

The Role of Foreign Banks in Emerging Countries

A Research Paper

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The Role of Foreign Banks in Emerging Countries

Executive Summary

In the globalized and liberalized world, the financial industry has grown in leaps and bounds and it has entered various geographies to diversify its asset class and increase its size.

The world is divided into three parts: Developed Economies, Emerging Economies and Third World Countries. Off late the importance of Emerging Economies has increased as it provides high return avenues and has fundamentally stronger growth potential when compared to the developed economies.

Banking industry has been playing an important role in growth of all these economies and mobilizing funds. The leading banks have played a pivotal role in this respect. These foreign banks have increased their pace of growth in the emerging markets from late 1990s onwards.

Foreign banks bring new products, better technology, lower cost of funds and financial stability to these economies. However they also allow the coupling of these markets with global economy, increasing the risk of susceptibility to macro economic shocks as seen from the recent crisis.

The regulation is continuously evolving and gradually the foreign banks will find it easier to enter and spread all over the world. They will not only provide funding to multinational clients, but will be an integral part of the monetary policies of the respective central banks and governments.

The Role of Foreign Banks in Emerging Countries

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The Role of Foreign Banks in Emerging Countries

Introduction

Banks act as a financial intermediary involved in borrowing and lending activities. It accepts deposits and savings from various entities such as general public, corporate entities etc. and uses the same in on-lending purpose through direct banking channels or capital markets.

The history of banks can be pegged back to ancient history. Initially the world traded on “**Barter System**” which had inherent flaws necessitating the development of banking system. Temples were the first banks which grew as an industry gradually and today it rules the world financial system (*Giuseppe Felloni, 2004*). The banking system has evolved from a small answer to flaws endured by Barter System to a fully grown industry providing various services to the country and its people. Gradually the world has evolved to 195 countries (*United Nations*) with own banking system. In most of the countries a Central Bank regulates the entire banking system.

In the current scenario of a globalized and liberalized world, the role of a central bank is of utmost importance. It regulates the money supply, issues currency for the government and oversees the commercial banking system of the country.

A commercial banking system allows money to transfer from one string to other. Depositor keeps money with a bank, which utilizes the same for lending activities and in the process earning its income through the differential of the two. The bank earns money through charging interest fees, transactional fees and advisory services.

The banking system has kept on developing from time to time and with the help of liberalization of the financial sector, restriction has been reduced by various regulatory authorities and they have allowed foreign banks and financial institutions to enter and run business in their countries.

In this paper we are going to discuss various strategies adopted by foreign banks and their role in emerging markets.

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Emerging Markets

Countries restructuring their economic methodology as per the market requirement and offering a wealth of opportunities for Trading, Transfer of Technology and Foreign Direct Investment are known as Emerging Markets (*Li*). The biggest five emerging economies are China, India, Brazil, Russia and Indonesia. Other countries that will rank below these countries are South Africa, South Korea, Mexico, Poland, Argentina and Turkey (*World Bank*). These countries are largely populated, have high resources and provide large markets and they are willing to go for fully convertible capital account with open door policy.

In 1990s, many of these countries saw a sort of banking crisis where there were major economic disorders, such as, rising interest rates, depreciation of currency and credit flows declining. Since then, many countries have improved their economic condition and the banking system. The capital market consisting of bond market and equity market has been better utilized.

Morgan Stanley Capital International (MSCI) has classified the following 21 countries as Emerging Markets: (*Morgan Stanley Capital International*)

- | | | |
|-------------------|--------------|------------------|
| 1. Brazil | 8. India | 15. Philippines |
| 2. Chile | 9. Indonesia | 16. Poland |
| 3. China | 10. Korea | 17. Russia |
| 4. Colombia | 11. Malaysia | 18. South Africa |
| 5. Czech Republic | 12. Mexico | 19. Taiwan |
| 6. Egypt | 13. Morocco | 20. Thailand |
| 7. Hungary | 14. Peru | 21. Turkey |

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However “The Economist” also includes Hong Kong, Singapore and Saudi Arabia in the above list.

FTSE Emerging Markets: (*www.ftse.com*)

FTSE Advanced Emerging Countries:

- | | | |
|------------|-----------|-----------------|
| 1. Brazil | 3. Mexico | 5. South Africa |
| 2. Hungary | 4. Poland | 6. Taiwan |

FTSE Secondary Emerging Countries

- | | | |
|-------------------|-----------------|--------------|
| 1. Chile | 7. Indonesia | 13. Russia |
| 2. China | 8. Malaysia | 14. Thailand |
| 3. Colombia | 9. Morocco | 15. Turkey |
| 4. Czech Republic | 10. Pakistan | 16. UAE |
| 5. Egypt | 11. Peru | |
| 6. India | 12. Philippines | |

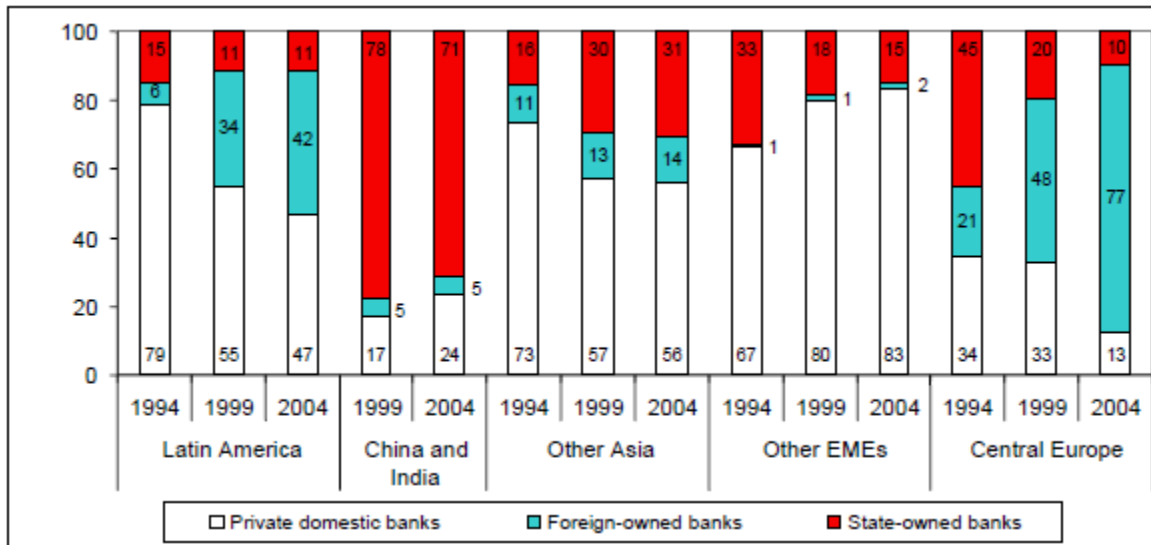
Banking System

Commercial Banks are the main source of saving and funding in all emerging markets. These commercial banks are regulated by central banks of the respective countries. These commercial banks are either owned by government or private (Domestic and Foreign). There has been huge amount of literature on the pros and cons of both the methodology.

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Ownership in Commercial Banks

Share in Total Bank Credit (IN Percentage)



*Source: National Data (BIS)

However only commercial banking system cannot meet the fund requirement of these economies and they have looked for alternative sources for fund sourcing purpose.

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Foreign Investment in Emerging Markets

Foreign Banks' investments in Emerging markets have increased substantially in the second half of 1990s. In Eastern Europe, banking assets under foreign control jumped from 25% in 1995 to 30% by 2000. Similarly in Latin America, around 40% of the banking assets were under control of Foreign Banks by 2000. It also saw a slew of cross border mergers and acquisition during the 2000 period. However, the similar scenes were not repeated in Asian markets. The share of banking assets under foreign control was around 5% in 1995 which increased to 6% by 2000. There were countries like Indonesia, Korea and Thailand who allowed foreign control in the banking system to the extent of 100 %. Philippines also allowed 60 % ownership by foreign entities in its banking system. *(Song, 2004)*

In the last two decades, the banking system as well as the financial requirement of Emerging Countries has gone up significantly. The best way for fund sourcing is opening the economy for Foreign Direct Investment (FDI). As these economies are growing at a very rapid pace and foreign entities are interested in putting their money in, the emerging markets have opened their banking system too and have allowed foreign banks to open their branches in the local market.

This has led to higher competition, sufficient credit flow and better services to the public.

