considerations in the decision to set up an "office" in a particular area. On the basis of these implications, drawn from oft-expressed, but nevertheless untested, hypotheses we can expect the overseas activity in terms of the number of "offices" abroad to continue its increase into the future.

Table I reveals that Canada's external trade enjoyed continuous expansion from 1946 to 1967 at a pace which exactly matched that of total world trade. From 1958 to 1967 its acceleration slowed slightly and again its compound annual rate of growth of 8 per cent was identical to the world pace. However, from 1964 to 1967, while world trade slowed to an annual growth rate of 7.75 per cent Canada's trade picked up some speed to reach a rate of 8.5 per cent per annum. Whether or not its expansion continues to out perform the world as a whole, it seems reasonable to conclude that, on the basis of impressive past performance alone, Canada's external trade can be expected to expand.

Important implicit assumptions we have made in our optimism concerning the future volume of Canada's trade are that her exporters will have access to adequate financing facilities and are able to remain
competitive cost-wise in the face of foreign competition. With regard to the former the chartered banks themselves have had and should continue to have an important role to play. In this same realm a possibly significant event may occur during the summer of 1969 for it is during this time that the Export Development Corporation is expected to commence operations. "The Financial Post" recently commented upon the nature of this new corporation.

The Export Development Corporation...is expected to have more power and flexibility to create financing packages than ECIC (Exports Credit Insurance Corporation, the existing government export-financing vehicle) had. It will be free to borrow and lend on its own account or to act as a catalyst to bring commercial financing agencies more effectively into the export business.

The article goes on to say that "if Canadian exporters are losing the cost battle, the smoothest, smartest, most flexible financing system in the world is going to be of only marginal value." The writer wholeheartedly agrees. Thus, we may perceive the future expansion of the international activity at home and abroad as resting importantly, although indirectly, upon the productivity of the Canadian labour force.

Two other possibly significant forces could have a direct effect upon the decision to intensify and/or make more extensive the "office" representation of the chartered banks abroad. These factors are Canadian direct investment abroad and foreign direct investment in Canada. It is important to recall the words of the chartered bank executive who stated that "there are not enough 'coat-tails' abroad for Canadian banks at this time." A significant implication which may be drawn
from this statement is that in several areas and many countries of the
globe there is currently insufficient "Canadian business" to warrant
the setting up of an "office" other than correspondent connections. We
have also observed the over-riding importance the U.S. respondents at-
tach to serving U.S. customers with commitments abroad as an initiating
force behind their movement abroad and into certain areas. In this
regard we may expect the Canadian banks to be motivated in a similar
fashion once the "coat-tails" are there. In the words of another Cana-
dian respondent concerning its objectives internationally, "we are pri-
marily a Canadian bank, our representative offices are looking after
Canadian interests." He continued that he did not "envisage the bank
entering a country to provide solely domestic service." The implication
being that the "ties or tails" must be "there."

Following from the foregoing we might expect that once Cana-
dian direct investment, as evidence of a "permanent" commitment, in a
certain area reaches some critical level, as yet unknown to the writer,
an "office" may be set up. Alternately, and perhaps more realistically,
due to the relatively small amount of this form of investment abroad by
Canadians, especially once the proportion invested in the U.S. is sub-
tracted (See Table XXI), once the "ties" created by trade appear suffi-
ciently strong in terms of volume an "office" could follow. A third
possibility, of course, is a combination of the two factors.

Table XXI reveals that Canadian direct investment abroad has
experienced steady growth since 1949. The compound annual growth rate
over the seventeen year period exhibited was 9.5 per cent, its acceleration slowed to a rate of about 6.75 per cent between 1958 and 1966 but from 1962 to 1966 its growth rate rose to 7.5 per cent. Significantly, at no time did its increase match the growth rate of Canadian external trade noted above. Thus, although we may reasonably expect Canadian direct investment abroad to continue to expand based upon past performance alone, unless its rate of expansion picks up, or the growth of trade slows, we can expect trade "ties" to become increasingly significant as a motivating factor relative to the "tails" concomitant with direct investment. At the same time, the direction of any increasing flows of notable magnitude in either form may provide an indication as to where a new "office" might be established.

There is a third element which we must not overlook in a model of this nature since it was also emphasized by the Canadian respondents as an important consideration in the decision to set up an "office" in a certain country or area. The element is foreign direct investment in Canada. The hypothesis that the chartered banks may be motivated to establish an "office" to gain early access to corporations interested in investing in Canada implies that the origin of these funds flowing into Canada may provide attractive "office" locations, particularly when in concert with the "ties and tails" noted above. According to Table XXII the rate of growth of foreign direct investment in Canada from 1949 to 1965 which amounted to 11.75 per cent per annum exceeded the 9.5 per cent annual rate of the countervailing Canadian direct in-
vestment abroad over a similar period, as noted above. However, while
the latter slowed to a per annum rate of increase of 6.75 per cent from
1958 to 1966 the former slowed more sharply to reach an identical pace
from 1958 to 1965. More recently, from 1962 to 1966 Canadian direct
investment abroad accelerated to a growth rate of 7.5 per cent per an-
um while the growth in the value of foreign direct investment in Canada
again slowed to but 5.5 per cent per year. Thus, relatively speaking,
the latter's importance may experience a decline in the future as it
apparently has for the U.S. banks, according to the comments of the
U.S. respondents who did not mention these funds as a factor, prefer-
ing instead to stress the significance of U.S. overseas direct in-
vestment as an initiating force.

What may be most significant about the past performance of
foreign direct investment in Canada is the more rapid rate of growth
in the value of those funds "Owned in all other Countries." In the
period from 1958 to 1965 its per annum growth rate of 13.75 per cent
was more than double that experienced in sum. Although slowing to a
rate of growth of 10 per cent per year from 1962 to 1965 it again vir-
tually doubled the over-all performance of 5.5 per cent per annum. The
important implication for the future is that a more extensive pattern
of overseas "offices" may develop as the traditional country sources,
the U.S. and the U.K., decline in relative importance.

We have thus laid the foundation for a model to offer explan-
ations for the behaviour of the chartered banks in their international
decision-making. It might be useful both to explain past actions and
to develop future patterns of overseas activity in terms of "office" location and, indeed, type once a relationship can be established, if any exists, between the vehicle selected and the level of existing trade "ties", investment "tails" and/or the sources of foreign direct investment in Canada. The model would contain at least three parameters -- Canadian external trade and direct investment abroad and foreign direct investment in Canada.

It is most important to recall the implicit assumption behind this model which we introduced as we began. The assumption was that the banks in moving abroad into certain areas tend to "lag" rather than "lead" the "Canadian business." In other words, some suitable combination of the three aforementioned parameters, including particular strength of one and the virtual absence of two of them or vice-versa.

However, such a model might well prove too rigid to explain the actions of at least one of the chartered banks which has exhibited a tendency to "lead". In other words, it seems to have entered certain countries prior to the existence of the three parameters outlined above, at least, if present, they appear to be nominal. Expansion into these countries may be based upon an aggressive "pioneer spirit" that tells them that "We can compete! We can develop the "ties", the "tails" and/or the foreign investor interest to make the operation profitable!" The implication of this apparent "leading" tendency is that we cannot totally rely upon the perceptible lack of notable "Canadian business" in a country as an indication that the country is a poor prospect for a char-
tered bank "office". Thus, a positive "pioneering" parameter must be introduced to take into account such "leading" tendencies.

It is interesting here to introduce the seemingly opposing views of one Canadian and one U.S. respondent regarding an aggressive approach to banking abroad. It was the opinion of the Canadian executive that the "aggressiveness of American bankers overseas is frightening many foreign governments." He continued that the "mistake" of the U.S. banks was to be found in their common practice of "doing it the American way" throughout their foreign "office" system. It is useful here to paraphrase the words of a U.S. respondent who offered a "definition" of the "American way" of banking abroad. It is an "aggressive approach," virtually opposite to the "traditionally conservative practices of British banks abroad "which sees the manager's office on the street, so to speak, at the front of the office, not hidden somewhere in the back to emit an aura of complete privacy." Importantly, too, rather than "sitting in his office waiting for customers to call the manager seeks out potential customers at their place of business."

The Canadian respondent quoted above added that he considered the attempt of the Canadian banks to "do it the local way" was a more suitable approach. The implication which emerges is that the chartered banks commonly adopt the "conservative British approach" to banking abroad in most areas where they maintain branches.

The validity of this opinion is given support from the findings of a recent study conducted by the American Bankers Association concerning
foreign restraints on U.S. banks abroad. According to the study, "overseas bank expansion is rapidly becoming associated with the concept of aggressive banking...and the competitive nature of U.S. banking...often gives greatest concern to the foreign country where the tradition of vigorous free enterprise is seldom as developed as in the U.S."

Nevertheless, the U.S. respondent referred to at the outset stated that he was "very surprised at the lack of aggressiveness displayed by the Canadian banks in the Caribbean." He thus implies that the "local way" is not necessarily the best way to build a "profitable" business. At the same time, his view lends credibility to our implication that the chartered banks adopt a "conservative" approach in certain areas since the British tradition of most of the Caribbean islands would seem to suggest the suitability of their "British" practice.

Significantly, the Canadian executive observed that "competition from the U.S. banks is leading the chartered banks increasingly into the "American way" of banking." It must be stressed that this statement did not refer specifically to the Caribbean but was issued in a global context. An important implication which arises out of the foregoing is that the increasing prevalence of aggressive "foreign" banking practices in other countries may precipitate restrictive banking legislation there. An example of just this possibility was provided by a U.S. executive who relayed the remarks of a British banker and local government official on the occasion of the opening of the U.S. bank's
subsidiary in a traditionally British country. According to the respondent the British banker remarked that "banking had been a gentleman's business" in the country prior to the arrival of the U.S. bank, thus implying that American aggressiveness would not be appreciated. At the same time, the government representative remarked that "if it doesn't work out we will change the law!" Again, an allusion to concern about the aggressiveness which U.S. banks had displayed elsewhere.

The foregoing discussion of the "aggressive" versus the "conservative" approach to banking abroad effectively introduces an additional parameter to a model designed to incorporate possible forces which initiate a move abroad into certain areas. The parameter is banking legislation. It may be sub-divided into two types. They are existing domestic and foreign banking legislation and each may be regarded as a negative factor since their combined effect is to limit the scope of the operations of chartered banks abroad. Essentially, this legislation acts to reduce the choice of operating vehicles available to these institutions in other countries but, significantly, in several cases the vehicles which become available render it impossible for the banks to conduct a normal "retail", or even a "wholesale", banking business. For example, prohibition may be accomplished by making foreign ownership of facilities illegal such as in Australia, Mexico or Sweden. In several countries where foreign banks are not prohibited outright from entering there is a limitation on the number of banking licenses which may be issued, thus once these licenses are issued the effect "may" be
to preclude further entry by foreigners. The word "may" is of significance since in the words of one U.S. respondent "the game of the last available banking license is frequently played", thereby implying that some countries may attempt to win a larger capital commitment from U.S. banks at least. The effect of foreign legislation of the aforementioned variety is to restrict the choice of vehicles to one, the representative office, which does not conduct a "banking" business, i.e. it does not accept deposits or make loans, although it does solicit business for "banking offices" of its parent at home or elsewhere internationally.

Canadian banking law which restricts the entry of foreign banks also has a negative effect upon the operations of the chartered banks in certain foreign countries. We noted earlier that Brazil, Venezuela, India and Japan are examples of countries which require demonstration of reciprocity on the part of the applicant's home country before a "banking office" will be permitted. Thus, in countries such as these the chartered banks are limited to the use of a representative office or no entry at all.

We have thus witnessed the negative effect which banking legislation both at home and abroad can have upon the activities of the chartered banks abroad. The legislative parameter may be held out as negative in effect since it counteracts any positive effects which may be forthcoming from the trade or investment parameters.
We have been generally optimistic about the future growth of overseas operations of the chartered banks. However, the continued existence of banking legislation restricting the further entry of foreign banks into Canada may be an important impediment to their long-term growth abroad. It is possible since the chartered banks may be denied access to countries where forces favouring the establishment of a banking office, rather than solely a representative office, are present.

Nevertheless, on balance, it would appear that the activity abroad of the chartered banks can be expected to undergo continued expansion. This premise is based on the anticipated growth of Canada's external trade, direct investment abroad and the growth of foreign direct investment in Canada. These activities were each hypothesized as possible initiating forces behind the decision to go abroad. A more extensive "office" network may develop depending upon the direction of any increased trade and direct investment abroad and the origins of funds for investment in Canada since the direction and volume of these flows were hypothesized as forces leading to selection of a particular site. The premise of continued expansion also implies that the chartered banks will not be seriously hampered by restrictive banking legislation, domestic or foreign, in an "aggressive" pursuit of business abroad, an aggressiveness which may increasingly be imposed upon them by the actions of competitors. These competitors are the U.S. banks who were held out by most Canadian respondents as strong international competitors for the chartered banks.
Concurrently, we laid the foundation for a model designed to offer possible concrete explanations for the actions of the chartered banks in the international arena. Three "positive" parameters were introduced. They are positive, in the sense that their existence in some suitable form, either present or promising, and adequate volume, as yet not ascertained, may lead to a "go" decision. Those introduced were the trade and investment flows, both ways and a so-called "pioneer" parameter to take into account the possibility that the banks may in a few, or many, cases tend to "lead" rather than "lag" behind the other positive forces. We also introduced the important negative parameter of restrictive banking legislation. It is negative in the sense that its existence can generate a "stop" decision.

We may thus perceive the chartered banks setting up more new "offices" abroad, possibly on a more extensive geographical plane. It will be recalled that at the close of Chapter VIII we alluded to this possibility in the context of development loans. However, it is also likely that a growth of representation in the advanced nations would occur hand in hand with increasing international activity. What changes, if any, may occur in the operating vehicles employed in this process? Can certain vehicles be expected to increasingly dominate the international scene? The following section will offer the views of this writer on these subjects.
INTERNATIONAL OPERATING FORMS OF THE FUTURE

In this section we peer into the future and offer our ideas concerning the operating vehicles which the commercial banks, both Canadian and U.S., may be expected to employ with increasing frequency. The forecast is based upon the implications which have been drawn out of the study thus far. Particular attention is given to what would appear to be appropriate means of mitigating what the respondents perceived to be the most persistent types of problems encountered in the foreign operations of the commercial banks since it is reasonable to assume that they are and will continue to direct considerable attention to problem-solving.

Before looking ahead let us look back and briefly summarize the characteristics of the six international operating forms whose activities have been elaborated upon throughout the study. The chart which follows sketches what are viewed by the writer as the significant contrasting operating characteristics of the vehicles and, where it appears a notable difference exists, a contrast is made between the intensity or variety of problems which seem to be experienced by the Canadian and U.S. banks. In what follows we also provide for the possibility of increased diversification of activity since, although the subject has not been discussed extensively, we have noted, for example, that the chartered banks have created foreign trust companies and that U.S. banks have invested in foreign finance companies. We will comment later upon the factors which imply continued diversification of overseas activity by the banks of both countries.
The operating forms canvassed are the representative office, branch, agency, wholly-owned or controlled subsidiary, affiliate and multinational joint venture. The correspondent bank is not included since it is completely separate from the chartered or U.S. bank in terms of identity, policy and practices with the only resource commitment involved being reciprocal deposit balances. The chart is designed to provide a mere outline and the interested reader is asked to see Appendix IV for the numerical references given.