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Foreign Banks in Local Market: Operational Strategy

Globalization has given birth to Financial Liberalization. Due to this, Foreign Banks have continuously played a significant role in the credit system of the emerging countries. These banks lend to the emerging economies either directly from their head offices or their local branches (Associate / Affiliate). “Follow the Customer” hypothesis (*Grubel, 1977*), requires bank to go and explore new markets for achieving the required growth and expansion. As the developed economies are getting stagnated in terms of growth and opportunity, foreign banks are entering new geographies to expand their size and business.

This foreign flow has merits and demerits of its own. As an emerging economy, the country always stays in needs of funds which are mitigated by the foreign banks. They bring innovative products, technology and better service facility. However they link the local economy to the global economy as can be seen from the recent economic crisis. As the developed economies ran short of funds or liquidity, foreign banks and investor started pulling back their money giving financial and macro economic shocks to these emerging markets.

The foreign banks enter the new country either through branch / subsidiary model or through joint venture model. Operation through branch is the most effective method as the bank can learn and understand the local market directly and also can leverage its key skills to compete in the market. The foreign banks come with low cost of funds as they have footprints in many other countries, and they can borrow money from low interest rate markets to high interest markets. It gives them an arbitrage opportunity. As they provide various financial instruments in different countries, the currency risk is automatically hedged.

The operation of foreign bank in a local market exposes the bank to various risks such as country risk, corporation risk, currency risk etc.

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Pros and Cons of Foreign Bank presence in Local Market:

Advantages:

- Foreign Banks are more efficient because of their global presence and experience
- They can bring new innovative product
- Better Management (*Tigran Poghosyan, 2007*)
- At times foreign bank supports the government in maintaining balance of payment and bringing stability in the domestic market
- Foreign banks bring more competition which is always good for a growing economy
- Better placed to serve multinational companies due to their geographic presence
- Lower cost of funds

Disadvantages:

- Domestic player may not be able to compete and in the process might become obsolete
- Coupling with global economy has its own perils
- Currency may become volatile if not managed properly
- Foreign banks mostly open their branches or subsidiaries in the financial hubs of the host countries, hence they do not serve majorly in the financial inclusion process of the local country

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Foreign Bank Involvement in the Local Market and Change in Role

Foreign banks have been lending to the domestic market through its domestic affiliates since 1990s. The investment amount has been growing continuously as well as the involved number of players.

BIS reporting Bank's foreign claims on emerging markets: Assets

Table 4A: Local positions in foreign currency of banks vis-à-vis all sectors										
In individual reporting countries										
<i>in billions of US dollars</i>										
Reporting countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
All countries	4,072.3	3,758.7	3,712.2	3,595.8	119.7	-388.5	-86.7	56.3	50.0	-32.7
Australia	72.8	57.3	57.2	64.0	8.0	-17.1	-4.6	2.1	0.9	7.6
Austria	153.0	133.3	112.4	104.2	-7.0	-22.8	-5.7	-5.8	-18.0	-6.6
Bahamas	17.1	11.4	11.8	12.2	4.5	-5.8	0.2	0.5	0.8	0.9
Bahrain	48.5	42.1	44.1	44.7	29.5	-7.0	-4.8	-0.1	2.9	1.4
Belgium	37.0	48.3	45.0	46.7	7.5	-5.1	-2.1	-4.4	-2.6	1.9
Bermuda	1.7	1.7	1.5	1.7	0.1	-	-0.1	-0.0	-0.2	0.2
Brazil	38.9	22.2	29.5	32.4	8.6	-16.7	-7.1	-9.4	7.4	3.0
Canada	41.9	32.6	36.0	35.1	6.1	-9.3	-1.1	-1.5	3.5	-0.8
Cayman Islands	26.9	21.4	22.7	25.5	-11.2	-5.6	-15.2	-0.1	1.4	3.1
Chile	26.3	19.0	18.9	22.4	10.2	-7.3	1.3	0.0	-0.1	3.6
Chinese Taipei	84.1	105.0	110.1	124.5	1.2	20.7	14.5	6.1	5.8	14.7
Cyprus	9.8	9.2	8.9	9.5	-	-0.8	-0.9	-0.4	-0.1	0.6
Denmark	88.3	93.5	88.6	83.6	20.8	1.6	-6.6	-2.6	0.0	1.2
Finland	4.2	4.0	3.6	3.9	0.3	-0.2	0.2	-0.2	-0.3	-0.8
France	171.1	165.1	175.6	182.4	-3.4	-9.6	1.4	-5.6	13.4	7.7
Germany	183.2	196.8	199.2	207.2	23.3	11.5	1.8	16.4	5.4	8.3
Greece	27.1	27.1	26.6	34.6	2.0	-0.4	-0.2	-0.6	-0.2	-1.4
Guernsey	5.3	11.3	10.0	10.8	0.6	6.0	0.0	6.4	-1.1	1.1
Hong Kong SAR	167.0	128.9	142.6	164.6	51.3	-38.3	0.2	-5.2	14.9	22.8
India	21.8	24.8	27.6	28.7	-3.8	3.0	1.5	2.8	2.9	1.1
Ireland	101.0	100.2	87.8	85.9	9.3	-5.9	-4.6	-0.2	-9.5	-1.5
Isle of Man	2.7	2.1	2.0	1.8	-0.4	-0.6	0.4	-0.5	-0.1	-0.1
Italy	68.9	62.6	62.2	63.2	16.3	-7.1	0.7	1.0	0.5	1.0
Japan	192.7	167.2	160.2	159.8	52.0	-27.0	-3.7	9.1	-5.0	2.2
(JOM)	26.0	11.9	11.9	10.4	18.9	-14.1	-1.7	1.3	-0.0	-1.5
(Others)	166.7	155.3	148.3	149.4	33.1	-12.9	-2.0	7.8	-5.0	3.6
Jersey	8.9	4.7	4.6	4.0	2.1	-4.2	-3.1	-1.0	-0.0	-0.5
Luxembourg	40.9	31.4	32.8	28.3	-6.6	-10.1	1.3	-5.1	1.9	-1.6
Macao SAR	9.8	10.0	10.0	10.6	2.6	-0.0	-0.2	0.1	0.4	1.0
Malaysia	9.1	9.2	10.5	10.5	0.7	0.1	0.5	0.1	1.4	0.1
Mexico	30.6	26.9	24.1	25.2	4.0	-3.8	0.3	0.1	-2.7	1.2
Netherlands	60.2	102.6	99.3	69.5	1.5	40.4	5.6	23.2	-1.2	-30.7
Netherlands Antilles	2.6	2.3	1.3	1.6	1.8	-0.3	-0.6	0.9	-1.0	0.4
Norway	36.1	30.5	29.9	28.8	11.3	-6.3	-1.2	-2.5	0.3	-0.3
Panama	0.1	0.3	0.2	0.2	-1.0	0.2	0.1	0.0	-0.1	-0.0
Portugal	4.9	4.7	5.0	6.0	0.8	-0.3	-0.0	-0.4	0.3	1.1
Singapore	118.8	122.6	137.4	138.1	-6.6	2.5	0.7	0.6	17.1	0.9
South Africa	---	3.3	3.9	3.8	---	-0.5	-	-0.5	0.7	0.0
South Korea	136.7	115.2	136.9	144.5	15.0	-21.3	18.2	-34.6	22.2	6.6
Spain	41.7	33.1	36.3	38.2	7.4	-9.1	0.2	-3.8	3.8	1.4
Sweden	51.2	51.9	49.8	45.8	12.9	-3.1	-0.5	-0.4	0.1	-1.3
Switzerland	50.6	70.2	70.9	61.0	-9.0	18.7	2.8	0.7	2.1	-8.4
Turkey	66.8	71.9	75.9	82.5	-3.5	4.1	5.2	1.8	5.9	9.5
United Kingdom	1,811.7	1,580.9	1,499.4	1,347.7	-139.7	-251.6	-81.6	69.5	-23.7	-83.0
United States	---	---	---	---	---	---	---	---	---	---
(IBFs)	---	---	---	---	---	---	---	---	---	---
(Others)	---	---	---	---	---	---	---	---	---	---

Source: BIS Statistics

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Liabilities:

Table 4A: Local positions in foreign currency of banks vis-à-vis all sectors										
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Reporting countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Liabilities										
All countries	4,809.7	4,208.6	4,078.3	3,991.5	311.1	-687.8	-69.0	-90.4	-32.3	5.6
Australia	71.0	47.0	49.7	53.5	19.0	-29.7	1.5	-4.0	3.4	4.3
Austria	111.1	72.8	50.0	47.8	-2.4	-39.5	-7.2	-1.8	-21.5	-1.6
Bahamas	18.4	10.1	10.8	11.5	4.1	-8.8	-3.3	-3.0	1.0	1.1
Bahrain	55.1	47.6	49.9	48.8	28.4	-8.0	-4.7	0.7	3.2	-0.4
Belgium	87.6	38.8	41.8	40.9	59.8	-85.5	2.6	-8.2	3.7	-0.8
Bermuda	7.7	7.3	7.2	8.0	-0.6	-0.5	-0.1	0.0	0.0	0.8
Brazil	31.4	16.4	19.5	23.8	16.0	-15.1	-5.6	-6.9	3.2	4.5
Canada	112.7	106.4	108.8	113.2	-2.7	-7.2	1.5	1.6	3.8	5.8
Cayman Islands	78.9	67.5	59.9	64.9	-22.3	-12.0	5.8	-5.8	-6.7	6.1
Chile	25.0	23.2	23.6	26.9	6.1	-1.9	2.7	0.2	0.6	3.4
Chinese Taipei	196.0	226.7	232.6	225.9	-10.1	29.8	20.9	5.6	7.8	-5.2
Cyprus	11.0	9.8	8.1	11.0	-	-1.4	-0.4	0.6	-1.6	3.0
Denmark	49.7	25.0	23.3	20.1	21.3	-25.3	-10.3	1.1	-0.5	-1.8
Finland	4.2	3.4	2.5	6.0	1.7	-0.8	0.2	1.1	-0.9	0.4
France	212.2	201.7	201.7	225.2	59.9	-13.6	2.8	-2.0	3.0	23.8
Germany	183.0	103.2	98.0	100.1	87.6	-80.9	-10.7	-20.1	-3.9	2.4
Greece	42.1	30.5	26.3	25.2	2.3	-11.7	0.1	-4.2	-4.0	-1.2
Guernsey	32.7	43.3	41.9	41.8	10.3	10.1	-0.6	5.0	-0.6	0.9
Hong Kong SAR	390.5	349.9	356.7	362.7	69.3	-43.6	-0.5	-11.4	11.7	10.2
India	5.5	6.8	7.2	7.7	1.5	1.3	0.9	0.7	0.5	0.6
Ireland	68.7	64.4	68.1	65.2	3.2	-7.0	-9.1	-6.7	5.5	-2.6
Isle of Man	7.7	8.0	7.3	6.7	0.1	0.2	0.4	0.7	-0.4	-0.3
Italy	102.5	74.5	65.0	60.9	20.7	-28.9	-3.3	-2.0	-8.4	-4.3
Japan	516.7	357.7	349.3	342.0	130.8	-163.3	-18.8	-4.7	-3.5	-1.1
(JOM)	25.6	11.8	11.9	10.4	18.5	-13.8	-1.5	1.2	0.1	-1.5
(Others)	491.1	345.9	337.4	331.6	112.3	-149.5	-17.3	-5.9	-3.6	0.3
Jersey	20.6	21.5	20.3	20.7	-26.2	0.6	-3.2	0.2	-0.7	1.0
Luxembourg	135.3	111.8	106.2	106.7	-4.4	-25.2	4.6	0.8	-3.9	-5.2
Macao SAR	18.4	20.6	21.1	22.0	1.0	1.9	0.0	0.5	1.3	1.7
Malaysia	16.0	19.3	22.6	22.3	0.3	3.3	2.4	1.3	3.5	-0.1
Mexico	17.2	22.2	20.6	19.4	-1.9	5.0	-0.3	1.0	-1.6	-1.1
Netherlands	82.1	62.7	54.0	56.8	8.2	-20.3	18.8	-6.2	-8.0	10.5
Netherlands Antilles	2.3	3.1	3.0	2.4	-2.3	0.7	-0.2	-0.2	0.0	-0.5
Norway	23.5	16.3	17.5	16.0	6.7	-7.6	-2.4	-0.7	1.7	-1.0
Panama	0.5	0.4	0.5	0.5	0.0	-0.1	0.0	-0.0	0.1	0.1
Portugal	7.5	7.5	7.4	8.8	0.3	-0.1	0.4	-0.2	0.0	1.4
Singapore	117.6	129.0	132.2	141.5	16.1	9.8	3.8	1.5	6.0	11.9
South Africa	...	6.0	7.4	7.1	...	-0.4	-	-0.4	1.6	-0.2
South Korea	90.3	61.5	61.0	62.7	26.9	-28.9	9.4	-44.7	19.9	1.6
Spain	68.5	54.5	52.8	50.4	-2.5	-15.8	-1.3	-1.4	-0.5	-2.3
Sweden	80.1	56.4	64.2	58.2	35.3	-25.7	-7.5	-4.8	10.5	-2.7
Switzerland	163.5	152.8	148.1	133.8	-7.5	-14.2	0.7	-3.0	1.4	-7.3
Turkey	94.1	102.4	100.2	93.9	-1.3	7.0	5.0	-1.4	0.7	-2.5
United Kingdom	1,450.7	1,419.0	1,310.2	1,208.3	-241.4	-54.9	-64.1	30.7	-56.6	-47.2
United States	...	...	...	...	...	...	...	...	...	...
(IBFs)	...	...	...	...	...	...	...	...	...	...
(Others)	...	...	...	...	...	...	...	...	...	...

Emerging markets, its size and the risk are changing since 1990s at a very rapid pace, which have heightened the competition in the domestic market and they have to invent new strategies to compete with foreign banks. The foreign banks have gained good amount of experience in these territories and they are playing a bigger role in the macro economic development of the host

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countries. They are no more looked as an institution available to facilitate cross border transactions.

Earlier, foreign banks were happy to co-operate only the international players in their growth and expansion strategies, but as the market size has grown and local players are getting bigger and bigger, foreign banks are also participating in these companies growth story. (*R.A. Brearley, 1996*)

Foreign banks also have become aggressive in their approach to these emerging economies. These countries have a very high GDP rate and they provide high return opportunity to the foreign investors. There are instances where foreign banks have acquired the local banks to increase their share of the market and support their organic growth strategy with inorganic growth.

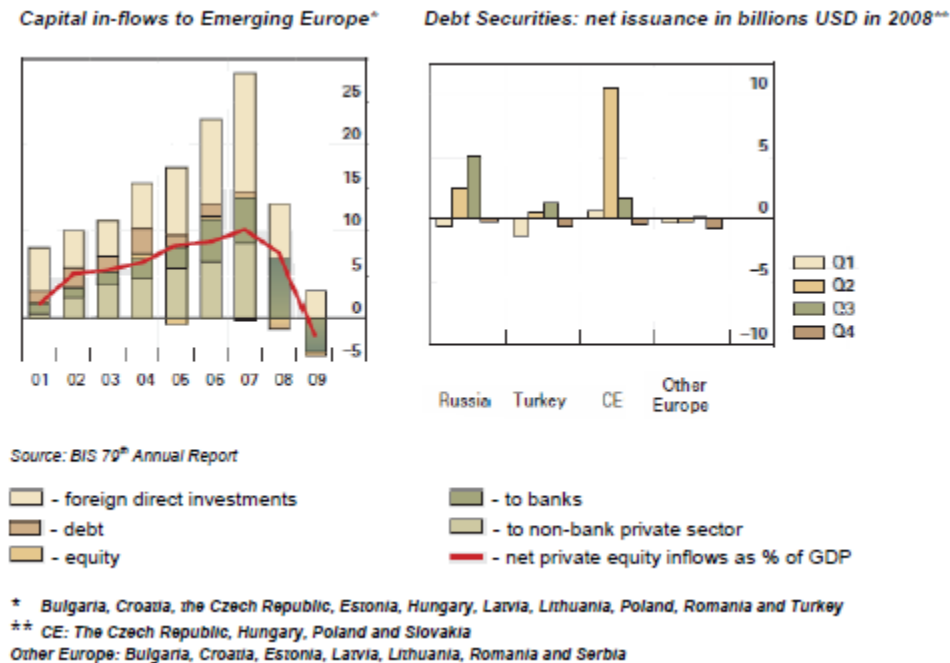
Regulatory Development and Issues

Given the competitive advantage of foreign banks, as it operates in various countries and have a bigger portfolio, the local banks generally do not have sufficient weapons to compete with them. Also, the entry of foreign banks have some inherent problems such as coupling the local economy with global economy and putting pressure on local currency. Hence there is a requirement of stricter regulation to control these possible abruptions.