Vehicles for the International Operations of the Commercial Banks:
Contrasting Characteristics

<table>
<thead>
<tr>
<th>Activities</th>
<th>Ownership</th>
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<tbody>
<tr>
<td><strong>All traditional banking services</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Varying degrees of foreign participation&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Branch</td>
<td>Affiliates</td>
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<tr>
<td>Banking affiliate</td>
<td>Joint venture</td>
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<td>Banking subsidiary</td>
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<td>Joint venture</td>
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<tr>
<td><strong>Limited Services</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
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<tr>
<td>Representative</td>
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<tr>
<td>Agency</td>
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<tr>
<td>Non-banking affiliate</td>
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<td>Joint Venture</td>
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<table>
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<tr>
<th>Ownership</th>
<th>Identity</th>
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<tbody>
<tr>
<td><strong>All the same</strong>&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Direct International Exposure&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>Representative</td>
<td>Affiliate</td>
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<tr>
<td>Agency</td>
<td>Joint Venture</td>
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<td>Branch</td>
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<td>Wholly-Owned Subsidiary</td>
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<td><strong>Indirect International Exposure</strong>&lt;sup&gt;6&lt;/sup&gt;</td>
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<tr>
<td>Affiliate</td>
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<td>Joint Venture</td>
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continued . . . .
### Deposit Acquisition

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<tr>
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<th>Affiliate</th>
<th>Joint venture</th>
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<tbody>
<tr>
<td>&quot;indigenous&quot;</td>
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<tr>
<td>&quot;international&quot;</td>
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<td>Subsidiary</td>
<td>Joint venture</td>
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(a) Problems of Canadian and U.S. banks

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<thead>
<tr>
<th>Same</th>
<th>Different</th>
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<tbody>
<tr>
<td>Affiliate</td>
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<tr>
<td>Joint venture</td>
<td>Branch</td>
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### Policy Directives

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<th>Combination</th>
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<tr>
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<td>Branch</td>
<td>Joint Venture</td>
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<td>Subsidiary</td>
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<td>Agency</td>
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### Personnel

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### Legislation

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<th>Subject to foreign country laws</th>
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<td>Agency</td>
<td>Agency</td>
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<tr>
<td>Branch</td>
<td>Branch</td>
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<tr>
<td>Joint venture</td>
<td>Subsidiary</td>
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<td></td>
<td>Affiliate</td>
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<td></td>
<td>Joint venture</td>
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(a) Canadian versus U.S. banking legislation regarding activity of foreign banks

<table>
<thead>
<tr>
<th>Same</th>
<th>Different</th>
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<tbody>
<tr>
<td>Non-banking affiliate</td>
<td>Agency</td>
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<td>Non-banking subsidiary</td>
<td>Branch</td>
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<td></td>
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<td></td>
<td>Joint Venture</td>
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The foregoing chart has presented a brief summary of the contrasting characteristics of the international operating vehicles employed by the Canadian and U.S. banks. The information contained will be useful as we develop our model for the future.

It will be recalled that in Chapter VII we elaborated extensively upon the initiating forces behind the movement into a certain foreign country via a certain vehicle. We will not repeat them here but do wish to note what seemed a significant difference in the relative importance of certain apparent motivating forces. The consensus was that over-all the volume and direction of U.S. direct investment abroad, reflecting a "permanent" commitment, was of greater significance to U.S. banks simply because of its greater value. On the other hand, relatively lacking these "coat-tails" abroad the chartered banks appeared to be relatively more motivated by the direction and volume of Canada's external trade and, by the source and volume of foreign direct investment in Canada. The relative strength of these forces can be expected to be of consequence in the choice of vehicles for future international activity.

At the same time, and later in this chapter, we noted that one or two of the chartered banks seemed to be displaying increased aggressiveness abroad. This approach may have future implications.

In the preceding section an "aggressive approach" to banking abroad was seen as a factor which could contribute to restrictive foreign banking legislation. This legislation can be viewed as an act of political nationalism. It will be recalled that this phenomena, together
with the human resources problem, was viewed as the most important persistent difficulties encountered in the conduct of overseas operations. Other prominent problems cited were deposit acquisition and the concomitant complication of possibly costly currency exposure, especially in the developing countries. It was suggested at the time, and we stress once again, that the existence of these problems should have a marked influence on the choice of operating forms employed in the years ahead.

The model which we now construct will pay particular attention to the mitigation of the aforementioned problems but it will also consider the contrasting characteristics of the operating vehicles outlined earlier and the seemingly consequential differences in initiating forces mentioned above. Other important constraints will be introduced as we proceed. The outcome is a slightly different model for the selected large U.S. banks than that constructed for the chartered banks.

On the basis of the reasonable assumption that the banks will tend to make wider use of vehicles which appear to offer the most appropriate means of mitigating problems which are perceived as persistent, two operating forms seem particularly attractive. They are the affiliate and the multinational joint venture.

A substantial minority equity position in an affiliate appears particularly attractive. The threat and complications of political nationalism in the "politically sensitive" business of banking are reduced by two methods. One, it is the local bank's "name above the door", thus the foreign participation is not obvious to the people. Second, control
remains in the hands of domestic shareholders and local management has a strong voice in the policies and practices of the institution. Thus, the "brute force" effect of a take-over or branch vehicle is substantially avoided thereby reducing any danger of restrictive legislation. Nevertheless, a notable minority position does permit the investing bank an active voice in the policy-setting and day-to-day management of the affiliate. In concert with the local "name on the door", local management and the ability to initiate an "aggressive approach" to banking in the practices of the affiliate, the political repercussions possible from aggressive competition for local deposits with local banks is materially mitigated relative to a branch operation.

The affiliate route also offers a means of acquiring access to local staff familiar with local conditions. If the staff is generally capable it is an inexpensive means of overcoming the problem of a shortage of quality personnel to staff overseas "offices". In any event, the training cost may be reduced notably from what would be incurred under a direct branch system, unless a total change-over were to be permitted, since the staff would already enjoy fundamental familiarity with banking procedures. The cost of training to the investing bank will be lower, in any case, since expenses will be shared with the affiliate and not borne entirely by the investing bank as with the branch vehicle.

Of particular importance, the affiliate vehicle may do much to relieve the problem said to be especially prevalent in the developing countries. The difficulties of deposit acquisition are likely to
be notably reduced in comparison to those encountered through the use of the branch form. One reason is that an existing deposit base is concurrently acquired through an equity investment in an established bank. Thus, the often expensive start-up costs of a branch while profitable base is generated, as described in Chapter IV, may be notably avoided. At the same time, the improved ability to keep local "money on the shelf" to meet loan demands should reduce the need to bring in outside funds whether from head office or other branches in the currency area which, according to a number of respondents, is frequently the case when a new branch commences operations in a developing country. It was implied by the respondents that funds of this nature are normally not hedged, thus the frequency of possibly costly complication of currency exposure may be notably reduced through an affiliate investment.

The affiliate vehicle also may permit the acquisition of a close relationship with "useful partners" other than commercial banks. A good example here would be minority equity participation of a chartered bank in a European commercial bank. The Canadian banks would appear to operate internationally at a disadvantage in this sphere since Canadian banking legislation does not permit the banks to engage in investment banking activities. Meanwhile, European banks in addition to commercial banking functions also supply a wide-range of investment banking services. They act as underwriters and are involved in the aftermarket as dealers and as stockbrokers who are members of the local stock exchange. Therefore, a chartered bank could acquire access to
important expertise, which it is likely now to lack, in preparation for any change in Canadian law. Of more importance, however, the bank would be able to participate in the Euro-dollar and Euro-bond markets in a more diversified manner than as merely a supplier of its surplus U.S. dollars as we described earlier. Such participation could become especially significant if these markets continue to burgeon and Canadian governments and corporations commence bond flotations here. A chartered bank with an established connection in the market might stand an excellent chance of taking part in an activity which they "cannot touch" directly. We can add that U.S. commercial banks are placed in a position similar to the chartered banks since they too are not permitted to engage in investment banking activity.

Probably a more effective way to acquire "useful partners" is to participate in a multinational joint venture. The venture provides an excellent means of combining the talents and strengths of more than two individual participants. A good example here is provided by Manufacturers Hanover Ltd., a recently incorporated venture for operation in the Euro-dollar and Euro-bond markets referred to in Chapter IV, which combines "the banking skills of a large U.S. commercial bank with the more specialized knowledge of a private investment bank and the placement power of the insurance company."

The joint venture vehicle also permits commercial banks to enter areas of "profitable" lending in circumstances considered unsuitable for normal commercial lending. An excellent example here is MAIBL which we have noted engages in medium-term export financing and loans
for large-scale development projects around the globe. Loans of this nature can be profitable in more ways than through direct monetary return to the participants. Much concern has been exhibited with regard to the shortage of medium-term funds for exporters recently in Canada, in particular. The commercial banks have concentrated upon supplying short-term funds. To the extent that private loanable funds are able to satisfy this need it may enable Canada-U.S. and North American-world trade to increase. The multiplier effect on trade could be expected to add appreciably to the international activity of the chartered banks, especially since trade patterns appear to be a prime mover.

Development financing can be indirectly profitable too. We noted in Chapter VIII that the chartered banks are relatively inactive in this field and that U.S. banks may be especially active at this time due to legislation prohibiting new direct investment in continental Western Europe. The principal deterrent to greater involvement in this arena of lending was said to be the concomitant extra risk. The joint venture "spread the risks of development financing" among the participants making it more attractive to individual banks. To the extent that private funds of this nature contribute to the economic development of individual developing countries a larger customer for the products of Canada or the U.S. may be created for it has oft been said that "the advanced nations are each others best customers." More will be said on advantages of more immediate consequence below.
The joint venture is also a useful commercial banking vehicle. We noted in Chapter VII, for example, how the Toronto-Dominion Bank and the Bank of America considered their majority participation in WOBACO, a full-service banking venture located in Nassau, Bahama Island. The Canadian bank viewed the association as an advantageous means of entering the Caribbean where three other chartered banks were already widely represented. On the other hand, an executive of the Bank of America perceived prestige acquired by association with a Canadian bank in the Caribbean as important. Significantly, however, he added frankly that the "brute force of America is diluted by having other partners."

Gabriel Hague, president of Manufacturers Hanover Trust, asserted a short time ago that one of the stubbornest problems posed for the further internationalization of business "is its relationship to national policies in a world still remote from political integration." He also added that he fears the trend of American business "into larger and larger international combines, fostering a type of creeping Americanism...may fester into negative restrictionism." This contention agrees with the implied view of the Bank of America executive and facilitates the development of a strong case in support of a more widespread use of the multinational joint venture in banking. The key is the multinational character of the venture. As we have continually stressed "banking is a politically sensitive business," however the sensitivity of politicians may be notably mitigated by the venture vehicle, since by definition it is "owned and managed by the citizens of several nations."
Thus it would appear to offer an ideal means of overcoming nationalist sentiments thereby providing a key to future international co-operation while, of more immediate consequence, providing a useful acceptance vehicle in countries where foreign ownership is not encouraged. It may also provide a means of limited entry into a country which prohibits the foreign ownership of commercial banks. An excellent example here is provided by Partnership Pacific Limited, the development bank in Australia in which the Bank of America participates jointly with a Japanese and an Australian bank. A venture such as MAIBL may facilitate the entry of the major participants into certain countries on an individual basis as well since the banks have exhibited an interest in the economic development of the country by participating, albeit on an indirect basis, in the financing of worthy development projects in the country.

The joint venture route also may facilitate the easing of the other persistent problems perceived. The "useful partners" acquired may enjoy greater prestige in a certain area because of its home country thereby, possibly reducing the difficulty of indigenous deposit acquisition. Also, as we have asserted on several occasions the larger the local deposit base the greater the hedging provided and, in turn, the smaller the extent of potentially costly currency exposure. The just mentioned WOBACO case applies here.

Or it may be that an individual participant is less well known internationally than one or a number of its partners. In this instance this bank becomes identified with "good people" and in this way may
obtain desirable international exposure while participating in activities beyond its individual expertise. The renown of a major participant can facilitate the raising of deposit funds in markets not readily available to an individual participant. A useful example here might be the position of The Toronto-Dominion Bank in MAIBL which actively seeks term deposit funds in the Euro-dollar market. On its own this bank would probably be required to offer a higher return to investors to acquire deposits than is the case through this venture which includes the Midland Bank Limited of London well known in international banking circles.

The personnel problem may also be importantly eased since the participants each contribute management personnel as well as members of the Board of Directors. Thus, in comparison to a branch, the commercial banking venture is likely to reduce the demands on the management talent of the individual participant in terms of numbers, in particular, but also importantly in terms of the expertise required. By combining skills there is margin for more specialization than would be the case in a branch system where the bank is "going it alone."

At the same time, the commercial banking venture provides a less expensive means of establishing offices overseas than the direct branch route. While the start-up costs may be as high as they would be for a branch employing the venture vehicle means an effective sharing of these costs. However, there is the strong possibility that start-up costs may be notably lowered through the facilitation of deposit gener-
ation resulting from either the indigenous or international, or combination of, prestige of certain participants.

Over-all, then, the multinational joint vehicle offers advantages similar to the affiliate in terms of reducing the intensity of the problems of political nationalism, deposit acquisition and currency exposure and, personnel. The affiliate might enjoy a slight advantage with regard to easing the difficulty of deposit generation and currency exposure since a deposit base in the local currency is concurrently acquired. With respect to personnel the relative advantage goes to the venture since access to "international" skills may be acquired; an affiliate relationship with an established bank, on the other hand, permits the combining of talents of but two institutions. The venture appears to generally offer more flexibility with regard to the type of activity engaged in and the geographical plane on which operations are conducted. The variety of its ownership would appear to offer considerable potential in furthering international co-operation and the over-all reduction of nationalism. However, where the interest is in confining operations to a single country or specific area, in many instances, the affiliate in which a minority equity is held would appear more favourable in its contribution to reduced pressures of nationalism. This is possible since an established local "name is above the door" and local management has a controlling position in ultimate policy decisions.

Despite the strong cases which may be built in defense of a more extensive employment of the affiliate and multinational joint ven-
ture vehicles, important constraints exist which render their universal application highly unlikely. Throughout our model building thus far we have implicitly assumed that bank policy with respect to vehicle selection is completely flexible and a widespread sacrifice of independence of operations through involvement with partners, foreign or domestic, may be readily accomplished. Such is not the case since preferences of senior management differ between banks with regard to the suitability of operating forms. These differences were elaborated upon in Chapter VII. Also, as noted by one U.S. respondent, suitable partners may not be available in certain countries or areas.

Nevertheless, even assuming the availability of suitable partners the affiliate and the venture share an important disadvantage with respect to their attractiveness as a means of building a network of overseas "banking offices". The unfavourable feature, in the eyes of many, is that management decisions must be shared and, particularly in a joint venture where several parties are involved, a possible "conflict of interest" is a major consideration. On the other hand, where the desire is to operate a full-service banking office in a foreign country the direct branch offers independence of action, within the law. We noted in Chapter VII that the executives of several of the selected banks, both Canadian and U.S., expressed preference for the branch vehicle since, in the words of one respondent, the bank enjoys "absolute control and undiluted visibility in a foreign market."
Meanwhile, three respondents, two Canadian and one U.S., stressed the significance of correspondent relations as a consideration in their decision as to selection of the appropriate vehicle both for international operations in general and in specific situations. Each emphasized the high value placed upon these relationships and, as one noted in the context of vehicle selection, "we are not interested in stepping on our correspondents' toes in any way." As a probable consequence of these stated policy preferences, two of the institutions have branches only in London and rely upon representative offices in selected parts of the world to provide a physical presence. These representative offices do not compete with local correspondents but one of their objectives is to act as a liaison between the home office and the foreign correspondent bank. The third respondent stated that that bank had recently selected a representative office as an entrance vehicle into a certain country as a "compromise" since local banks did not relish foreign competition and the chartered bank did a "substantial amount of good business" with their correspondents in this country.