From an investment point of view, we can classify foreign investments into three categories:

1. Banks having global presence
2. Banks having presence in selective geography (Continent)
3. Other players such as Private Equity, Venture Capital and Other Funds (Sovereign, Pension, etc.)

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The increased presence of these entities in local banking system has demanded effective and efficient supervisory and regulatory bodies. (Song, 2004) The regulatory authority has mainly emphasized on collecting all the information of cross border transactions. As the economies are developing, and they are learning from experiences, there are instances of mismanagement. But they are modifying the regulatory framework and keeping a check on all possible negative events. One of the examples of such mishap is the failure of “Bank of Credit & Commerce International”, 1991. (Song, 2004)

Taxation is one of the major issues which comes with globalization. Most of the countries have developed trade agreements and tax treating to avoid such events.

Basel Committee, International Monetary Fund and World Bank are continuously supporting and keeping a check over the banking systems by providing advisory services, funding and information.

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Emerging markets have consolidated their regulatory system for effective and efficient banking system in the country. There are also organizations like AML and CFT which fights against terrorism financing.

Going forward, we will see major developments as the size of the economy grows and they open their economy completely for foreign participation.

Banking Environment

As per a recent World Bank report, Emerging Economies will outgrow the developed countries by 2015. Majority of the population in the emerging markets remain in the rural area and they have a sizeable bottom of the pyramid (Untapped Market) along with a younger working population. As the economy is growing, so is the financial independence and surplus income for these untapped markets. They are gradually playing a bigger role in the financial system and requiring banking services. Hence, the Foreign Banks have a major role to play and bigger mass to serve, which can be explored for higher returns.

Let us delve into some changes in the banking and financial industry in emerging economies:

- **Consolidation of the Financial Industry**

The primary methodology for consolidation used by companies is through merger and acquisitions. There have been significant cases of local banks merging with another local or foreign entity:

Following are few examples of banking M&A – Both acquirer and target were listed in Asian or Latin American emerging markets 1998-2005 (*JEL Classifications*), (*Giovanni, 2005*)

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11/11/1999	Target	Solidbank Corp	Philippines
	Acquirer	Metrobank	Philippines
12/23/1999	Target	Bank of the Philippine Islands	Philippines
	Acquirer	DBS Bank	Singapore
1/20/2000	Target	Siam Industrial Credit Co	Thailand
	Acquirer	Siam Commercial Bank	Thailand
7/23/2001	Target	Utama Banking Group	Malaysia
	Acquirer	Rashid Hussain	Malaysia
8/8/2001	Target	Banco De A Edwards SA	Chile
	Acquirer	Banco de Chile	Chile
2/18/2002	Target	Banco de Credito del Peru	Peru
	Acquirer	Credicorp Ltd.	Bermuda
1/28/2003	Target	United Overseas Insurance	Singapore
	Acquirer	UOB	Singapore
11/11/2003	Target	Utama Merchant Bank	Malaysia
	Acquirer	MIDF	Malaysia
2/24/2004	Target	Great Eastern Holdings	Singapore
	Acquirer	OCBC	Singapore
3/22/2004	Target	Bank NISP Tbk PT	Indonesia
	Acquirer	OCBC	Singapore
4/6/2004	Target	Bank Buana Indonesia	Indonesia
	Acquirer	UOB	Singapore
5/12/2004	Target	Bank of Asia PCL	Thailand
	Acquirer	UOB	Singapore
9/10/2004	Target	LG Investment & Securities	Korea
	Acquirer	Woori Finance Holdings	Korea
2/18/2005	Target	Financiera Nacional Y Suramericana SA	Colombia
	Acquirer	Bancolombia SA	Colombia
3/29/2005	Target	Bank NISP Tbk PT	Indonesia
	Acquirer	OCBC	Singapore
4/27/2005	Target	Bank Niaga Tbk PT	Indonesia
	Acquirer	Commerce Asset-Holdings	Malaysia

As these mergers and acquisition often require some changes in the existing regulatory frameworks, government has many a times made the required changes and supported the deals. The consolidation is also happening within the financial industry where various verticals of the

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banking system are merging with each other to become large full-fledged banking organization providing all the services under one umbrella.

- **Globalization**

1996, Japanese government brought various financial reforms in the country. This was the time when Asian markets entered the globalization movement. As more and more players started exploring new geographies, local players also started innovating and restructuring the traditional system. In the current scenario, we are living in a technologically advanced world, where information is available freely and profoundly. The local players have studied the business model of foreign banks and hence they are able to replicate the methodologies and being up to date with the market.

Foreign banks need to continuously innovate and leverage their global presence to be successful and continue to grow in the coming days.

- **Crisis and its effects**

When we talk about financial crisis, the first instance which comes to our mind is the 1929 crisis. However, the current financial crisis can also be compared with the prior as it has already left a serious mark in the world financial history. In such crises, it becomes difficult for the local as well as global financial authorities to manage the banking and financial system world-wide and locally. Many of the governments have shifted to deregulation of the financial industry and have given huge amount of funds in private hands. It brings positives and equal if not more negatives along with it, as the funds can be used for speculation, manipulating the markets and increasing volatility.

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1990 onwards, we have seen various crises in different parts of the world such as Argentina Crisis, Russian Crisis, Brazilian Crisis, Asian Crisis and current crisis starting from America and leading to all the parts of the world. The asset quality has depleted, government has intervened and rescued various enterprises. All these incidents, tells us the importance of proper financial system and regulation.

There also has been instances of various scams and occurrence of bubbles, such as the internet boom and bubble in the beginning of 21st century. In the globalized world, it also has been difficult to predict any such crisis situation and figuring out proper mechanism to come out of the same.

Foreign Banks Trends

Foreign banks play a significant role in the growth of the host country. Following are few trends seen in their investments:

- They are one of the major component for the economic growth of the country
- They also contribute in large for the reform of the financial sector in poor countries
- Globalization has been the cause for financial integration, foreign banks are the facilitators
- They are linking their business to common language and improving proximity to the borrowers

Following is the data for Total Number of banks and their asset size in various geographies:

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	Number of Banks			Assets of Banks (Billion US \$)		
	1995	200	2006	1995	200	2006
Income						
Low Income	442	523	526	126	199	848
Domestic Banks	358	385	366	118	179	779
Foreign Banks	84	138	160	7.6	20	69
Lower Middle Income	933	996	921	979	1410	4965
Domestic Banks	752	706	559	933	1260	4600
Foreign Banks	181	290	362	46	150	365
Upper Middle Income	1136	1130	937	448	1114	2413
Domestic Banks	834	738	562	345	786	1600
Foreign Banks	302	392	375	103	328	813
Region						
East Asia and Pacific	275	287	281	551	868	4115
Domestic Banks	224	227	220	511	824	4010
Foreign Banks	51	60	61	40	44	105
Europe and Central Asia	743	813	747	172	429	1331
Domestic Banks	622	571	417	131	316	803
Foreign Banks	121	242	330	41	113	528
Latin America and Caribbean	863	840	663	531	925	1288
Domestic Banks	608	519	390	474	634	811
Foreign Banks	255	321	273	57	291	477
Middle East and Northern Africa	170	169	164	159	279	372
Domestic Banks	135	126	106	149	251	315
Foreign Banks	35	43	58	10.5	28	57
South Asia	141	156	160	100	165	748
Domestic Banks	133	144	144	99	157	702
Foreign Banks	8	12	16	0	8	46
Sub-Saharan Africa	319	384	369	39	57	371
Domestic Banks	222	242	210	31	42	337
Foreign Banks	97	142	159	8	14	34
Aggregated Data						
Total Banks	2511	2649	2384	1552	2723	8225
Domestic Banks	1944	1829	1487	1395	2224	6978
Foreign Banks	567	820	897	157	498	1247

Source: (*Stijn Claessens, 2008*)

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Following is the data for mode of entry of foreign banks in the host country (Greenfields or M&A)

	1995-1999		2000-2003		2004-2006	
	Greenfield	M&A	Greenfield	M&A	Greenfield	M&A
<i>Income Level</i>						
Low Income	38	18	12	15	2	7
Lower Middle Income	70	47	47	40	5	31
Upper Middle Income	83	56	41	55	5	15
<i>Region</i>						
East Asia Pacific	7	5	1	8	1	2
Europe and Central Asia	79	50	38	65	1	32
Latin America and Caribbean	64	48	38	23	7	5
Middle East and North Africa	1	4	7	3		6
South Asia	1	2		2		1
Sub-Saharan Africa	39	12	17	11	3	7
All Countries	191	121	100	110	12	53

Source: (Stijn Claessens, 2008)

Following is the data for such share of such entries:

	1995-1999		2000-2003		2004-2006	
	Greenfield	M&A	Greenfield	M&A	Greenfield	M&A
<i>Income Level</i>						
Low Income	68	32	44	56	17	83
Lower Middle Income	60	40	54	46	8	92
Upper Middle Income	60	40	43	57	14	86
<i>Region</i>						
East Asia Pacific	58	42	11	89	33	67
Europe and Central Asia	61	39	37	63	3	97
Latin America and Caribbean	57	43	62	38	58	42
Middle East and North Africa	20	80	70	30		100
South Asia	33	67		100		100
Sub-Saharan Africa	76	24	61	39	30	70
All Countries	61	39	48	52	18	72

Source: (Stijn Claessens, 2008)

Foreign Banks: Learning from the past

Foreign banks have grown in size and role in the emerging countries. However there are still restrictions on the services offering, merger and acquisition and various other points which hinders the growth of foreign banks. China had promised WTO, that it will allow foreign banks to provide products and services without any restrictions, however it has never acted on the

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same, and it still is a closely monitored economy without letting the outer world know its policies and banking information. (*Bostjan Jazbec, 2007*) . Similarly, India has not allowed foreign banks to freely participate in its banking sector and there are restrictions on the number of branches to be opened annually by Foreign Banks in its territory.

Government has liberalized the capital markets to attract foreign capital and funds for the growth of the economy and sustaining GDP growth rate. Foreign funds invest in emerging income in search of higher returns compared to domestic country. Foreign banks earn arbitrage on the basis of interest rate parity. It's a win-win situation for all the participants. Government has also supported the local banks by infusing huge amount of capital to make it more competitive with the foreign players. We can take example of Russia and India where the traditional banks are more competitive to foreign banks in terms of size and profitability.

The foreign banks have entered the domestic market through a green field investment or acquiring a domestic bank. Domestic bank acquisition has given immediate reach and understanding of local culture to the foreign entity. (*Maria Lehner, 2006*)

The Future of Banking

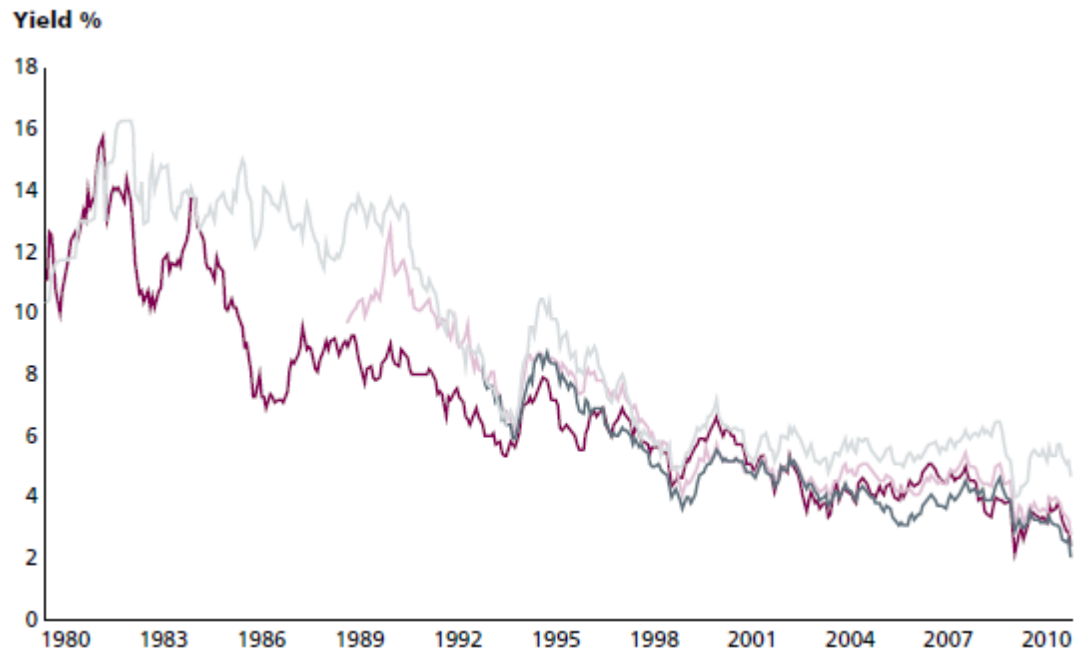
The economies have recovered from the crisis, and it is the time for consolidation. The governments are looking at their policies and regulations to find out flaws and answers to such crisis in future. Following are some developments that we can expect in future for the banking industry: (*Douglas W. Arner, 2010*)

- The developed economies will not persist with low interest rates. The emerging economies are in a dilemma between growth and controlling inflation. Currency

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war will continue as emerging markets are majorly driven by exports, where as developing countries are driven by consumption.

10 Year Yield Data:



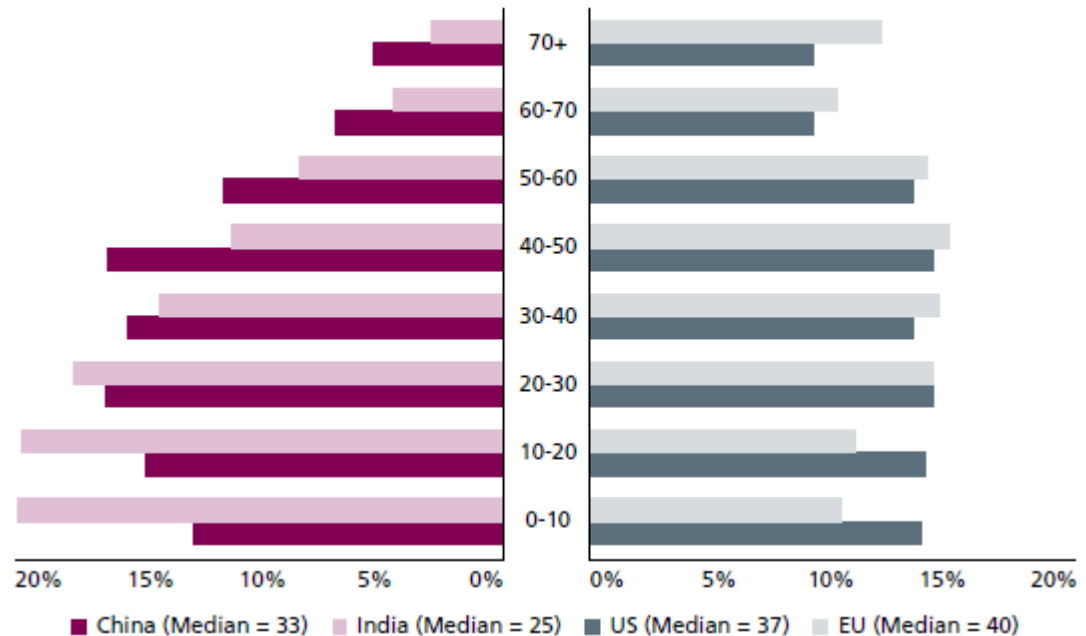
Source: Datastream; Oliver Wyman analysis

- Consumers have shifted to more on savings and less on spending. This trend in developed economy will encourage more foreign banks to enter emerging economies as the growth rate for consumption driven economies will further decline
- Regulation in most of the markets will stricter and stringent hereon to combat future crisis like situations. It will have a positive impact on the transparency of the global banking system

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- Developing countries have younger population compared to developed countries; hence, the growth is here to stay with the emerging markets.

Population by age group (%) in 2010



Source: World Bank

- The rating of foreign countries might come down after the crisis. Hence the required rate of return for foreign investors might be higher in the coming years

The future of the world financial economy is with the emerging markets. The foreign banks will play a significant role in the growth of these economies not only with borrowing and lending activities but also with monetary policy of central bank and the government.