We noted earlier in this section and in Chapter VII that the majority of the Canadian respondents placed particular stress upon the desire for "Canadian content" as a force directing them to set up an "office" in a certain country. They also noted the lack of Canadian business operating abroad. These considerations may be extended to vehicle selection. The relatively inexpensive representative office appears to have become a popular vehicle, as a consequence of these considerations, since it is relatively inexpensive to operate and does not
solicit business on its own behalf but directs it through the Head Office of its parent.

On the other hand, at least two of the chartered banks, and one in particular, appear to be exhibiting an "aggressive approach" to banking abroad. In other words, they seem to be "leading" rather than "lagging" behind Canadian connections. If this phenomena should become more prevalent among the chartered banks the future may bring a growing number of branches and a relative reduction in representative offices.

Bank policy, then, is a material constraint with respect to vehicle selection. Another consequential constraint, elaborated upon in the previous section in the context of a factor inhibiting increasing internationalization for the chartered banks, is legislation. As we noted certain foreign countries do not permit foreign "banking offices" within their boundaries. Others allow them on a strictly reciprocal basis. The former banking laws mean that, outside of the correspondent, or non-banking corporation, the representative office must be used exclusively if a chartered bank desires an "office" in that country. The same situation applies in a country where reciprocity is requested as long as Canadian banking law effectively prohibits the further entry of foreign banks into this country.

One specific case which applies particularly to the chartered banks must be mentioned. In 1967 The Bank of Nova Scotia transferred the Bank's business in Jamaica to The Bank of Nova Scotia Jamaica Limited; 75 per cent of the shares of this new entity were retained by the
Bank and 25 per cent were sold to the public. Significantly, it represented the first "Jamaican" bank. According to the Bank, "The continuing success of the enterprise has exceeded our expectations." We observed earlier that the initial Annual Report of the "Jamaican" bank reveals that the deposit base exceeds the outstanding loans and noted the respondent's comment that "deposit acquisition is no longer a problem."

The implication is that, previously, borrowing from other sterling operations or head office was required to keep "money on the shelf" since loan demand outpaced local deposit generation.

The apparent early success of this controlled corporation may have implications for the future form of operations by the other two chartered banks which have established extensive branch networks in the region. These institutions may be led to take on a "local flavour" by incorporating a subsidiary in the country and selling a minority proportion of the shares locally. While some advantage may be lost in Jamaica an attractive alternate might be Trinidad where, at January 31, 1969, The Bank of Nova Scotia operated 10 full-time branches, The Royal Bank of Canada, 12, and the Canadian Imperial Bank of Commerce, with the latter opening 6 more branches since that date.

The consensus over-all for the chartered banks would appear to be little change in the range of vehicles employed but an increase in the relative importance of several. Tables XIII and XVI reveal the nominal number of affiliates (7) and joint ventures (5). For the reasons described above these vehicles can be expected to increase in relative importance. Policy considerations, in particular, mean that the branch
vehicle should remain popular although the existence of restrictive banking legislation, both domestic and foreign, can be expected to limit its universal use. However, more Canadian "coat-tails" abroad in certain areas may emerge, according to the preceding section, and more Canadian business abroad means a potentially greater deposit base for a branch operation. Also, the apparent increased aggressiveness shown in some quarters points towards possibly greater use of the branch forms, particularly as it is an excellent means of gaining desirable exposure in a country. There is the possibility, however, that incorporation of controlled subsidiaries (affiliates in our definition) in the Caribbean could effectively reduce the prevalence of the direct branch vehicle. In general, then, we may expect a relative decline in the use of the branch as an operating form. At the same time that banking legislation effectively closes a country's doors to the branch vehicle it can be expected to result in a more extensive use of the representative office as Canadian "ties" become stronger in certain areas. Nevertheless, its relative importance may decline for the same reasons as "ties" and "coat-tails" lengthen making a "banking office" viable. The aforementioned aggressiveness can also be expected to reduce its use proportionately and here the words of a U.S. respondent describe aptly the writer's view. According to this executive, "the representative office is the least thing you do" with respect to setting up an "office" abroad. Thus, added aggressiveness in overseas operations can be expected to lead to the increased use of operating forms which provide some competition
for local banks. This would include any vehicle other than the agency or representative office.

The "little" change in the range of operating forms used, alluded to at the beginning of the previous paragraph, refers to the possibility of increased interest of the chartered banks in non-banking areas of business. Table XVI reveals that a number of these institutions have incorporated trust companies in the Caribbean, London, and New York. It is known that those in the Caribbean provide "a full range of personal and corporate trust services." Those in the latter two cities, however, simply "provide fiduciary services for the Bank's clients." We can reasonably expect that as the Caribbean economy progresses the banks will extend their trust business in the islands; however, there seems no indication, at this time, that trust companies of the latter variety will be set up elsewhere.

We noted in Chapter VIII the participation of one chartered bank in Roy West Banking Corporation Limited in the Caribbean and noted that this multinational joint venture was formed to undertake mortgage and development financing in this region. In that chapter, and again in this section, we described the activities of MAIBL a similar vehicle in which a chartered bank is a principal participant. It was noted that one significant objective of this venture is to grant loans for large-scale development projects throughout the world. The same chapter presented a contrast in the extent of involvement of Canadian and U.S. banks in the vital area of development financing. The consensus was that the
chartered banks were relatively inactive in this sphere of lending because, according to the respondents, the risk was too great to justify direct lending. The venture vehicle, however, enables the participants to "spread the risks" of development financing thus making it more attractive. Since the demand for private funds to finance economic development is more likely to continue to increase rather than abate we can expect the banks to make more use of the venture vehicle to engage in this important non-commercial banking activity.

In this section we observed why the chartered banks might wish to use the affiliate vehicle to participate in investment banking activity. We do not envisage these banks at this stage, branching out importantly into a variety of financial, but non-banking activities, as are the largest U.S. banks, except of course for the trust business described above. At least two reasons to support this contention may be put forward. One, the individual Canadian banks have smaller resources available both in terms of dollars and people. Significantly too, the chartered banks in general are relatively less firmly established internationally, thus, it can reasonably be assumed that they will prefer to concentrate upon the acquisition of added expertise and exposure in the practices of international commercial banking before directing notable resources to other fields of finance.

Succinctly stated, it is probable, based upon implications drawn from the study, that the chartered banks will make relatively more use of the affiliate and venture vehicles with a corresponding re-
lative reduction in the employment of the agency, branch, wholly-owned subsidiary and representative office operating forms. It should be emphasized here again that our definition of an affiliate includes both a commercial bank, or non-banking corporation, in which only a minority equity interest, and one in which an absolute controlling interest, is held, with the latter, in instances where the remaining shares are publicly held, more appropriately described as a controlled subsidiary. Nevertheless, it is probable, that, as we indicated in the previous section, the absolute numbers of each form employed will rise.

A similar pattern can reasonably be expected for the largest U.S. banks except that their operations will continue to be conducted on a more extensive global scale with more intensive representation in certain areas since, as we observed throughout Chapter VII, the American banks generally have, and should continue to have, stronger "ties" and longer "coat-tails" in most, if not all, global regions. A possible exception would be the Caribbean where the Canadian banks are widely represented.

An important exception appears to be present however. For reasons, which are exactly opposite to those offered in support of only limited Canadian bank commitments in non-banking financial corporations, the writer foresees the largest U.S. banks as being at the stage of internationalization where they can be expected to increasingly move into other financial activities. A unique corporate form appears to exist at present to facilitate this practice. The one-bank holding company
is not permitted to own more than one bank in the U.S. but under the present law it is free to engage in any kind of business, whether or not related to banking. The First National City Bank in 1968 became a wholly-owned subsidiary of First National City Corporation and according to Walter B. Wriston, the bank's President, the aim for the bank to become a "financial congeneric corporation." In other words, it will confine its commitments to financial and related services and not adopt the conglomerate approach. While one can expect much of the activity of corporations of this nature to be confined to domestic investments it is reasonable to assume that these institutions will make notable investments abroad in closed-end investment funds, mutual funds, installment finance companies, insurance companies and the like.

We have now completed our survey of the operating forms of the future, and have found that notable changes can be expected to take place, with the exception of one closing comment. The key word for the future is "flexibility". The choice of vehicle must continue to be dependent upon local conditions and what seems best suited at that time in that location. What changes in operating methods, organizational structure and management techniques can be foreseen as occurring in concert with increasing internationalization?

FUTURE OPERATING METHODS, ORGANIZATION AND MANAGEMENT TECHNIQUES

In our discussion of the persistent problems which the respondents perceived the banks to be experiencing in their foreign operations we observed that a number suggested the development of adequate facilities
for communication within the organization as a significant difficulty concomitant with overseas operations. The implication is that the flow of information must be facilitated.

Dramatic improvements in data transmission and information storage can be expected to be forthcoming from increasing application of computer technology to international business operations. By installing computers in selected key areas around the world international on-line data transmission seems probable in the not too distant future, especially for the largest U.S. banks whose "offices" span the globe. One U.S. respondent also foresees an eventual tie-in with correspondent banks. At this moment at least two of the U.S. banks, according to executives interviewed, have computers in operation to permit on-line data transmission in certain regional areas where their "offices" are concentrated. The ultimate objective is to have one central system at Head Office which would permit instantaneous communication with "offices" on the line around the world.

Computerization is a costly procedure, however, and, as we indicated above, to accomplish it profitably on a regional basis a concentration of "offices" is necessary. Retail banking offices are especially suitable for the application of computer technology since the large number of savings deposits can be stored in the computer. On this basis the chartered banks may be directed to place their branches on the larger islands in the Caribbean "on-line" regionally since it is principally an indigenous retail banking business which they conduct. However, outside of the material cost factor one respondent noted two
other significant considerations reducing the attractiveness of Caribbean computers. One, the "inadequate communication facilities in the region". Two, a political consideration. Since employment of most local nationals is a consequence of a primarily labour-intensive economy the respondent did not believe it "politic to automate."

The computer can be of valuable assistance at home, however, because it supplies the means to obtain "centralization of information." It offers great potential for improved resource utilization through application of its technology to management administration. For example, appropriate deployment of personnel, both domestically and internationally, by "capturing significant information about each individual's talents, preferences and particular qualifications, and retaining it in storage."

At the same time, the banks of both countries could be permitted to play an even more effective role in the facilitation of external trade and the transfer of technology between countries through such devices as the stimulation of licensing arrangements discussed in Chapter VIII. The procedure would involve the storage of company profiles, very similar to those described above for personnel, in the memory bank of the computer. These firms would be both domestic and foreign and each could be coded by industry, for example, to allow random access. The catalytic role of the banks would be facilitated since pertinent data on thousands of corporations would be literally at the fingertips of the executive.
The computer can also contribute to more effective decision-making by permitting the extensive use of quantitative information. The effect should be to reduce the incidence of intuitive decision-making, a phenomenon which, according to more than one respondent, is fairly common on the international scene, by granting executives access to more complete statistical information.

For the chartered banks, then, the consensus would appear to be that the computer may be increasingly employed at Head Office, if not abroad, to facilitate data transmission, information storage and, in time, decision-making. The largest U.S. banks have already commenced the use of computers on a regional basis abroad and there seems little doubt that the practice will become more prevalent with eventual centralization of operating activity not a remote possibility.

While we can expect to see increasing centralization of information through computer application it is quite probable that we may see increased decentralization of authority through revamped organizational structures. In the words of one Canadian respondent, "more independence within definite limits" is to be expected. Limited decentralization would appear to provide a useful solution to the organizational difficulty described by one U.S. respondent who observed that "it is difficult to implement uniform policies and procedures in diverse areas since it may sap incentive and creativeness; nevertheless, without some control uniform objectives are likely to be lacking." Control is maintained but the line officer is allowed more freedom to exercise his
judgement. The same executive asserted that "the bank is intent upon
decentralization of authority and responsibility as far as possible;
"it is perceived as a big factor in keeping people motivated." An imp­
ortant specific example in the case of banks would be the granting of
larger lending limits to managers of foreign branches. This process,
of course, could continue right up the line through to the management
team of the international division itself.

In this process of decentralization what form of organization­
al structure can be seen as emerging? At the outset it may be stated
that it is the writer's impression, based upon observation, that an effec­
tive contrast may be developed between the existing organization of the
Canadian and U.S. banks, and between the banks of each country as well,
with the differences between several of the chartered banks more pro­
nounced. There also appears to be some relationship between the num­
ber of branches abroad and the form of organization employed.

Let us begin by looking at the selected U.S. banks since they
are substantially comparable, with one notable exception. It was observed
that the international division of each of the institutions was divided
up on a geographical basis with functional duties directed from within
each geographic department. The significant exception, to this date,
appears to be provided by the First National City Bank which, as we
noted earlier, maintained a network of 163 foreign branches at June
30, 1968 or 56 per cent of the total maintained by the five selected
U.S. banks. In 1968 this bank underwent a major reorganization of its
entire corporate structure. A "decentralized organization" was created.
One of the important advantages of this approach, Citibank stated, was that "it puts decision-making nearer the arena of action, thereby capitalizing on the experience, abilities and initiative of the Bank's officers and branch personnel." These are similar sentiments to those expressed by the U.S. respondent above who, importantly, was from a different bank, thereby indicating that notable further decentralization is likely to occur elsewhere. The Citibank report also outlined the role of the executive team in this new structure.

In a decentralized organization, the basic role of headquarters consists of determining broad policies and providing aid and advice. Accordingly, the new structure will include a top policy, planning and advisory group whose members, divorced from line responsibilities will be assigned particular spheres of interest.

The implication of these statements would seem to be that the "International Banking Group", the division's new title under the revised structure, will be altered internally as well. It would appear that a team of staff specialists, each to concentrate upon one functional area such as administration or operations, has been inserted into the structure, immediately below the executive vice-president in the hierarchy, to advise the line officers in the different geographic sections.

The bank justified the change by asserting that "our former structure was fast becoming outmoded" with the "proliferation and increased complexity of banking services." It can be reasonably assumed that this statement has universal application, thus it is possible that this organizational structure will be the forerunner of similar changes in the organization of other large U.S. banks.
Meanwhile, in Canada it would appear that the chartered banks are really just beginning a move into "regional decentralization" a trend perceived as continuing by each of the Canadian respondents, who offered comments on future organization. In Chapter VI, when we discussed the role which organizational structure might play in an international decision, we described the existing structure of several of the chartered banks. We will briefly repeat here that one chartered bank, within the past few months, reorganized its international division and now operates on a similar format to the structure which currently dominates the large U.S. banks, a breakdown of the division on a geographical basis, however, since the institution does not operate an extensive branch network abroad (it employs the affiliate vehicle in the Caribbean) there appears to be only limited regional decentralization. A "Vice-President for U.S.A., Caribbean and Latin America" and a "Vice-President for the United Kingdom" have been named but their title is lesser ranked in the hierarchical structure than their domestic regional counterparts who are termed "Senior Vice-Presidents."