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Appendix

External Positions of reporting banks vis-à-vis all sectors with BIS (BIS Statistics)

Table 6A (cont.)										
Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
ii) Other	6,695,471	6,515,853	6,595,088	6,579,402	-401,585	-230,850	125,577	-96,059	138,350	-10,721
Australia	317,637	371,129	367,444	363,309	-18,026	49,155	1,061	30,713	5,242	1,854
Canada	371,471	394,540	408,981	379,509	18,729	16,605	4,161	17,052	23,034	-23,365
Japan	677,327	684,147	689,287	688,742	-71,513	5,134	-15,410	-43,015	-4,443	12,631
(of which in JPY)	298,721	219,379	207,086	218,306	-82,086	-75,367	-18,471	-20,884	-9,769	-2,693
New Zealand	38,974	50,151	49,157	46,831	-1,446	8,092	-15,006	-20,894	-208	-802
United States	5,290,066	5,015,729	5,099,958	5,100,807	-329,316	-309,792	150,775	-79,870	114,624	-987
(of which in USD)	4,429,805	4,229,426	4,331,993	4,337,152	-173,042	-203,680	172,282	-38,367	102,266	-4,532
Offshore centres	3,678,532	3,606,075	3,640,176	3,619,341	-466,722	-109,932	-35,738	60,421	78,577	9,502
Aruba	1,878	611	604	666	1,001	-1,265	-1,438	175	5	75
Bahamas	305,221	267,091	342,777	332,852	53,987	-40,626	16,019	30,145	76,530	-8,794
Bahrain	60,050	49,503	55,470	49,351	3,892	-10,782	5,238	-6,202	6,398	-5,187
Barbados	20,749	19,918	20,031	20,487	2,521	-1,855	-767	-113	58	821
Bermuda	91,150	87,188	84,561	84,684	-17,100	-4,501	-761	8,715	-1,737	-414
Cayman Islands	1,574,144	1,722,801	1,679,777	1,669,318	-416,615	143,481	5,166	32,950	-31,958	-6,481
Gibraltar	14,206	10,359	11,255	10,080	-1,890	-4,739	-1,061	-79	1,370	-855
Guernsey	174,409	136,414	125,222	116,545	12,680	-42,159	-8,584	-2,183	-6,349	-5,042
Hong Kong SAR	308,844	317,074	334,802	358,140	17,494	5,494	-83	20,079	22,111	27,159
Isle of Man	34,211	37,581	35,673	33,644	887	491	445	-1,284	-411	-1,417
Jersey	343,345	258,186	233,088	216,529	-130,733	-94,864	-45,420	-18,186	-16,370	-10,430
Lebanon	6,647	9,763	9,087	7,986	-999	3,028	1,486	909	-492	-868
Macao SAR	7,308	10,909	13,433	14,997	1,686	3,561	343	-2,138	2,653	1,719
Mauritius	14,071	15,606	15,558	15,302	-57	787	5,660	-4,783	-88	29
Netherlands Antilles	68,783	59,521	55,910	59,507	-14,321	-9,981	1,014	-773	-1,829	4,480
Panama	80,218	83,768	85,944	86,336	9,867	3,683	210	1,521	3,166	-1,196
Samoa	1,529	1,638	2,027	2,199	289	105	37	130	398	166
Singapore	450,587	402,109	415,474	425,631	17,702	-52,289	-29,976	12,065	19,079	13,201
Vanuatu	90	122	124	113	-32	31	14	21	4	-8
West Indies UK	108,989	102,898	107,146	110,261	-10,902	-8,221	16,536	-11,279	6,475	3,397
Liabilities										
ii) Other	5,259,636	5,226,248	5,391,207	5,426,885	28,577	-67,975	23,975	50,129	212,622	34,812
Australia	130,455	132,599	136,322	134,368	22,209	196	-9,790	208	6,876	-916
Canada	179,065	203,913	219,209	220,522	24,505	22,030	11,396	14,117	18,346	3,649
Japan	873,294	564,375	547,179	572,327	40,737	-308,184	-71,754	-24,742	-6,298	24,266
(of which in JPY)	316,651	196,716	189,042	195,830	-86,418	-114,146	-43,387	-13,426	-5,312	-3,213
New Zealand	17,456	19,418	17,825	18,201	-4,031	1,308	1,733	-1,244	-1,210	564
United States	4,059,354	4,305,690	4,470,394	4,481,316	-54,851	216,627	92,383	61,741	194,884	7,366
(of which in USD)	3,412,618	3,619,335	3,767,454	3,773,418	-67,793	208,164	100,047	38,265	148,106	-6,146
Offshore centres	4,899,262	4,576,965	4,428,855	4,288,398	-355,421	-407,139	-84,282	-50,345	-97,221	-73,580
Aruba	1,553	1,721	1,667	1,550	203	162	10	337	-16	-66
Bahamas	495,297	384,465	347,091	353,841	66,923	-113,677	-18,782	-2,165	-35,061	9,754
Bahrain	35,066	30,834	34,069	34,662	-6,593	-4,664	2,116	-2,683	3,796	1,342
Barbados	24,034	32,967	36,269	25,860	-13,334	7,746	1,468	1,499	3,611	1,600
Bermuda	72,470	77,990	74,828	74,549	-50,797	4,377	-6,532	5,443	-1,702	979
Cayman Islands	1,859,828	1,837,386	1,785,935	1,733,421	-168,241	-27,413	30,549	-4,138	-38,918	-43,684
Gibraltar	18,483	12,142	12,754	12,842	-3,450	-7,023	769	-242	1,124	506
Guernsey	196,966	174,920	169,611	166,615	23,366	-30,678	-10,318	-6,026	1,718	1,212
Hong Kong SAR	602,932	521,569	505,523	480,549	-57,281	-90,535	-21,586	-9,303	-8,728	-15,787
Isle of Man	76,987	88,754	78,928	77,545	-3,885	-5,367	-1,010	-844	-5,418	6
Jersey	454,063	414,316	398,249	370,628	-74,778	-62,676	-40,564	-18,329	-21,434	-18,435
Lebanon	35,877	45,364	44,730	44,884	1,574	9,091	2,113	3,633	-23	763
Macao SAR	25,639	29,558	28,461	29,563	17	3,644	-550	-136	-608	1,819
Mauritius	16,078	16,993	17,419	16,092	-9,960	465	-197	627	544	-908
Netherlands Antilles	143,490	128,990	122,233	110,007	-17,923	-18,521	-4,356	6,879	-332	-8,137
Panama	104,471	92,505	88,623	85,340	7,969	-13,451	687	-4,671	-1,770	-57
Samoa	6,305	7,317	7,500	7,109	1,475	903	-388	-1,054	261	-313
Singapore	489,058	442,512	446,270	433,355	-16,625	-53,928	-19,153	-14,435	10,830	-6,604
Vanuatu	521	484	483	444	-379	-46	25	-44	9	-28
West Indies UK	231,406	229,807	222,661	226,094	-37,845	-4,891	1,699	-4,411	-2,668	4,318