We observed in Chapter VI that two chartered banks with relatively large overseas branch networks had implemented regional decentralization, with varied emphasis, in areas where they are active. Important-ly, each assigned a title to the executives who headed up these regional offices identical to that given those executives who lead the domestic geographic divisions, an indication of equal hierarchical status. Significantly, of the two remaining major chartered banks one exhibits
limited regional decentralization with an "Assistant General Manager" for London, England and one for the United Kingdom and Europe while those, who lead divisions, are titled "General Manager". The other appears to be virtually totally centralized with branch managers the highest ranking officers in foreign areas other than in California where it is represented by a wholly-owned subsidiary.

As for the future, it is reasonable to assume that the exhibited trend towards regional decentralization will continue as individual banks establish more branches in certain areas since it has been two of these institutions with a notable number of branches in certain areas who have led the way in this respect and, further, because, as noted above, it seems to offer an effective compromise between the desire for control and the need to motivate personnel to improved performance. However, while the chartered banks can be expected to place increasing emphasis upon an extension of authority on a geographic basis, similar to the structure which currently dominates the largest U.S. banks, the writer does not envisage catching up structurally, so to speak. This argument is put forth since, as we described above, the U.S. banks appear ready to take on a more sophisticated structure involving the increased use of staff specialists at the senior executive level. This structure may come to Canada but, for most of the chartered banks, it would appear to be several years away since, for them, the intermediate stage of regional decentralization is not really off the ground.
We have presented what may be described as a stage theory of corporate communications as they pertain to international operations with the U.S. banks seemingly leading their Canadian counterparts by moving out as the chartered banks move in. The "theory" appears to hold in the case of both the application of computer technology and the organizational structure employed for international operations. These phenomena may be regarded as a reflection of the greater intensity of internationalization of the major U.S. banks in terms of "offices" abroad, a fact which we have exhibited in several sections of the study. On the basis of these hypotheses we may reasonably conclude that the chartered banks as a group, enjoy a learning experience from the international activities of the U.S. banks.

CONCLUDING REMARKS

Our journey has now come to an end. We have travelled some distance through the world of foreign trade and private international capital movements to the arena of international banking. Here we surveyed the global operations of the Canadian and U.S. banks, primarily in terms of operating forms employed, and canvassed the motives behind their movement abroad and into certain areas, together with the forces determining the selection of a specific vehicle. Our tour has taken us from the past through the present and into the future. Indeed, we have traversed substantial territory.

Nevertheless, much work remains to be done in the sphere surrounding the international operations of the Canadian banks. This
study adopted an extensive rather than an intensive approach to the examination of the activities abroad of the chartered banks. At the same time, the approach was qualitative in character, not quantitative, and no attempt was made to test the validity of the hypotheses tendered as explanations of bank behaviour. Thus, a useful work would be one which intensively investigated certain facets of the international involvement of these institutions, for example, a thorough analysis of the planning procedure prior to a decision to commit resources abroad in a certain country or area. Of particular value would be a study which utilized statistical techniques to establish the soundness of a number of the explanatory hypotheses.
FOOTNOTES

Chapter I

1. In 1967 Canada's exports (f.o.b.) totalled U.S. $11,027,000, the fifth largest volume in the world; her imports of U.S. $10,971,000 (c.i.f.) were sixth in the world. The combined volume of U.S. $21,998,000 also ranked sixth. International Monetary Fund, International Financial Statistics, XXI (September, 1968), 34-35.

2. Canadian Bankers Association, "Submissions to the Royal Commission on Banking and Finance," Supplement to The Canadian Banker, 70, (Spring, 1963), 51.

3. See Tables III and IV in Appendix I.


5. Barclays Bank Limited, Annual Report, 1967. Total assets were converted at £1 = U.S. $2.4075, the buying rate for the pound at December 31, 1967.

6. See Table V for a comparison of the total assets of the selected Canadian and U.S. banks.


9. These figures do not include representative offices, agencies, or the branches maintained by affiliated banks.


11. Ibid., 352.


Chapter II

19. These interviews were conducted with executives of the ten banks described in Chapter I during the period from February 12 to February 20, 1969 with the exception of the Bank of America, San Francisco which was visited March 11. Information gained from these interviews will be referred to frequently throughout the remainder of the study.


21. Ibid., 769-77.


23. See Appendix II for an elaboration upon the origins and nature of the Euro-dollar and Euro-bond markets.


Chapter III


28. Canadian banks generally carry bills on their own account and do not, as a common practice, "flog paper on the street" largely due to unattractive money market rates for this paper. The consequence is an inactive Canadian acceptance market.
29. Canada is exempt from the Foreign Direct Investment Regulation implemented January 1, 1968 but Canadian banks have been asked to ensure that they are not used as vehicles through which U.S. investors might move unreported funds abroad.


31. See Appendix III for a discussion of the theory and mechanics and an example of an arbitrage transaction.

**Chapter IV**

32. See Tables III and IV in Appendix I.


36. See Table III.


43. See Table IX.


53. John Parke Young, *op. cit.*


Chapter V


62. The largest American banks stressed that they have "never left a country unless forced out." Political, not economic, force was implied as the determinant.

Chapter VI

63. The Royal Bank of Canada, *op. cit.*, 1952, p. 23. In order to reduce the number of footnotes required we can state at the outset that information pertaining to branch openings was obtained by the writer through correspondence with the banks concerned.
64. The Bank of Nova Scotia opened branches in Calais, Maine in 1895 and in Boston in 1899 in response to this trade. The former office was closed in 1902, however, the latter remained until 1942.


68. Ibid.


70. International Monetary Fund, op. cit.


72. Ibid., 1959, p. 20.

73. Ibid., 1963, p. 21.

74. The Bank Act (1967) restricts the further entry of foreign banks into Canada and limits the growth of assets of the only foreign-owned bank, the Mercantile Bank of Canada to twenty times its authorized capital stock.

75. Robin Pringle, op. cit., 776.

76. Ibid.


78. Robin Pringle, op. cit., 777.


80. The Interest Equalization Tax was extended to cover bank loans of one year or more (term loans) to foreigners, and banks in the United States were requested to keep the outstanding level of their credits to foreigners to 105 per cent of the level at end-1964. (This guideline was revised later in 1965 to permit an expansion of 1 per cent a quarter to a level of 109 per cent of the 1964 base at the end of 1966.)
When the Foreign Direct Investment Regulations were introduced the guidelines for the banks in the United States were revised. The 1968 ceiling for credits to foreigners was set at 103 per cent of the end-1964 base. All banks were requested to reduce the amount of term loans to residents of developed countries of continental Western Europe and each bank was to reduce its ceiling on each reporting date by the amount of the reduction in term loans to Western Europe during the preceding month. Also, all banks were asked to reduce the amount of short-term credit outstanding (loans with maturities of one year or less) to developed countries of Western Europe by 40 per cent of the amount of such credit outstanding on December 31, 1967.

84. Ibid., 52, (January, 1968), 45.
86. An important exception must be noted. The First National City Bank of New York at the close of 1968 instituted a major reorganization of its corporate structure. An International Banking Group is one of five market-oriented banking groups created. Apparently, the senior executives in this division will be aligned more on a functional basis with the geographical division coming at a subordinate echelon. First National City Bank, Annual Report, 1968, 10 and 13.

Chapter VII

90. The Toronto-Dominion Bank, Annual Report, 1962, 16.
91. The parentheses have been added by the writer to clarify the comments of the respondents.
94. See Table III.


103. The supply position has occurred at times when U.S. residents have deposited dollars with Canadian banks on a notable scale and a proportion is funnelled through to London and other European branches. *Ibid.*


106. **Burroughs Clearing House**, *op. cit.*


109. It is interesting to note that the Chase Manhattan Bank in 1965 acquired an equity interest in The Standard Bank Limited, thus gaining indirect participation in this venture. It is not directly involved in any permanent multi-national joint venture according to an executive interviewed.


111. One chartered bank branch is maintained in Paris by the Banque Canadienne Nationale.


118. Manufacturers Hanover Trust, *op. cit.*, 12.
130. The Bank of Nova Scotia, *op. cit.*, 1967, 26. *For an elaboration upon this subject see Chapter V.*


139. Inflationary conditions in Brazil are exemplified by the export price index. With 1963 = 100, the index, excluding coffee, equalled 596 at the end of 1967. The most recent currency devaluation occurred February 13, 1967 when a New Cruzeiro equal to 1,000 old Cruzeiros was introduced. *International Monetary Fund, op. cit.*, 62.


143. We have already suggested that these ties are an important consideration to the chartered banks. However, as we shall comment later their significance as an initiating force appears to vary between banks.

144. The Suez crisis and the concurrent closure of the Suez Canal in 1956 undoubtedly accounted for the lower trade volume in 1957.


146. International Monetary Fund, *op. cit.*, 36-7.


154. The foregoing represents our only attempt in the study to lend quantitative support to a hypothesis and was presented here as an indication of work which might be done in this area.


157. For an interesting story concerning "Banking in War-Time Conditions" in Viet-Nam, the reader is asked to refer to an article which appeared in the December, 1966 issue of "Burroughs Clearing House."

Chapter VIII

158. It is true that using this technique of measurement the living standards of but a relatively small number, not the masses, may be improved but here we are concerned with the explanatory process, economic development, not the outcome, economic growth.


160. Royal Bank of Canada International Limited is a holding company for a number of the overseas investments of The Royal Bank of Canada, including an affiliate bank in Lebanon. Headquartered as it is, in Nassau, the tax advantages of such an arrangement are implicit.


Chapter IX


174. Ibid., 46.

175. Ibid.

176. We have not included correspondent banking here since a chartered bank has no control over the policies or practices of a correspondent bank. In this sense it is not an "office" in a foreign country for a chartered bank.

177. A fifth problem, communication in terms of organizational structure, will be dealt with in the following section.

178. Banking, LX, (September, 1967), 114.

179. Ibid.


181. For example, in 1967 the total trade of "developed areas" amounted to U.S. $294 billion. The corresponding figure for the "less developed areas" was but $U.S. 69 billion. These figures exclude "Soviet Areas" and "unclassified". International Monetary Fund, "Direction of Trade", (May, 1968), 2. A Supplement to International Financial Statistics.


189. Banking, LXI, (September, 1968), 59.

190. Ibid.


**Appendix II**


**Appendix III**

205. It should, of course, be noted that there is no one interest rate differential but several relevant differentials based upon the many possible combinations open to the arbitrager. Thus, a series of differentials among various money market instruments must be recognized, not just differences in yields on one type of investment in the two centres.
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### APPENDIX I

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### Table I

World Trade for Six Largest Trading Nations for Selected Years 1946-1967

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<td>5,471</td>
<td>7,576</td>
<td>12,289</td>
<td>14,618</td>
<td>20,145</td>
<td>21,748</td>
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<td>Exports</td>
<td>Imports</td>
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<td></td>
<td>103</td>
<td>305</td>
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<td>2,399</td>
<td>2,999</td>
<td>3,033</td>
<td>5,637</td>
<td>7,938</td>
<td>9,524</td>
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<td>35,045</td>
<td>40,352</td>
<td>57,160</td>
<td>77,680</td>
<td>94,800</td>
<td>124,700</td>
<td>152,600</td>
<td>181,400</td>
<td>190,300</td>
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<table>
<thead>
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</thead>
<tbody>
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<td>2.</td>
<td>Germany (West)</td>
<td>-534</td>
<td>358</td>
<td>759</td>
<td>746</td>
<td>-937</td>
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<td>3.</td>
<td>United Kingdom</td>
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<td>317</td>
<td>140</td>
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<td>France</td>
<td>367</td>
<td>283</td>
<td>444</td>
<td>271</td>
<td>-137</td>
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<tr>
<td>5.</td>
<td>Canada</td>
<td>1,240</td>
<td>1,167</td>
<td>617</td>
<td>1,197</td>
<td>410</td>
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<tr>
<td>6.</td>
<td>Japan</td>
<td>36</td>
<td>11</td>
<td>574</td>
<td>-476</td>
<td>-305</td>
</tr>
<tr>
<td>7.</td>
<td>Italy</td>
<td>174</td>
<td>520</td>
<td>1,001</td>
<td>-157</td>
<td>-339</td>
</tr>
<tr>
<td>8.</td>
<td>Belgium-Luxem'g.</td>
<td>-76</td>
<td>54</td>
<td>42</td>
<td>116</td>
<td>138</td>
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<tr>
<td>9.</td>
<td>Netherlands</td>
<td>90</td>
<td>-97</td>
<td>15</td>
<td>-6</td>
<td>-12</td>
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<tr>
<td>10.</td>
<td>Sweden</td>
<td>-4</td>
<td>11</td>
<td>-49</td>
<td>86</td>
<td>60</td>
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<tr>
<td>12.</td>
<td>Australia</td>
<td>642</td>
<td>1,043</td>
<td>1,316</td>
<td>1,360</td>
<td>696</td>
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<tr>
<td>13.</td>
<td>Venezuela</td>
<td>16</td>
<td>-338</td>
<td>-241</td>
<td>62</td>
<td>114</td>
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<tr>
<td></td>
<td>Brazil</td>
<td>276</td>
<td>216</td>
<td>62</td>
<td>96</td>
<td>84</td>
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<td></td>
<td>Israel</td>
<td>27</td>
<td>113</td>
<td>174</td>
<td>168</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>149</td>
<td>277</td>
<td>215</td>
<td>142</td>
<td>492</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>15</td>
<td>192</td>
<td>212</td>
<td>322</td>
<td>509</td>
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</table>

**TOTALS**

<table>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Outflows</td>
<td>3,931</td>
<td>3,815</td>
<td>5,061</td>
<td>6,094</td>
<td>6,385</td>
</tr>
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<td>New Inflows</td>
<td>3,052</td>
<td>4,562</td>
<td>5,571</td>
<td>4,566</td>
<td>2,509</td>
</tr>
<tr>
<td>Gross Flows</td>
<td>6,983</td>
<td>8,377</td>
<td>10,632</td>
<td>10,660</td>
<td>8,894</td>
</tr>
</tbody>
</table>

Continued . . .

1. Data pertains to "Capital, N.I.E.: Private" except for U.S. which is drawn from "Capital, excluding Reserves, etc." Conversion to U.S. $, where necessary, was made at the "spot" buying rate at respective year ends. A minus sign indicates a net capital outflow from the country, no sign indicates a net capital inflow into the country.

2. The countries have been selected primarily on the basis of the volume of their world trade and are ranked according to their total exports during 1967.

3. 1958 represents the earliest year data of this nature is provided by the I.M.F.
### TABLE III

Position of Foreign Currency Assets of Chartered Banks of Canada
As at October 31, 1968.