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Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
Developing countries	2,487,193	2,453,574	2,517,273	2,524,856	8,087	-50,567	9,601	61,605	114,791	53,168
i) Africa & Middle East	471,910	477,714	472,906	458,604	14,695	2,542	7,034	6,967	2,580	-2,791
Algeria	2,259	2,533	2,651	2,393	-268	265	160	287	212	-145
Angola	7,453	8,604	9,156	8,444	4,056	1,060	283	713	660	-502
Benin	111	105	147	111	-14	-14	21	-28	48	-24
Botswana	129	209	263	202	-75	1	10	-9	59	-15
Burkina Faso	364	375	376	362	18	2	-14	-19	16	6
Burundi	61	28	25	32	14	-32	-	-24	-3	8
Cameroon	1,460	1,218	1,155	1,088	-560	-274	-7	-43	-3	7
Cape Verde	742	700	663	727	257	-66	10	15	-14	91
Central African Republic	450	13	13	11	-3	-425	2	-	1	-1
Chad	97	90	88	79	-19	-7	4	-7	-	-6
Comoros Islands	11	10	10	8	-13	-2	-2	-	1	-1
Congo	309	294	269	256	-73	-181	-	-138	-13	2
Congo Democratic Republic	515	522	562	570	12	115	1	100	58	34
Côte d'Ivoire	4,059	1,756	1,658	1,584	-9	-2,252	-48	-2,275	-19	23
Djibouti	204	249	253	254	-1	43	36	-43	-8	6
Egypt	19,419	16,723	17,739	18,175	-418	-136	144	-503	1,288	689
Equatorial Guinea	89	129	49	37	37	38	25	69	-78	-9
Eritrea	12	8	8	7	-3	-4	2	-2	-	-1
Ethiopia	39	248	250	245	-13	209	155	55	5	-1
Gabon	796	750	701	678	-309	-67	44	-51	-9	20
Gambia	95	107	117	118	-9	11	6	4	3	-1
Ghana	2,472	3,213	3,427	3,044	-192	641	-169	1,287	249	-290
Guinea	383	319	294	293	-52	-67	4	3	-9	19
Guinea-Bissau	5	12	12	10	-1	6	-7	3	1	-1
Iran	20,406	18,816	18,520	16,691	-4,978	-2,034	-451	100	664	-632
Iraq	1,744	1,394	1,378	1,345	94	-406	116	-687	31	19
Israel	11,897	14,901	16,110	18,648	-1,992	3,474	3,169	-151	1,318	3,226
Jordan	3,499	4,319	3,493	3,934	419	878	48	230	-765	519
Kenya	1,548	1,654	1,534	1,565	-181	16	285	-114	-74	75
Kuwait	36,113	23,239	22,679	23,592	442	-13,036	-3,734	-1,082	-347	1,191
Lesotho	27	22	21	29	10	-17	-6	-6	-	9
Liberia	21,242	24,169	24,290	24,638	2,190	2,903	1,024	1,147	277	280
Liabilities										
Developing countries	2,199,180	2,108,723	2,093,641	2,022,453	-327,648	-127,489	-11,366	-7,454	18,655	-31,729
i) Africa & Middle East	788,878	754,480	729,587	700,795	-60,417	-51,703	-10,632	33,242	-12,852	-13,398
Algeria	6,427	6,204	5,837	5,702	-5,414	-343	-599	551	-129	218
Angola	18,412	12,376	11,160	12,645	9,322	-6,602	396	-190	-1,116	1,754
Benin	321	420	322	293	-53	94	-77	120	-82	-6
Botswana	1,639	1,615	1,615	1,272	-749	-136	503	-337	37	-316
Burkina Faso	325	347	346	379	-2	11	-73	31	17	58
Burundi	203	236	248	229	-128	26	-1	27	14	-9
Cameroon	1,460	1,870	2,054	1,504	-2,906	341	405	-354	275	-433
Cape Verde	1,218	1,346	1,585	1,372	-271	94	-188	192	299	-141
Central African Republic	93	83	90	86	1	-13	-9	4	11	2
Chad	203	238	290	179	-107	29	95	-90	58	-97
Comoros Islands	60	56	51	48	4	-4	3	1	-3	-1
Congo	893	812	882	822	236	-105	-40	-3	107	-5
Congo Democratic Republic	1,226	1,382	1,463	1,421	-63	123	15	81	121	16
Côte d'Ivoire	2,626	2,099	2,127	2,398	148	-556	-229	3	132	410
Djibouti	654	796	741	680	23	131	-11	62	-40	-39
Egypt	30,472	27,206	30,176	24,443	-8,854	-3,712	-1,158	-650	3,569	-5,033
Equatorial Guinea	838	1,125	2,096	5,185	102	259	-180	-416	1,005	3,139
Eritrea	51	47	46	37	6	-10	-2	-3	1	-7
Ethiopia	603	643	721	704	-276	-6	19	-12	102	9
Gabon	1,199	1,229	1,131	994	27	2	-50	126	-42	-70
Gambia	181	179	178	200	-37	-10	-12	1	-25	27
Ghana	1,400	1,399	2,053	2,084	-44	-30	-232	182	492	48
Guinea	531	618	596	510	75	78	17	80	-9	-68
Guinea-Bissau	39	53	54	49	-10	15	3	2	3	-2
Iran	41,497	29,986	26,870	24,396	9,504	-13,021	-2,489	-7,005	-1,691	-1,182
Iraq	3,071	4,441	4,075	4,493	1,353	1,195	1,162	-616	-196	626
Israel	35,384	32,015	30,613	29,013	-15,392	-3,953	-1,935	-1,256	-796	-975
Jordan	13,403	12,114	11,635	12,623	-4,027	-1,462	-622	1,773	-283	1,200
Kenya	8,626	8,713	8,725	8,745	615	-445	-284	-15	335	189
Kuwait	52,512	42,108	43,213	48,793	2,975	-11,542	-8,407	1,499	1,291	6,567
Lesotho	39	566	618	695	7	-135	-10	-130	-3	101
Liberia	17,913	18,306	19,628	19,195	381	220	-796	1,026	1,607	37

The Role of Foreign Banks in Emerging Countries

Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
Libya	1,261	1,657	1,470	2,461	199	375	-76	231	-144	734
Madagascar	503	654	655	295	329	139	146	2	11	-347
Malawi	115	213	105	174	23	-8	68	-19	-107	68
Mali	264	254	298	265	-38	-18	-	-10	59	-13
Mauritania	298	244	234	241	53	-58	-17	8	-2	16
Morocco	8,038	10,072	8,911	8,317	-504	2,223	-337	1,617	-699	-114
Mozambique	562	907	905	1,103	47	125	93	25	22	240
Namibia	826	1,001	898	831	-200	128	18	164	-54	-30
Niger	145	151	53	55	-18	10	-21	94	-95	5
Nigeria	10,575	8,993	8,618	8,439	2,749	-2,063	413	645	-263	-97
Oman	10,555	9,653	9,872	9,234	768	-934	611	-931	246	-625
Palestinian Territory	10	38	68	16	-14	27	-1	25	32	-51
Qatar	47,682	49,528	50,506	52,143	13,022	1,589	-3,110	1,454	1,247	1,762
Rwanda	10	44	36	41	-8	31	29	1	-7	5
Sao Tomé and Príncipe	49	41	50	48	16	-8	2	-	12	2
Saudi Arabia	78,102	82,091	88,653	72,220	7,220	2,610	661	-275	8,785	-10,213
Senegal	933	1,081	1,016	909	25	121	-35	81	-10	-37
Seychelles	1,103	1,392	1,407	1,367	47	263	3	117	58	20
Sierra Leone	58	67	76	71	-42	6	-12	-11	13	-
Somalia	98	110	101	89	7	8	1	8	-2	-3
South Africa	35,647	36,189	34,866	32,798	-1,369	116	1,637	1,846	-477	-1,298
St. Helena	4	10	5	5	1	6	-1	6	-5	-
Sudan	964	1,244	1,312	1,363	-306	265	87	232	105	106
Swaziland	58	72	112	171	-57	-11	-7	-2	41	61
Syria	903	943	962	782	49	66	8	103	39	-160
Tanzania	725	769	783	809	-20	-71	97	-1	25	99
Togo	265	342	325	291	51	70	46	42	4	-7
Tunisia	5,171	4,808	4,205	3,895	430	-238	-77	229	-385	-74
Uganda	357	426	364	491	122	25	-4	55	-63	138
United Arab Emirates	106,184	103,078	103,065	103,873	9,755	-4,195	2,161	-1,952	398	972
Yemen	1,058	1,257	1,229	1,059	654	193	156	-57	-19	-333
Zambia	879	1,006	1,134	1,078	452	13	-47	74	134	-51
Zimbabwe	815	377	367	319	-10	-122	-20	53	-4	-41
Residual	19,683	32,273	22,334	24,181	-17,106	11,217	3,456	4,277	-9,875	1,880
Liabilities										
Libya	72,510	66,089	63,223	64,398	-5,659	-7,070	959	1,298	-1,647	2,861
Madagascar	1,008	1,482	1,191	1,234	-277	437	332	-255	-240	101
Malawi	144	199	232	309	-44	7	1	-9	3	85
Mali	372	489	534	494	-48	103	54	41	60	-18
Mauritania	513	481	467	432	-189	-43	16	-20	-	-16
Morocco	9,554	10,895	7,973	7,003	-3,008	1,186	1,690	792	-2,419	-408
Mozambique	1,184	1,836	1,711	1,864	-60	396	90	162	-194	233
Namibia	453	1,375	1,688	1,219	-58	304	115	160	285	-400
Niger	135	122	199	354	21	-16	55	-96	82	162
Nigeria	21,999	23,164	24,557	23,178	-14,008	593	393	3,345	1,325	-822
Oman	7,784	6,392	6,271	6,683	-2,657	-1,539	-116	382	-8	561
Palestinian Territory	1,063	1,052	1,059	956	292	-31	-58	-80	36	-68
Qatar	17,336	19,008	17,937	18,330	-333	1,428	-4,310	5,383	-833	645
Rwanda	520	616	568	577	-151	82	-60	29	-66	24
Sao Tomé and Príncipe	104	83	60	49	47	-20	-4	6	-21	-9
Saudi Arabia	181,276	169,169	162,929	154,302	15,827	-14,372	4,603	11,789	-3,443	-8,399
Senegal	1,709	1,666	1,655	1,556	-78	-69	153	33	78	1
Seychelles	4,562	5,589	5,005	4,950	986	924	789	-30	-432	95
Sierra Leone	171	155	196	212	-7	-20	83	-85	-6	18
Somalia	47	47	45	41	-4	-3	-2	-2	-	-2
South Africa	44,212	41,883	42,674	40,321	-13,232	-3,295	1,769	-619	1,780	-1,615
St. Helena	8	14	9	13	-54	5	3	1	-7	4
Sudan	1,702	1,614	1,684	1,682	-188	-139	137	-101	120	66
Swaziland	1,220	1,118	1,124	835	500	-649	-106	1	19	-251
Syria	23,576	18,581	18,205	16,329	-734	-5,332	-527	-367	207	-1,215
Tanzania	2,022	2,070	1,746	1,860	-600	-13	160	244	-289	146
Togo	447	428	390	376	54	-33	-23	25	-20	8
Tunisia	5,074	5,373	6,212	5,827	-2,909	211	-415	1,423	1,046	-5
Uganda	1,732	1,789	1,687	1,961	260	-25	211	-168	-82	329
United Arab Emirates	76,863	81,987	79,094	71,412	-29,560	3,572	-1,449	2,972	-2,592	-6,461
Yemen	7,870	6,053	5,244	4,561	585	-1,972	244	-238	-657	-609
Zambia	878	1,109	1,212	1,302	-135	152	-6	58	121	105
Zimbabwe	856	1,233	1,236	1,211	-67	268	-53	263	28	-12
Residual	56,455	70,691	60,331	53,705	8,619	12,740	-2,572	12,221	-10,151	-6,548