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Gov. and Bk. notes</th>
<th>% of Total</th>
<th>Deposits with other banks in currencies</th>
<th>% of Total</th>
<th>Securities than Cdn.</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montreal</td>
<td>7,430</td>
<td>0.6</td>
<td>473,279</td>
<td>43.1</td>
<td>75,277</td>
<td>6.9</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>9,882</td>
<td>0.5</td>
<td>565,836</td>
<td>28.1</td>
<td>47,176</td>
<td>2.3</td>
</tr>
<tr>
<td>Toronto-Dominion</td>
<td>6,365</td>
<td>0.6</td>
<td>561,105</td>
<td>50.7</td>
<td>28,047</td>
<td>2.5</td>
</tr>
<tr>
<td>Provinciale</td>
<td>1,625</td>
<td>12.1</td>
<td>7,968</td>
<td>59.2</td>
<td>3,476</td>
<td>25.8</td>
</tr>
<tr>
<td>Commerce-Imperial</td>
<td>9,718</td>
<td>0.7</td>
<td>454,494</td>
<td>32.7</td>
<td>271,047</td>
<td>19.5</td>
</tr>
<tr>
<td>Royal</td>
<td>30,104</td>
<td>1.3</td>
<td>1,032,834</td>
<td>44.0</td>
<td>366,048</td>
<td>15.6</td>
</tr>
<tr>
<td>Nationale</td>
<td>1,488</td>
<td>6.5</td>
<td>14,714</td>
<td>64.5</td>
<td>3,220</td>
<td>14.2</td>
</tr>
<tr>
<td>Mercantile</td>
<td>88</td>
<td>0.2</td>
<td>11,191</td>
<td>26.2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>British Columbia</td>
<td>8</td>
<td>0.1</td>
<td>10,727</td>
<td>96.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66,708</strong></td>
<td><strong>0.8</strong></td>
<td><strong>3,132,148</strong></td>
<td><strong>38.9</strong></td>
<td><strong>794,292</strong></td>
<td><strong>9.9</strong></td>
</tr>
</tbody>
</table>


Continued . . . .
TABLE III
(Continued)

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Call and short loans outside F.C. Canada</th>
<th>% of total F.C. assets</th>
<th>Other Loans not in Cdn. curr.</th>
<th>% of total F.C. assets</th>
<th>Total foreign currency assets*</th>
<th>% of total assets</th>
<th>Total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montreal</td>
<td>123,683</td>
<td>11.3</td>
<td>417,655</td>
<td>38.1</td>
<td>1,097,324</td>
<td>16.1</td>
<td>6,818,514</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>290,801</td>
<td>14.5</td>
<td>1,099,519</td>
<td>54.6</td>
<td>2,013,214</td>
<td>38.6</td>
<td>5,217,037</td>
</tr>
<tr>
<td>Toronto-Dominion</td>
<td>204,906</td>
<td>18.5</td>
<td>306,597</td>
<td>27.7</td>
<td>1,107,020</td>
<td>25.3</td>
<td>4,378,064</td>
</tr>
<tr>
<td>Provinciale</td>
<td>---</td>
<td>-</td>
<td>390</td>
<td>2.9</td>
<td>13,459</td>
<td>1.8</td>
<td>758,736</td>
</tr>
<tr>
<td>Commerce-Imperial</td>
<td>233,666</td>
<td>16.7</td>
<td>421,878</td>
<td>30.4</td>
<td>1,388,783</td>
<td>16.6</td>
<td>8,343,111</td>
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<tr>
<td>Royal</td>
<td>224,955</td>
<td>9.6</td>
<td>693,110</td>
<td>29.5</td>
<td>2,347,051</td>
<td>26.8</td>
<td>8,743,218</td>
</tr>
<tr>
<td>Nationale</td>
<td>---</td>
<td>-</td>
<td>3,377</td>
<td>14.8</td>
<td>22,799</td>
<td>1.6</td>
<td>1,411,518</td>
</tr>
<tr>
<td>Mercantile</td>
<td>938</td>
<td>2.2</td>
<td>30,440</td>
<td>71.4</td>
<td>42,658</td>
<td>22.6</td>
<td>188,546</td>
</tr>
<tr>
<td>British Columbia</td>
<td>361</td>
<td>3.2</td>
<td>---</td>
<td>-</td>
<td>11,096</td>
<td>32.8</td>
<td>33,866</td>
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<tr>
<td>Total</td>
<td>1,077,290</td>
<td>13.4</td>
<td>2,972,966</td>
<td>37.0</td>
<td>8,043,404</td>
<td>22.4</td>
<td>35,892,610</td>
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</table>

* Does not include $137.2 million in provincial, municipal and corporate securities and corporation loans in currencies other than Canadian as no break-down by individual bank is provided.
TABLE IV

Position of Foreign Currency Liabilities of Chartered Banks of Canada
as at October 31, 1968
(in $000's)

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Deposits by other banks in currencies</th>
<th>% of Other deposits total</th>
<th>Other % of total deposits in currencies</th>
<th>% of Total Liabilities in foreign currency</th>
<th>% of Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montreal</td>
<td>300,788</td>
<td>29.3</td>
<td>726,041</td>
<td>70.7</td>
<td>1,026,819</td>
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<tr>
<td>Nova Scotia</td>
<td>663,580</td>
<td>32.2</td>
<td>1,397,479</td>
<td>67.8</td>
<td>2,061,059</td>
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<tr>
<td>Toronto-Dominion</td>
<td>469,562</td>
<td>43.9</td>
<td>599,949</td>
<td>56.1</td>
<td>1,069,511</td>
</tr>
<tr>
<td>Provinciale</td>
<td>65</td>
<td>1.2</td>
<td>5,387</td>
<td>98.8</td>
<td>5,452</td>
</tr>
<tr>
<td>Commerce-Imperial</td>
<td>346,159</td>
<td>28.6</td>
<td>863,267</td>
<td>71.4</td>
<td>1,209,426</td>
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<tr>
<td>Royal</td>
<td>454,269</td>
<td>20.3</td>
<td>1,782,935</td>
<td>79.7</td>
<td>2,237,204</td>
</tr>
<tr>
<td>Nationale</td>
<td>599</td>
<td>5.1</td>
<td>11,224</td>
<td>94.9</td>
<td>11,823</td>
</tr>
<tr>
<td>Mercantile</td>
<td>6,627</td>
<td>8.8</td>
<td>68,750</td>
<td>91.2</td>
<td>75,377</td>
</tr>
<tr>
<td>British Columbia</td>
<td>11</td>
<td>0.1</td>
<td>9,701</td>
<td>99.9</td>
<td>9,712</td>
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<tr>
<td>Total</td>
<td>2,241,650</td>
<td>29.1</td>
<td>3,464,733</td>
<td>70.9</td>
<td>7,706,383</td>
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</table>

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Total assets as at October 31 ($000's Cdn.)</th>
<th>Name of Bank</th>
<th>Total assets as at December 31 ($000's U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Bank of Canada</td>
<td>7,779,659</td>
<td>Bank of America</td>
<td>21,455,400</td>
</tr>
<tr>
<td>Canadian Imp. Bk. of Commerce</td>
<td>7,481,582</td>
<td>The Chase Manhattan Bank</td>
<td>18,012,884</td>
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<tr>
<td>Bank of Montreal</td>
<td>6,132,453</td>
<td>First National City Bank</td>
<td>17,497,373</td>
</tr>
<tr>
<td>Bank of Nova Scotia</td>
<td>4,138,719</td>
<td>Manufacturers Hanover Trust</td>
<td>9,171,603</td>
</tr>
<tr>
<td>Toronto-Dominion Bank</td>
<td>3,458,301</td>
<td>Morgan Guaranty Trust</td>
<td>9,168,394</td>
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</table>

Source: Annual Reports 1967.
# TABLE VI

## Canadian Long-Term Investments Abroad

**Selected Year-Ends 1945-1965**

(in millions of $)

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</thead>
<tbody>
<tr>
<td>Direct Investment in Branches, Subsidiaries and controlled companies</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>All</td>
<td>720</td>
<td>926</td>
<td>1,891</td>
<td>2,149</td>
<td>2,467</td>
<td>2,784</td>
<td>3,298</td>
<td>3,495</td>
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<td>U.S.</td>
<td>455</td>
<td>721</td>
<td>1,394</td>
<td>1,440</td>
<td>1,618</td>
<td>1,786</td>
<td>1,967</td>
<td>2,041</td>
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<td>U.K.</td>
<td>54</td>
<td>59</td>
<td>139</td>
<td>200</td>
<td>257</td>
<td>344</td>
<td>457</td>
<td>508</td>
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<td>69</td>
<td>76</td>
<td>191</td>
<td>266</td>
<td>299</td>
<td>336</td>
<td>426</td>
<td>453</td>
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<td>Foreign</td>
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<td>70</td>
<td>167</td>
<td>243</td>
<td>293</td>
<td>318</td>
<td>448</td>
<td>493</td>
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<td>Portfolio Investment in Foreign Securities Stocks and Bonds</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>621</td>
<td>638</td>
<td>1,006</td>
<td>1,118</td>
<td>1,315</td>
<td>1,723</td>
<td>1,942</td>
<td>2,136</td>
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<tr>
<td>U.S.</td>
<td>409</td>
<td>443</td>
<td>653</td>
<td>770</td>
<td>947</td>
<td>1,240</td>
<td>1,455</td>
<td>1,634</td>
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<tr>
<td>U.K.</td>
<td>53</td>
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<td>46</td>
<td>41</td>
<td>42</td>
<td>67</td>
<td>70</td>
<td>74</td>
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<tr>
<td>Commonwealth</td>
<td>19</td>
<td>14</td>
<td>28</td>
<td>29</td>
<td>28</td>
<td>43</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Foreign</td>
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<td>141</td>
<td>279</td>
<td>278</td>
<td>298</td>
<td>373</td>
<td>371</td>
<td>382</td>
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<tr>
<td>Total Private Long-Term Investments Abroad</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>1,341</td>
<td>1,564</td>
<td>2,897</td>
<td>3,267</td>
<td>3,782</td>
<td>4,507</td>
<td>5,240</td>
<td>5,631</td>
</tr>
<tr>
<td>U.S.</td>
<td>864</td>
<td>1,164</td>
<td>2,047</td>
<td>2,210</td>
<td>2,565</td>
<td>3,026</td>
<td>3,422</td>
<td>3,675</td>
</tr>
<tr>
<td>U.K.</td>
<td>107</td>
<td>99</td>
<td>185</td>
<td>241</td>
<td>299</td>
<td>411</td>
<td>527</td>
<td>582</td>
</tr>
<tr>
<td>Commonwealth</td>
<td>88</td>
<td>90</td>
<td>219</td>
<td>295</td>
<td>327</td>
<td>479</td>
<td>472</td>
<td>499</td>
</tr>
<tr>
<td>Foreign</td>
<td>282</td>
<td>211</td>
<td>446</td>
<td>521</td>
<td>591</td>
<td>691</td>
<td>819</td>
<td>875</td>
</tr>
</tbody>
</table>


1. Figures exclude investments of insurance companies and banks (held mainly against liabilities to non-residents).
TABLE VII

International Investment Position of the U.S. at Selected Year-Ends 1945-67
($000's)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Investment (Book value at Year-end)</td>
<td>8,370</td>
<td>11,788</td>
<td>17,626</td>
<td>27,255</td>
<td>37,226</td>
<td>49,328</td>
<td>54,562</td>
<td>59,267</td>
</tr>
<tr>
<td>Foreign Bonds and Stocks</td>
<td>N.A.</td>
<td>5,700</td>
<td>6,739</td>
<td>10,261</td>
<td>15,350</td>
<td>21,570</td>
<td>21,003</td>
<td>22,175</td>
</tr>
<tr>
<td>Total Long-Term Investment</td>
<td>N.A.</td>
<td>17,488</td>
<td>24,365</td>
<td>37,516</td>
<td>52,576</td>
<td>70,898</td>
<td>75,565</td>
<td>81,442</td>
</tr>
<tr>
<td>Short Term Assets and Claims</td>
<td>N.A.</td>
<td>1,516</td>
<td>2,224</td>
<td>3,488</td>
<td>6,322</td>
<td>10,153</td>
<td>10,670</td>
<td>11,845</td>
</tr>
<tr>
<td>Total Private Foreign Investment</td>
<td>N.A.</td>
<td>19,004</td>
<td>26,589</td>
<td>41,004</td>
<td>59,810</td>
<td>81,051</td>
<td>86,235</td>
<td>93,287</td>
</tr>
</tbody>
</table>

TABLE VIII

Total Foreign Currency Assets and Liabilities of the Chartered Banks of Canada for Selected Year-Ends 1946-1968

<table>
<thead>
<tr>
<th>Year</th>
<th>Total F.C. Assets (mill. $)</th>
<th>Total F.C. Liabilities (mill. $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1950</td>
<td>360</td>
<td>134</td>
</tr>
<tr>
<td>1952</td>
<td>85</td>
<td>83</td>
</tr>
<tr>
<td>1955*</td>
<td>1,127</td>
<td>1,056</td>
</tr>
<tr>
<td>1958</td>
<td>2,165</td>
<td>2,077</td>
</tr>
<tr>
<td>1960</td>
<td>2,725</td>
<td>2,654</td>
</tr>
<tr>
<td>1961</td>
<td>3,510</td>
<td>3,488</td>
</tr>
<tr>
<td>1962</td>
<td>3,876</td>
<td>3,958</td>
</tr>
<tr>
<td>1963</td>
<td>4,236</td>
<td>4,214</td>
</tr>
<tr>
<td>1964</td>
<td>5,179</td>
<td>5,211</td>
</tr>
<tr>
<td>1965</td>
<td>5,037</td>
<td>5,083</td>
</tr>
<tr>
<td>1966</td>
<td>5,643</td>
<td>5,568</td>
</tr>
<tr>
<td>1967</td>
<td>6,332</td>
<td>6,309</td>
</tr>
<tr>
<td>1968</td>
<td>7,661</td>
<td>7,378</td>
</tr>
</tbody>
</table>


* Figures for 1955 and subsequent dates revised not directly comparable with those of earlier dates owing to a change in classification of foreign currency loans in returns of Dept. of Finance. Foreign currency loans on books of Canadian branches, some of which were made to Canadian customers were previously included but note have been excluded from loans in Cdn. currency and are now included in "Net Foreign Assets".
TABLE IX
Chartered Banks Selected Foreign Currency Loans and Deposits
Year-Ends 1954-63
(millions of $)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Currency Loans</th>
<th>Deposits of Non-Bank Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outside Canada $</td>
<td>%</td>
</tr>
<tr>
<td>1954</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1955</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1956</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1957</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1958</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1959</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>1,292</td>
<td>79.4</td>
</tr>
<tr>
<td>1961</td>
<td>1,433</td>
<td>74.9</td>
</tr>
<tr>
<td>1962</td>
<td>1,394</td>
<td>68.0</td>
</tr>
<tr>
<td>1963</td>
<td>1,843</td>
<td>72.2</td>
</tr>
</tbody>
</table>

TABLE X

Comparison of Foreign Currency Assets and Liabilities
Booked in and Outside Canada
December 31, 1963-1967
(millions of $)

<table>
<thead>
<tr>
<th>Year</th>
<th>Booked in Canada</th>
<th>Booked Outside Canada</th>
<th>Total Foreign Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
<td>F.C. Assets</td>
</tr>
<tr>
<td>1963</td>
<td>3,370</td>
<td>3,190</td>
<td>866</td>
</tr>
<tr>
<td>1964</td>
<td>4,275</td>
<td>4,126</td>
<td>904</td>
</tr>
<tr>
<td>1965</td>
<td>3,909</td>
<td>3,802</td>
<td>1,128</td>
</tr>
<tr>
<td>1966</td>
<td>4,231</td>
<td>3,973</td>
<td>1,412</td>
</tr>
<tr>
<td>1967</td>
<td>4,760</td>
<td>4,591</td>
<td>1,572</td>
</tr>
</tbody>
</table>

TABLE XI

Consolidated Statement of Assets and Liabilities of Foreign Branches of National Banks
Selected Year-Ends 1945-1965
(millions of U.S. $)

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1950</th>
<th>1955¹</th>
<th>1960</th>
<th>1962</th>
<th>1964</th>
<th>1965²</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and Discounts</td>
<td>193</td>
<td>540</td>
<td>588</td>
<td>818</td>
<td>1,126</td>
<td>1,924</td>
<td>3,602</td>
</tr>
<tr>
<td>Securities</td>
<td>141</td>
<td>108</td>
<td>63</td>
<td>49</td>
<td>59</td>
<td>179</td>
<td>181</td>
</tr>
<tr>
<td>Currency and Coins</td>
<td>193</td>
<td>61</td>
<td>28</td>
<td>33</td>
<td>28</td>
<td>31</td>
<td>126</td>
</tr>
<tr>
<td>Balances with other banks &amp; cash items in process of collection</td>
<td>204</td>
<td>338</td>
<td>178</td>
<td>214</td>
<td>395</td>
<td>481</td>
<td>1,041</td>
</tr>
<tr>
<td>Customers' liability on account of acceptances</td>
<td>7</td>
<td>19</td>
<td>32</td>
<td>204</td>
<td>183</td>
<td>305</td>
<td>504</td>
</tr>
<tr>
<td>Other Assets</td>
<td>209</td>
<td>662</td>
<td>227</td>
<td>311</td>
<td>217</td>
<td>400</td>
<td>1,787</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>947</td>
<td>1,728</td>
<td>1,116</td>
<td>1,629</td>
<td>2,008</td>
<td>3,320</td>
<td>7,241</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>LIABILITIES</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Demand Deposits</td>
<td>678</td>
<td>1,100</td>
<td>715</td>
<td>803</td>
<td>916</td>
<td>1,485</td>
<td>1,432</td>
</tr>
<tr>
<td>Total Time Deposits</td>
<td>108</td>
<td>232</td>
<td>187</td>
<td>385</td>
<td>670</td>
<td>1,179</td>
<td>3,561</td>
</tr>
<tr>
<td>U.S. Gov't. state, municipal deposits</td>
<td>77</td>
<td>118</td>
<td>77</td>
<td>184</td>
<td>180</td>
<td>204</td>
<td>220</td>
</tr>
<tr>
<td>Other deposits</td>
<td>22</td>
<td>32</td>
<td>13</td>
<td>10</td>
<td>17</td>
<td>21</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td>885</td>
<td>1,482</td>
<td>992</td>
<td>1,382</td>
<td>1,783</td>
<td>2,889</td>
<td>5,255</td>
</tr>
<tr>
<td>Liab. on acceptances</td>
<td>7</td>
<td>19</td>
<td>32</td>
<td>204</td>
<td>183</td>
<td>305</td>
<td>505</td>
</tr>
<tr>
<td>Other liab.</td>
<td>11</td>
<td>53</td>
<td>85</td>
<td>42</td>
<td>38</td>
<td>117</td>
<td>263</td>
</tr>
<tr>
<td>Due to H.O. &amp; branches (inc. capital)</td>
<td>44</td>
<td>174</td>
<td>7</td>
<td>1</td>
<td>4</td>
<td>9</td>
<td>1,218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>947</td>
<td>1,728</td>
<td>1,116</td>
<td>1,629</td>
<td>2,008</td>
<td>3,320</td>
<td>7,241</td>
</tr>
</tbody>
</table>

Continued . . . .


2. The Chase Manhattan Bank acquired a national charter on September 23, 1965.
## TABLE XII

Foreign Branches of the Canadian Chartered and U.S. Federal Reserve Member Banks
Selected Year-Ends 1945-1968

<table>
<thead>
<tr>
<th>Country or Area</th>
<th>Canadian Banks $^1$</th>
<th>U.S. Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Continental</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Europe$^4$</td>
<td>62</td>
<td>79</td>
</tr>
<tr>
<td>Caribbean</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>South and</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Central America</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>123</td>
</tr>
</tbody>
</table>


1. Does not include sub-agencies attached to Branches.
2. Also 29 branches in Newfoundland.
3. National banks only.
4. Does not include branches on Canadian Armed Forces bases in France and Germany.

Continued . . .
6. Includes 11 branches of wholly-owned subsidiaries in California.
7. Includes 2 branches of wholly-owned subsidiaries in France.
8. Includes 26 branches of Bank of Nova Scotia Jamaica Ltd.
TABLE XIII
"Offices" of the Chartered Banks Elsewhere than in Canada as at January 31, 1969

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>United Kingdom and Ireland</th>
<th>Continental Europe</th>
<th>Caribbean</th>
<th>South and Central America</th>
<th>Middle East and Africa</th>
<th>Far East</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Branches</td>
<td>2</td>
<td>13</td>
<td>2</td>
<td>128</td>
<td>24</td>
<td>1</td>
<td>-</td>
<td>170</td>
</tr>
<tr>
<td>Sub-agencies(^3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>Representative Offices</td>
<td>15</td>
<td>1</td>
<td>6</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td>Branches of Affiliates(^4)</td>
<td>-</td>
<td>n.a.</td>
<td>6</td>
<td>41(^6)</td>
<td>n.a.</td>
<td>-</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Wholly-Owned or Controlled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary Banks</td>
<td>11</td>
<td>2</td>
<td>2</td>
<td>267</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Trust Companies</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>10</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Agencies</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Joint Ventures(^1)</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Correspondents(^2)</td>
<td>1,958</td>
<td>2,190</td>
<td>3,901</td>
<td>295</td>
<td>614</td>
<td>1,353</td>
<td>541</td>
<td>10,852</td>
</tr>
</tbody>
</table>


1. Source: Annual Reports.
2. Source: List of Correspondents for Travellers Letters of Credit for five largest banks. Figures represent correspondent banks and their branches thus reciprocal relationships are somewhat overstated. Nevertheless the figures are indicative of the globe-spanning network maintained by these banks. Caribbean figures includes branches of Chartered banks there.
3. Ancillary offices under the direction of an independent branch.
4. Banco Real do Canada and Bank of London and Montreal Limited (BOLAM) offices only.
5. Does not include 6 branches on Canadian Armed Forces bases in Germany.
6. Includes 5 branches in Venezuela of BOLAM affiliate Banco La Guaria International, S.A.
### TABLE XIV

**Foreign Branches of the Chartered Banks as at January 31, 1969**

<table>
<thead>
<tr>
<th>Country and Area</th>
<th>Number of Branches</th>
<th>Year Initial Office Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNITED KINGDOM</strong> (and Ireland)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England (London)</td>
<td>11</td>
<td>1870</td>
</tr>
<tr>
<td>Ireland (Dublin)</td>
<td>1</td>
<td>1966</td>
</tr>
<tr>
<td>Scotland (Glasgow)</td>
<td>1</td>
<td>1964</td>
</tr>
<tr>
<td><strong>CONTINENTAL EUROPE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium (Brussels)</td>
<td>1</td>
<td>1967</td>
</tr>
<tr>
<td>France (Paris)</td>
<td>2</td>
<td>1919</td>
</tr>
<tr>
<td>Netherlands (Rotterdam)</td>
<td>1</td>
<td>1966</td>
</tr>
<tr>
<td><strong>CARIBBEAN</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td>18</td>
<td>1908</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>16</td>
<td>1912</td>
</tr>
<tr>
<td>French West Indies</td>
<td>2</td>
<td>1965</td>
</tr>
<tr>
<td>Haiti</td>
<td>1</td>
<td>1919</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>10</td>
<td>1906</td>
</tr>
<tr>
<td>West Indies:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td>10</td>
<td>1911</td>
</tr>
<tr>
<td>Jamaica</td>
<td>46</td>
<td>1889³</td>
</tr>
<tr>
<td>Trinidad</td>
<td>28</td>
<td>1910</td>
</tr>
<tr>
<td>Others</td>
<td>23</td>
<td>1913</td>
</tr>
<tr>
<td><strong>CENTRAL AMERICA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Honduras</td>
<td>3</td>
<td>1912</td>
</tr>
<tr>
<td><strong>SOUTH AMERICA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>2</td>
<td>1919</td>
</tr>
<tr>
<td>Brazil</td>
<td>4</td>
<td>1919⁴</td>
</tr>
<tr>
<td>Colombia</td>
<td>5</td>
<td>1925</td>
</tr>
<tr>
<td>Guyana</td>
<td>7</td>
<td>1914</td>
</tr>
<tr>
<td>Peru</td>
<td>1</td>
<td>1925</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2</td>
<td>1916</td>
</tr>
</tbody>
</table>

Continued . . . .
TABLE XIV
(continued)

<table>
<thead>
<tr>
<th>Country and Area</th>
<th>Number of Branches</th>
<th>Year Initial Office Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITED STATES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California</td>
<td>14</td>
<td>1864&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>New York</td>
<td>5</td>
<td>1859&lt;sup&gt;6&lt;/sup&gt;</td>
</tr>
<tr>
<td>Oregon (Portland)</td>
<td>1</td>
<td>1901</td>
</tr>
<tr>
<td>Washington (Seattle)</td>
<td>1</td>
<td>1900</td>
</tr>
</tbody>
</table>


1. Branches of wholly-owned subsidiaries.
2. Replaced a Representative Office in Amsterdam opened in 1962.
5. Includes 11 branches of wholly-owned subsidiaries and 3 agencies.
6. Agencies only.
TABLE XV

Representative Offices of the Chartered Banks
as at December 31, 1968

<table>
<thead>
<tr>
<th>Location</th>
<th>Number</th>
<th>Year Initial Office Opened</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EUROPE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paris, France</td>
<td>2</td>
<td>1956</td>
</tr>
<tr>
<td>Dusseldorf, W. Germany</td>
<td>1</td>
<td>1962</td>
</tr>
<tr>
<td>Frankfurt, W. Germany</td>
<td>1</td>
<td>1969</td>
</tr>
<tr>
<td>Munich, W. Germany</td>
<td>1</td>
<td>1962</td>
</tr>
<tr>
<td>Milan, Italy</td>
<td>1</td>
<td>1968</td>
</tr>
<tr>
<td>Zurich, Switzerland</td>
<td>1</td>
<td>1959</td>
</tr>
<tr>
<td><strong>FAR EAST</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3</td>
<td>1958</td>
</tr>
<tr>
<td>Tokyo, Japan</td>
<td>2</td>
<td>1962</td>
</tr>
<tr>
<td><strong>LATIN AMERICA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buenos Aires, Argentina</td>
<td>1</td>
<td>1961</td>
</tr>
<tr>
<td>Mexico City, Mexico</td>
<td>2</td>
<td>1964</td>
</tr>
<tr>
<td><strong>UNITED STATES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chicago</td>
<td>5</td>
<td>1945&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Dallas</td>
<td>2</td>
<td>1957</td>
</tr>
<tr>
<td>Houston</td>
<td>3</td>
<td>1962</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>3</td>
<td>1961</td>
</tr>
</tbody>
</table>

Source: Correspondence with chartered banks.

1. Branch opened by the Bank of Montreal in 1861 was changed to Representative Office status in 1952 due to a change in state banking laws. Bank of Montreal, Annual Report, 1953, p. 27.
TABLE XVI
Wholly-Owned or Controlled Subsidiaries, Affiliated Banks and Multinational Joint Ventures of the Chartered Banks, End of 1968

<table>
<thead>
<tr>
<th>Subsidiaries</th>
<th>% Owned</th>
<th>Year Formed or Entered</th>
<th>Investing Chartered Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>California</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Montreal (California)</td>
<td>(100%)</td>
<td>1964</td>
<td>Bank of Montreal</td>
</tr>
<tr>
<td>California Canadian Bank</td>
<td>(100%)</td>
<td>1964</td>
<td>Canadian Imp. Bank of Commerce</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Montreal Trust Company</td>
<td>(100%)</td>
<td>1937</td>
<td>Bank of Montreal</td>
</tr>
<tr>
<td>The Bank of Nova Scotia Trust Co. of New York</td>
<td>(100%)</td>
<td>1959</td>
<td>The Bank of Nova Scotia</td>
</tr>
<tr>
<td>The Canadian Bank of Commerce Trust Company</td>
<td>(100%)</td>
<td>1951</td>
<td>Canadian Imp. Bank of Commerce</td>
</tr>
<tr>
<td>The Royal Bank of Canada Trust Company</td>
<td>(100%)</td>
<td>1951</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td>The Toronto-Dominion Bank Trust Company</td>
<td>(100%)</td>
<td>1960</td>
<td>The Toronto-Dominion Bank</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West Indies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Nova Scotia, Jamaica Limited</td>
<td>(75%)</td>
<td>1966</td>
<td>The Bank of Nova Scotia</td>
</tr>
<tr>
<td>Bank of Nova Scotia Trust Company (Bahamas) Limited</td>
<td>(60%)</td>
<td>1957</td>
<td>The Bank of Nova Scotia</td>
</tr>
<tr>
<td>Canadian Imperial Bank of Commerce (Cayman) Limited</td>
<td>(100%)</td>
<td>1967</td>
<td>Canadian Imp. Bank of Commerce</td>
</tr>
<tr>
<td>Royal Bank of Canada International Limited</td>
<td>(100%)</td>
<td>1962</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td>West Indies Trust Corporation Limited</td>
<td>(100%)</td>
<td>1964</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td>Affiliated Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of London &amp; Montreal Limited</td>
<td>(33 1/3%)</td>
<td>1958</td>
<td>Bank of Montreal</td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banque Belge pour l'Industrie</td>
<td>(minority)</td>
<td>1968</td>
<td>The Royal Bank of Canada</td>
</tr>
</tbody>
</table>

Continued  . . .
<table>
<thead>
<tr>
<th>AFFILIATED BANKS</th>
<th>% Owned</th>
<th>Year Formed or Entered</th>
<th>Investing Chartered Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRAZIL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Real do Canada S.A.</td>
<td>(50%)</td>
<td>1966</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td>FRANCE (Paris)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banque Transatlantique</td>
<td>(minority)</td>
<td>1968</td>
<td>Bank of Montreal</td>
</tr>
<tr>
<td>West Germany (Hamburg)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEBANON</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>La Banque Des Activites Economiques, A.S.L.</td>
<td>(minority)</td>
<td>1966</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td><strong>MULTINATIONAL JOINT VENTURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LONDON, ENGLAND HEAD OFFICE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Midland and International Banks Limited</td>
<td>(26%)</td>
<td>1964</td>
<td>The Toronto-Dominion Bank</td>
</tr>
<tr>
<td>NASSAU, BAHAMAS HEAD OFFICE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roy West Banking Corporation Limited</td>
<td>(n.a.)</td>
<td>1965</td>
<td>The Royal Bank of Canada</td>
</tr>
<tr>
<td>World Banking Corporation Limited</td>
<td>(26%)</td>
<td>1966</td>
<td>The Toronto-Dominion Bank</td>
</tr>
<tr>
<td><strong>AREA DEVELOPMENT VENTURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LATIN AMERICA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADELA Investment Company S.A.</td>
<td></td>
<td>1965</td>
<td>Several Chartered banks</td>
</tr>
<tr>
<td>ASIA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Investment Capital for Asia</td>
<td></td>
<td>1968</td>
<td>Several chartered banks</td>
</tr>
</tbody>
</table>

Source: Annual Reports.
TABLE XVII

Overseas "offices" of Five Selected U.S. National Banks at the end of 1968.

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Caribbean</th>
<th>South and Central America</th>
<th>Africa and Middle East</th>
<th>Far East</th>
<th>Great Britain</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Branches</td>
<td>38</td>
<td>41</td>
<td>127</td>
<td>19</td>
<td>71</td>
<td>12</td>
<td>308</td>
</tr>
<tr>
<td>Representative Offices</td>
<td>16</td>
<td>--</td>
<td>16</td>
<td>4</td>
<td>8</td>
<td>--</td>
<td>44</td>
</tr>
<tr>
<td>Number of Affiliated Commercial Banks</td>
<td>6</td>
<td>--</td>
<td>8</td>
<td>19</td>
<td>--</td>
<td>1</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Annual Reports, 1967 and 1968.


2. Including Australasia.

3. Does not include The Mercantile Bank of Canada, a wholly-owned subsidiary of First National City Bank which operates eight branches in Canada.
<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United Kingdom</strong></td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>27</td>
</tr>
<tr>
<td>Birmingham</td>
<td>1</td>
</tr>
<tr>
<td>Dublin</td>
<td>1</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>8</td>
</tr>
<tr>
<td>France</td>
<td>6</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
</tr>
<tr>
<td>Greece</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3</td>
</tr>
<tr>
<td><strong>Central America</strong></td>
<td></td>
</tr>
<tr>
<td>Canal Zone</td>
<td>2</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1</td>
</tr>
<tr>
<td>Guatemala</td>
<td>3</td>
</tr>
<tr>
<td>Honduras</td>
<td>3</td>
</tr>
<tr>
<td>Mexico</td>
<td>5</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1</td>
</tr>
<tr>
<td>Panama</td>
<td>13</td>
</tr>
<tr>
<td><strong>South America</strong></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>31</td>
</tr>
<tr>
<td>Bolivia</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
</tr>
<tr>
<td>Chile</td>
<td>18</td>
</tr>
<tr>
<td>Columbia</td>
<td>12</td>
</tr>
<tr>
<td>Ecuador</td>
<td>5</td>
</tr>
<tr>
<td>Guyana</td>
<td>1</td>
</tr>
<tr>
<td>Paraguay</td>
<td>5</td>
</tr>
<tr>
<td>Peru</td>
<td>6</td>
</tr>
<tr>
<td>Uruguay</td>
<td>2</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4</td>
</tr>
</tbody>
</table>

Continued . . . .
### TABLE XVIII
(continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Caribbean</strong></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td>6</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>6</td>
</tr>
<tr>
<td>Jamaica</td>
<td>2</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>16</td>
</tr>
<tr>
<td>Trinidad</td>
<td>5</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>2</td>
</tr>
<tr>
<td>U.S. Virgin Islands</td>
<td>12</td>
</tr>
<tr>
<td><strong>Africa and Middle East</strong></td>
<td></td>
</tr>
<tr>
<td>Dubai</td>
<td>1</td>
</tr>
<tr>
<td>Lebanon</td>
<td>3</td>
</tr>
<tr>
<td>Liberia</td>
<td>1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2</td>
</tr>
<tr>
<td><strong>Far East</strong></td>
<td></td>
</tr>
<tr>
<td>Guam</td>
<td>2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>16</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3</td>
</tr>
<tr>
<td>Japan</td>
<td>12</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5</td>
</tr>
<tr>
<td>Okinawa</td>
<td>2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>4</td>
</tr>
<tr>
<td>Philippines</td>
<td>4</td>
</tr>
<tr>
<td>Singapore</td>
<td>8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
</tr>
<tr>
<td>Truk Islands</td>
<td>1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: Federal Reserve Bank of New York.*
TABLE XIX

Representative Offices Abroad and Foreign Commercial Banking Affiliates of selected U.S. National Banks as at February 28, 1969

<table>
<thead>
<tr>
<th>Location</th>
<th>Number</th>
<th>Location</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EUROPE</strong></td>
<td></td>
<td><strong>EUROPE</strong></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>2</td>
<td>Austria</td>
<td>1</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
<td>Belgium</td>
<td>1</td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>Ireland</td>
<td>1</td>
</tr>
<tr>
<td>Germany</td>
<td>2</td>
<td>Italy</td>
<td>1</td>
</tr>
<tr>
<td>Italy</td>
<td>3</td>
<td>Netherlands</td>
<td>2</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FAR EAST AND AUSTRALIA</strong></td>
<td></td>
<td><strong>LATIN AMERICA</strong></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>3</td>
<td>Argentina</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>Brazil</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>Colombia</td>
<td>1</td>
</tr>
<tr>
<td>Korea</td>
<td>1</td>
<td>Honduras</td>
<td>2</td>
</tr>
<tr>
<td>Philippines</td>
<td>1</td>
<td>Peru</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>Venezuela</td>
<td>1</td>
</tr>
<tr>
<td><strong>LATIN AMERICA</strong></td>
<td></td>
<td><strong>MIDDLE EAST AND AFRICA</strong></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>2</td>
<td>Africa</td>
<td>19</td>
</tr>
<tr>
<td>Brazil</td>
<td>4</td>
<td>Dubai</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>2</td>
<td>Iran</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
<td>Saudi Arabia</td>
<td>1</td>
</tr>
<tr>
<td>Peru</td>
<td>1</td>
<td>Turkey</td>
<td>1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4</td>
<td>CANADA</td>
<td>1</td>
</tr>
<tr>
<td><strong>MIDDLE EAST</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports, 1968, and correspondence.

1. See Table XVII for list.
<table>
<thead>
<tr>
<th>Country or Area</th>
<th>1951</th>
<th>%</th>
<th>1957</th>
<th>%</th>
<th>1966</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>7,999</td>
<td>100.0</td>
<td>10,462</td>
<td>100.0</td>
<td>19,937</td>
<td>100.0</td>
</tr>
<tr>
<td>United States</td>
<td>4,887</td>
<td>61.1</td>
<td>6,867</td>
<td>65.6</td>
<td>13,163</td>
<td>66.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,052</td>
<td>13.2</td>
<td>1,260</td>
<td>12.1</td>
<td>1,767</td>
<td>8.9</td>
</tr>
<tr>
<td>Western Europe (exc. U.K.)</td>
<td>535</td>
<td>6.7</td>
<td>833</td>
<td>8.0</td>
<td>1,701</td>
<td>8.5</td>
</tr>
<tr>
<td>European Common Market</td>
<td>376</td>
<td></td>
<td>640</td>
<td></td>
<td>1,189</td>
<td></td>
</tr>
<tr>
<td>Belgium and Luxemb'g.</td>
<td>134</td>
<td></td>
<td>105</td>
<td></td>
<td>179</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>71</td>
<td></td>
<td>94</td>
<td></td>
<td>192</td>
<td></td>
</tr>
<tr>
<td>Germany (West)</td>
<td>68</td>
<td></td>
<td>250</td>
<td></td>
<td>412</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>63</td>
<td></td>
<td>96</td>
<td></td>
<td>202</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>40</td>
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<td>95</td>
<td></td>
<td>204</td>
<td></td>
</tr>
<tr>
<td>Other Western Europe</td>
<td>159</td>
<td></td>
<td>193</td>
<td></td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>76</td>
<td>1.0</td>
<td>53</td>
<td>0.5</td>
<td>153</td>
<td>0.8</td>
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<tr>
<td>Africa</td>
<td>109</td>
<td>1.4</td>
<td>104</td>
<td>1.0</td>
<td>221</td>
<td>1.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>58</td>
<td></td>
<td>55</td>
<td></td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>51</td>
<td></td>
<td>49</td>
<td></td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>Far East (exc. China)</td>
<td>309</td>
<td>3.9</td>
<td>373</td>
<td>3.6</td>
<td>1,026</td>
<td>5.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>15</td>
<td></td>
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<td></td>
<td>54</td>
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<tr>
<td>India</td>
<td>82</td>
<td></td>
<td>58</td>
<td></td>
<td>148</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>86</td>
<td></td>
<td>201</td>
<td></td>
<td>647</td>
<td></td>
</tr>
<tr>
<td>Other</td>
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<td></td>
<td>99</td>
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<th>%</th>
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<th>%</th>
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1. Figures represent all of Europe 1949-62.
2. Includes 20 Republics and Puerto Rico.
3. Includes sterling area countries and French and Dutch possessions.
<table>
<thead>
<tr>
<th>Country of Ownership and Control</th>
<th>1949</th>
<th>%</th>
<th>1954</th>
<th>%</th>
<th>1958</th>
<th>%</th>
<th>1962</th>
<th>%</th>
<th>1964</th>
<th>%</th>
<th>1965</th>
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<td>5,787</td>
<td>85.6</td>
<td>9,045</td>
<td>83.1</td>
<td>12,006</td>
<td>81.9</td>
<td>12,901</td>
<td>81.2</td>
<td>13,940</td>
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<tr>
<td>Owned in United Kingdom</td>
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<td>759</td>
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<td>1,296</td>
<td>11.9</td>
<td>1,706</td>
<td>11.6</td>
<td>1,944</td>
<td>12.2</td>
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<td>948</td>
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<td>1,044</td>
<td>6.6</td>
<td>1,255</td>
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TABLE XXIII

Foreign Direct Investment in Canada by Country
Year-Ends 1963 and 1965
(millions of $)

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<th>Country of Ownership and Control</th>
<th>Book value of foreign direct Investment in Canadian enterprises</th>
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<td>Denmark</td>
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<tr>
<td>France</td>
<td>146</td>
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<tr>
<td>Germany</td>
<td>109</td>
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<td>Netherlands</td>
<td>224</td>
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<td>Sweden</td>
<td>35</td>
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<td>Switzerland</td>
<td>142</td>
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<td>Other OECD (Europe)</td>
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<td>Subtotals, OECD countries</td>
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<td>in Europe (other than sterling areas)</td>
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<td>Latin American countries</td>
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<td>Other countries</td>
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<td>TOTALS</td>
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1. Includes 20 republics and Puerto Rico.
TABLE XXIV

U.S. Merchandise Trade\(^1\) by Area for Selected Years 1950 to 1967
(millions of $)

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<th>Country or Area</th>
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<th>1956</th>
<th>1962</th>
<th>1965</th>
<th>1967</th>
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<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
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<td>6,641</td>
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<td>7,027</td>
<td>23.3</td>
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<td>7,445</td>
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<td>1,463</td>
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<td>4,478</td>
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<td>n.a.</td>
<td>n.a.</td>
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</tr>
<tr>
<td>and South Africa</td>
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<td>n.a.</td>
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<td>30,112</td>
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1. Merchandise exports and imports, adjusted excluding military.
2. Preliminary data.
3. Includes "Other Western Hemisphere".
TABLE XXV

United States Direct Investments Abroad, Value by Selected Countries
Selected Year-Ends 1950-1967

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<tr>
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<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
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<tr>
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<td>33.6</td>
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<td>9.3</td>
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<td>0.7</td>
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<td>655</td>
<td>2.4</td>
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1. Included in "Other countries".
2. Included in "Other areas".
3. Included in "Other Europe".
APPENDIX II

Euro-dollars may be defined simply as U.S. dollar deposits payable by banks and other financial institutions located outside the United States, including foreign branches of American banks. Over 80 per cent of the estimated $15 billion and growing Euro-$ market is denominated in dollars with the remainder composed of sterling, Swiss francs, Deutsche marks, Netherland guilders, and French francs. This international market is virtually free of direct controls therefore short-term funds, since the trimming of exchange control regulations, can and do respond quickly to interest rate differentials prevailing internationally.

The bulk of Euro-$ activity takes the form of redeposits among the large international banks active in the market although short-term commercial lending is becoming increasingly important. At the same time medium-term credit has become a regular, although cautious, practice. American banks have made substantial use of this market as a source of funds to lend to their head offices in order to ease liquidity pressures at home. These Euro $ loans are shown as "other Liabilities" in the parent banks' statements. In mid-1968 New York banks alone were "borrowing a record of $4.8 billion from foreign branches."

The market has an interesting origin. Since Euro-dollars have always been substantially U.S. dollar claims, and the U.S. banks are among its most active participants, it is ironic that the market owes its beginning to the Russians. In the late 1950's Russian banks, although...
wanting to hold the dollars they had earned in dollar form rather than converting them into other currencies, feared that money deposited by them in American banks in the U.S. might be blocked or expropriated by the U.S. government. Therefore, with the assistance of Communist owned banks in London and Paris interest-bearing deposits were initially placed with Italian and West German banks.

As already stated the market underwent noteworthy expansion with the return to convertibility in Europe, however, it has been American legislation which has largely occasioned its continued impressive growth. The legislation which initially added to the volume of U.S. dollars flowing into this international market was the Federal Reserve Act. Prior to 1962 under Regulation "Q" U.S. banks were restricted in the rate of interest which they could pay on time deposits and non-U.S. banks with surplus funds soon discovered that their earnings could be augmented by placing U.S. $ deposits outside of the United States. Since that time, the U.S. voluntary restraints on foreign direct investment by American entities, transformed on January 1, 1968 to mandatory controls under the Foreign Direct Investment Regulations has led to a notable rise in borrowings by U.S. overseas subsidiaries.

Euro-$ funds to meet the demands come to the market from all corners of the globe from central banks, foreign-based companies and individuals swapping local currency into dollars. On the demand side no one geographical grouping of borrowers takes a majority of the funds, although American banks accounted for a one-third share during the 1966 credit squeeze.
There is also a long end to the Euro-$ market and that is the burgeoning Euro-bond market. One aspect of this market most differentiates it from all conventional foreign bond issues and that is that Euro-bonds are denominated in a currency other than those of the market of issue. The annual volume of new international issues surpassed $2 200 billion for the first time last year. A substantial proportion of all Euro-bond issues are now denominated in U.S. dollars (91 per cent in 1967) followed by German mark issues.

The market owes its origin largely to U.S. legislation. Specifically, it emerged after mid-1963 following the implementation of the U.S. interest equalization tax. The effect of this tax was to substantially increase interest costs in the New York market for European borrowers since although the American lender was (and remains) legally liable for the tax levy, in effect the foreign borrower must absorb most or all of it, since to be salable to U.S. investors the after-tax yield must be competitive with yields on domestic securities. The outcome was that for those borrowers subject to the tax, Western Europe, itself provided the only feasible alternative source of international funds and in particular London which provided all the advantages of a broad and active securities market.

We noted the growth of the Euro-dollar market as a consequence of U.S. legislation. The successive implementation of these U.S. capital transfer restraints intended to protect the U.S. balance of payments also occasioned a notable expansion of activity in the Euro-bond market with American companies first joining the list of Euro-bond borrowers.
in 1965 after the imposition of the Voluntary Balance-of-Payments Program and accelerating their rate of borrowing following the introduction of the Foreign Direct Investment Regulations on January 1, 1968.

Individual investors around the world, except for residents of the United States, who are subject to the interest equalization tax, find Euro-bonds to be especially attractive investments and it is estimated that these people purchase 80 per cent of these bond issues.

The special attractiveness of Euro-bonds has been aptly described by The Chase Manhattan Bank.

Euro-bond issues are set up in such a way as to provide personal anonymity, freedom from currency controls, and exemption from withholding taxes. Anonymity is assured through issuance of bearer certificates. Freedom from currency controls derives from the bonds' denomination in dollars or other convertible currencies. And freedom from withholding taxes is achieved by floating Euro-bonds through special financing subsidiaries incorporated in the United States, Luxembourg or certain other locations.

The global character of these international money and capital markets bodes well for their future growth despite any easing of U.S. balance of payments guidelines. Thus, not only are the Euro-dollar and Euro-bond markets significant sources of funds and attractive outlets for surplus funds seeking investment opportunities in today's world but, they can be expected to continue to play a major role in international finance in the years to come.
APPENDIX III

Forward exchange theory states that under usual circumstances the forward discount or premium on one currency in terms of another corresponds directly to the interest rate difference existing between the two countries. The currency of the lower-interest rate country should therefore be at a forward premium in terms of the currency of the higher-interest-rate country and vice versa. The forward exchange rate is held to be at interest parity whenever the forward discount or premium (expressed in per cent per annum) and the interest differential are equal. It should, of course, be noted that there is no one interest rate differential but several relevant differentials based upon the many possible combinations open to the arbitrager. Thus, a series of differentials among various money market instruments must be recognized not just differences in yields on one type of investment in the two centres. The movement of short-term funds between two centres with exchange risks covered is not profitable when the forward exchange rate is at its interest parity as the gain possible from the higher interest rate overseas is exactly offset by the cost of covering the exchange risk in the forward market.

However, when the forward exchange rate moves out of line with its interest parity through a change in interest rates, or speculative, or other events in the exchange market it becomes profitable for short-term investors to transfer funds from one centre to another. That is, an interest arbitrage incentive develops. The comparison of interest
rates among money market instruments is known as "professional arbitrage." This is essentially opposite to the process of "trader arbitrage" which involves the comparison of relative borrowing costs.

It is information on exchange rates in other money market centres which allows arbitrage transactions to occur. This transaction may entail purchasing a draft on a foreign country, which is employed there to purchase in turn another draft on either the original or a different foreign country, or in the inter-bank market it may merely involve an appropriate change in deposit balances which banks maintain with one another.

An example of a typical arbitrage transaction through a third country precipitated by the cross rate becoming somewhat out of line and making it profitable for arbitrage to take place should provide a useful illustration. The cross rate for a currency refers to the rate for that currency via a third currency. Assume that in New York a heavy demand developed for pounds, so that the exchange rate on London was high. At the same time the trader in the foreign exchange department of a commercial bank notices that perhaps Deutsche marks were relatively cheap in New York, and that in Frankfurt pounds were cheap in terms of marks. In order to acquire pounds, he purchases marks and instructs his Frankfurt correspondent to buy pounds with the marks. In New York he could immediately sell a pound draft against the marks acquired to purchase sterling. From the standpoint of the New York market the rate in Frankfurt on London in its relation to the New York-London rate is referred to as the Deutsche mark cross rate.
APPENDIX IV


Activities

1. Traditional banking services refer to the acceptance of current and savings deposits and the granting of primarily short-term loans.

2. The representative office is essentially an overseas marketing arm of the commercial bank and does not accept deposits on its own behalf or make loans. The agency cannot accept deposits on its own behalf and primarily engages in "street" loans to investment dealers. A joint venture may be designed to perform a variety of activities. It may, for example, be to engage in investment banking and security underwriting activity in the Euro-dollar and Euro-bond markets raising much of the funds required through the offering of term deposit certificates in the former market. Or, it might raise its funds by this means but engage in medium-term export financing or loans for large-scale development projects throughout the world.

Ownership

3. The representative office does not involve shareholdings. The assets of the agency are totally owned by the bank and its assets are consolidated with all others. U.S. banks do not operate any agencies. Branch assets receive identical treatment to those of the agency.
The wholly-owned subsidiary is incorporated under the laws of a foreign country or state and its assets are separated from those of the bank.

4. A majority or minority equity interest in a foreign commercial bank or other corporation creates an affiliate relationship. Commercial banking affiliates are commonly owned by two banks although within the terms of our definition it could involve one bank with the remaining shares held by the public. In the latter case a more precise description would be to term it a controlled subsidiary.

The multinational joint venture combines the talents or strengths of three or more institutions from different countries through equity participation in a distinct corporation, not a merger. It is incorporated, often with an eye to tax advantages since it operates on an international plane. Shareholdings may be equally divided between the participants or there could be one or a number of majority participants with two or a number of minority partners.

**Identity**

5. The "name above the door" of these institutions is always that of the parent bank with the exception of the subsidiary which may carry a distinct name.

6. The name of the established foreign bank is commonly retained in an affiliate relationship thus the investing bank's name is not before the public. The joint venture normally carries a distinct name, which may or may not be a corruption of the names of its principal partici-
pants. The exposure significant here is identification with "good people," institutions which are already well-ensconced internationally.

Deposit Acquisition

7. A branch, or a subsidiary, depend notably upon the "name" the parent has acquired at home in order to attract U.S. or Canadian deposit business abroad, especially where other banks of the home country are competing. The prestige of the parent in the foreign country can affect the efforts to attract "local" deposits. Since the name of the established bank in which another commercial bank holds equity is normally retained, its "name" in the country(ies) of operation is (are) important for "local" deposit growth. A significant contrast must be noted between an equity investment in an affiliate and the setting up of a branch office. In the former a deposit base is acquired concurrent with the investment, in the latter it is necessary to build a deposit base from scratch so to speak.

The commercial banking joint venture is affected in much the same way as a foreign branch bank. Its advantage may be that one or two of the participants already have obtained notable desirable exposure in the country.

8. The international prestige of its Head Office is a factor in the success a representative office enjoys in attracting foreign clients. The branch or subsidiary must rely substantially upon the international identity of the parent to attract both indigenous and foreign customers (other than U.S. or Canadian). The international prestige
of its participants importantly facilitates the joint venture's search for deposits, including term certificates of deposit.

9. These "offices" of the chartered banks abroad can expect, other things being equal, to find it more difficult to generate an adequate deposit base than that experienced by U.S. banks, simply because of the relative lack of Canadian businesses operating abroad in comparison to the substantial commitments of U.S. firms. (See Tables XXI and XXV).

Policy Directives

10. Since each of these vehicles are totally controlled by the parent the policies of each will be entirely decided by the executive personnel of the parent.

11. Where the equity participation in an affiliate is substantial enough for the commercial bank to be a "presence" it may take an active voice in the development of policies with its participation increasing with its equity interest. In all minority equity positions there is, in the words of one respondent, the problem of "living with local management decisions."

Since a joint venture is a distinct corporate vehicle its policies may be unique and, therefore, could be held to be indigenous to the organization. However, these policies are likely to reflect the objectives of the majority participants and they can, therefore, be viewed as a combination of exogenous and endogenous objectives.
Personnel

12. The parent holds ultimate responsibility for the deployment of manpower in these totally controlled vehicles. "95 to 99 per cent" local nationals make up the complement which staff these branches, according to the respondents. Although not stated it was implied that in the developing countries, in particular, the proportion of local nationals in management positions is notably less.

13. U.S. banks, in particular, according to the respondents, will often contribute personnel to established banks in which they make a notable equity investment to train them in the practices of American commercial banking. In all affiliate relationships the participating institutions are likely to have a pro rata voice on the Board of Directors. Where a new institution is created each partner is likely to make a pro rata contribution to both the management team and the Board of Directors whether it be an affiliate operation involving two banks or a multinational joint venture including several institutions.

Legislation

14. Since the agency and branch are endogenous vehicles in terms of the operations of the parent they may be subjected to the same domestic laws which govern the parent. One of these is reporting requirements. The multinational joint venture is subject to corporate law in the country in which it is incorporated. This is the case whether or not it conducts any of its operations there.
15. The agency and branch, since they conduct operations in a foreign country or state, are subject to the banking laws of the political entity where they are located. For example, local reserve requirements may be applied to the deposits of foreign bank branches. Since the subsidiary and affiliate are incorporated under the laws of a foreign country or state they are clearly subject to all the regulations of those political bodies. It is also possible for these vehicles to operate beyond the boundaries of the country of incorporation. If so, they become subject to "foreign laws as well.

The multinational joint venture created as a commercial bank is subject not only to "home" country laws but, since it often operates in more than one country, it too is subject to the laws of any jurisdiction in which it functions.

16. Canadian and foreign banks are subject to Federal banking legislation which at present restricts the further entry of foreign banks into Canada. The Act does not permit foreign bank branches or agencies as Section 52 provides that any investor or associated group cannot hold more than 10 per cent of the total number of issued and outstanding shares of a chartered bank. Section 53 requires that non-residents, as a group, cannot hold more than 25 per cent of the total number of issued and outstanding shares of an individual bank. Section 72 (2) (g) of the Bank Act (1967) requires the Mercantile Bank of Canada, a wholly-owned subsidiary of the First National City Bank of New York to have no more than 25 per cent foreign ownership by 1973 if it wishes unrestricted expansion. Alternatively, its outstanding total
liabilities will not be allowed to expand beyond its authorized capital stock.

Meanwhile, in the U.S., banking is governed by state laws and in contrast to the Canadian position foreign banks are allowed entry via the entire range of international operating vehicles within definite limits. New York State banking legislation extends the privilege of a branch operation in New York on a strict reciprocal basis. Since Canadian law does not allow foreign bank branching the chartered banks cannot use this vehicle in New York. This, no doubt, is a decisive factor behind the retention of agency operations rather than branches by the chartered banks in New York.

In California direct foreign bank branching is effectively not permitted. This is the case since State law requires all bank deposits in California to be insured under the Federal Deposit Insurance Corporation and FDIC insurance is unavailable to foreign bank branches. However, this hurdle can be overcome by incorporation of a wholly-owned subsidiary in the State since the law does provide for the entry of foreign banks. An agency operation is an alternate route which is allowed and since it cannot accept deposits it is not subject to FDIC regulations.
APPENDIX V

THE UNIVERSITY OF BRITISH COLUMBIA

FACULTY OF COMMERCE AND BUSINESS ADMINISTRATION

VANCOUVER 8, CANADA

The attached guide questionnaire has been prepared with the following questions in mind:

1. In general, what has been the role of commercial banking in the post-war growth of world commerce?

2. What is the extent of the resource commitments of major U.S. and Canadian banks to international operations and what benefits accrue to those banks?

3. For individual banks, what have been the forces initiating international activities?

4. For individual banks what operating forms are used?

5. What is the future of private international banking?
INTERVIEW GUIDE QUESTIONNAIRE
FOR THE PARTICIPATING CANADIAN AND U.S.
BANKING INSTITUTIONS

SECTION 1. INTRODUCTION

In this section we would like to review your bank's involvement in international activities in the light of expanding world commerce.

1. World trade and international capital movements have greatly expanded since World War II. What do you feel have been the significant developments in this era which have encouraged this growth? (International Monetary Fund, liberalizing of trade restrictions, return to convertibility of major currencies, aggressive approach of banks to international operations, etc.)

2. What do you see as the major contributions which the banks have made in these activities?

3. With respect to your bank's activities would you be good enough to say what your principal forms of direct involvement in international transactions are?

   Financing trade
   Financing of capital movements
   Buying and selling foreign exchange
   The intermediary function
   Other

(Please indicate the most important by the number 1, the next by 2 and so on.)

3a. Would you indicate your ranking criteria?

3b. In the financing of trade and capital movements what are your primary forms of participation? (Guarantees under letters of credit, discounting bills of exchange, short or medium term loans, etc.)

4. The major advantages to your bank in sustaining your involvement in international business should be covered in your responses to questions 3a and 5a. What, would you say, have been the principal disadvantages in these activities? (Loss of profit opportunities at home, political complications, higher recruiting and training costs, etc.)
SECTION 2 THE DECISION TO COMMIT RESOURCES TO INTERNATIONAL ACTIVITIES

In this section the objective is to determine those variables which play an important role in the decision to commit management time and other resources to the conduct of international activities.

5. We would like to obtain an overall view of your bank's commitments to international business. Would you indicate the resources (and their approximate volumes) that you have committed to your international network?

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<td>Other</td>
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5a. How do you determine whether these commitments are beneficial to your bank or not? (Profitability, growth, diversification, flexibility, prestige, meeting competition of foreign banks, etc.)

6. Could you identify the beginnings of your international activities and outline your major phases of development in this sphere?

7. What are your long-term objectives in "going international"? Is there a master plan or is your internationalization more or less imposed upon you?

8. To the extent that you are able to control your commitments to international activities what comparisons do you make with domestic opportunities? (Rate of return, reserve requirements, customer relationships, etc.)

8a. What is the role of risk in your evaluation? (Devaluation, exchange restrictions, capital controls, expropriation, etc.)
8b. Do you attempt, as far as possible, to "balance" your assets and liabilities denominated in a particular currency? Why or why not?

8c. In contemplating future international commitments what economic factors is your bank considering in:

i) the domestic economy

ii) a foreign country (Balance of payments position, inflation, taxation policy, political environment, etc.)

iii) the international monetary system

9. What are the initiating forces leading to resource commitment in a particular foreign country or economic area? (Approach from foreign governments or businesses, customers, enthusiastic "internationalists" within the bank, etc.)

9a. To what extent has the Euro-Dollar Market been an initiating force?

10. What are the factors, which are considered in the decision to establish a particular type of foreign "office" in certain locations? (Correspondents, representatives, agencies, branches, subsidiaries, minority equity investment in an established foreign bank, multi-vated joint venture)

10a. What are the relative advantages and disadvantages of the above-mentioned operating forms?

10b. How do you evaluate the suitability of a contemplated

i) minority equity investment in a foreign bank.

ii) creation of a wholly-owned or controlled subsidiary.

10c. The multinational joint venture involving financial institutions is a relatively recent phenomenon.

i) What are your objectives as a partner?

ii) How do you evaluate the prospective partner(s)?

iii) What is the general nature of the arrangements?

iv) How do you view a minority as opposed to a majority equity participation?

v) What are the advantages of this form as opposed to a merger?

11. Does your bank make loanable funds available to private and/or public corporations in developing nations or do you prefer to largely restrict operations to the already advanced economies? Why?
11a. What is the extent of your involvement with government overseas lending, loans of international financial concerns such as the World Bank and development loans by other bodies? If you do participate what are the usual terms of the advance?

11b. What do you believe are the specific factors to explain the relatively large number of branches of Canadian banks in the Caribbean area?

12. What has been your bank's experience in connection with the transfer of know-how between countries? (e.g. transfer of management skills, production techniques, new product ideas or stimulation of licensing arrangements, etc.)

12a. In what sense are you organized to handle involvement in this sphere?

13. With respect to the personnel which you and/or your controlled subsidiaries employ in foreign countries:

   i) What proportion are foreign nationals?

   ii) Are there positions which you feel it is particularly important to be filled by nationals?

   iii) Are you now under, or do you anticipate, any pressure from local governments to increase the number of nationals in managerial positions?

   iv) Approximately what was your total overseas complement, say 10 years ago?

14. What is the approximate number of accounts served by your overseas "offices"?

SECTION 3  REFLECTIONS AND EXPECTATIONS

In this section we would like your reflections on your bank's experience in international activities and views concerning the future for private international banking.

15. What would you say, are the most persistent types of problems in your foreign operations? (Legislation, deposit acquisition, availability of personnel, etc.)

15a. Cultural differences exist between many countries. What complications do they present and how influential are they in your decision-making abroad?

16. Who are your principal competitors in the international arena? (Banks with international operations, solely domestic banks, other financial institutions, large corporations, government bodies, etc.)
16a. To what degree have these competitors affected your decision to go or not to go into international situations?

17. What, do you see, is the future for private international banking?

17a. Do you anticipate an increasing internationalization of banking with more banks establishing more "offices" on a wider geographic scale?

17b. What changes in operating forms do you foresee?

17c. What changes in operating methods, organization and management techniques do you foresee?

SECTION 4. PERSONAL DATA

In order to ascertain whether or not differences in age, background, and banking experience have some influence on the responses received to the foregoing questions we would like some personal data.

18. First, how old are you?

19. Where did you grow up?

20. How much travelling have you done?

21. Have you lived in a foreign country? If so, where and for how long?

22. How long have you been in your present position?