The Role of Foreign Banks in Emerging Countries

Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
ii) Asia & Pacific	755,518	783,194	862,388	908,336	-98,230	30,716	25,137	56,714	89,314	49,809
Afghanistan	75	128	150	119	-34	52	20	-6	23	-29
Armenia	298	318	285	293	99	17	3	65	-28	12
Azerbaijan	3,302	2,939	3,570	3,320	1,482	-402	-377	116	733	-111
Bangladesh	2,078	1,779	1,870	1,888	283	-311	-52	61	105	32
Bhutan	60	69	63	60	-1	7	1	7	-2	2
British Overseas Territories	440	509	480	476	98	44	107	-17	-508	16
Brunei	832	943	985	1,148	69	99	-201	127	57	177
Cambodia	474	846	756	748	36	365	109	192	-87	-5
China	153,693	177,287	216,755	241,590	-33,652	24,306	8,209	20,474	42,084	27,727
Chinese Taipei	51,872	53,854	59,951	68,185	-14,763	1,723	434	8,117	6,286	8,202
Fiji	120	421	431	198	-135	283	225	27	10	-226
French Polynesia	2,253	2,552	2,235	2,000	862	229	52	24	-174	-72
Georgia	614	469	519	496	163	-135	-25	-43	59	-34
India	134,784	134,435	150,883	160,138	9,447	1,881	4,280	8,015	18,222	9,514
Indonesia	58,116	46,658	50,522	48,745	-3,537	-10,461	2,698	829	4,783	-1,344
Kazakhstan	21,043	16,365	16,001	14,820	493	-4,825	-186	-1,609	-116	-1,081
Kiribati	-	1	-	1	-4	1	-	-	-1	-
Kyrgyz Republic	54	76	24	23	20	21	-21	31	-52	1
Laos	466	382	411	404	54	-85	-75	7	31	-7
Malaysia	37,322	38,417	40,668	39,815	-12,010	768	62	2,387	2,932	-587
Maldives	729	647	608	585	119	-85	-6	22	-34	-19
Marshall Islands	23,597	26,092	26,399	25,467	6,087	2,466	800	426	319	-1,084
Micronesia	25	-	-	-	10	-25	-	-	-	-
Liabilities										
ii) Asia & Pacific	691,290	664,810	657,035	655,571	-156,270	-34,908	-11,588	-8,798	-211	6,795
Afghanistan	1,525	2,100	1,684	1,797	59	506	-18	265	-355	175
Armenia	283	346	364	307	-342	56	35	-3	32	-45
Azerbaijan	1,189	1,084	1,248	2,201	-1,200	-95	68	300	161	1,002
Bangladesh	3,517	4,750	3,901	5,620	-855	1,164	263	15	-766	1,785
Bhutan	393	355	382	385	-9	-40	3	-3	28	6
British Overseas Territories	1,088	1,151	1,083	791	-1,254	27	-5	105	-99	-243
Brunei	4,375	4,201	5,356	3,946	853	-266	574	-232	1,276	-1,315
Cambodia	460	540	604	544	-25	72	110	-42	68	-54
China	236,295	201,503	194,609	189,550	-45,711	-37,374	-17,649	11,451	-5,824	-1,864
Chinese Taipei	121,665	115,044	111,976	107,064	-15,978	-7,906	-4,611	-6,592	-1,943	-3,915
Fiji	206	213	257	263	19	-14	-197	30	47	14
French Polynesia	1,363	1,280	1,070	995	278	-114	-56	40	-156	-16
Georgia	1,352	1,386	1,420	1,108	364	25	242	174	62	-280
India	44,946	45,518	39,639	33,329	-3,675	55	-4,416	940	-5,448	-6,089
Indonesia	14,013	19,537	20,429	19,542	1,361	5,378	4,109	1,770	1,026	-688
Kazakhstan	13,106	12,239	10,654	11,017	1,045	-974	-237	352	-1,408	792
Kiribati	108	72	70	84	5	-47	-24	-31	2	15
Kyrgyz Republic	261	496	559	449	17	228	38	84	82	-88
Laos	168	386	392	470	-1,096	212	23	34	15	82
Malaysia	19,408	20,961	24,439	24,775	-25,303	1,064	-937	1,324	3,905	726
Maldives	120	149	149	158	-3	25	16	-25	-	13
Marshall Islands	7,399	8,386	10,158	9,992	839	893	60	398	1,931	50
Micronesia	36	26	17	26	17	-10	-	7	-11	9

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Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
Mongolia	151	156	167	190	17	22	28	16	12	24
Myanmar	1,353	278	221	237	175	-295	-96	69	-45	32
Nauru	16	10	11	19	6	-6	-	-3	1	8
Nepal	65	75	60	66	-1	9	5	13	-14	6
New Caledonia	3,597	3,829	3,774	3,369	1,080	118	-15	184	181	-109
North Korea	74	72	67	86	-210	-6	-9	4	-4	28
Pakistan	4,962	4,745	4,426	4,379	-223	-151	-111	79	-274	-66
Palau	36	31	32	32	-2	-5	-	-3	1	-
Papua New Guinea	469	524	615	775	89	39	30	19	100	171
Philippines	19,055	18,647	20,052	19,774	-5,434	-258	379	578	1,603	10
Solomon Islands	25	31	35	31	-3	4	4	1	4	-3
South Korea	186,048	201,902	210,270	217,289	-47,104	14,589	5,336	13,318	10,973	5,790
Sri Lanka	3,203	2,884	2,911	3,216	412	74	388	-46	97	363
Tajikistan	30	17	10	11	-85	-13	-6	2	-7	1
Thailand	22,758	26,873	27,520	29,710	-4,596	3,973	2,318	2,491	1,062	2,213
Timor Leste	9	5	8	5	1	-5	-4	-	3	-3
Tonga	18	27	25	43	11	6	-13	4	-2	19
Turkmenistan	254	252	169	150	-73	-8	-25	37	-72	-6
Tuvalu	1	11	11	19	1	10	-	-	-	-
US Pacific Islands	647	173	548	283	-292	-480	-254	-164	384	-252
Uzbekistan	763	1,065	1,167	1,009	54	294	151	51	119	-135
Vietnam	16,081	12,382	12,555	12,675	2,725	-3,468	1,234	508	393	350
Wallis/Futuna	22	18	17	16	-2	-5	-1	-2	-	-
Residual	3,634	4,000	4,151	4,433	55	347	-259	305	175	281
Liabilities										
Mongolia	94	84	67	93	-591	-13	-42	7	-15	28
Myanmar	505	1,378	1,098	888	158	831	19	204	-229	-181
Nauru	11	24	26	15	-10	-3	2	-3	2	-10
Nepal	1,573	2,074	1,821	1,567	459	466	-68	-7	-211	-221
New Caledonia	1,191	1,341	1,256	1,131	-1	106	-1,467	293	-26	-58
North Korea	142	106	67	64	-12	-40	11	7	-36	-1
Pakistan	10,348	13,090	11,179	12,300	-5,033	2,693	699	731	-1,753	1,278
Palau	91	2	2	4	88	-89	1	-	-	2
Papua New Guinea	1,177	3,180	2,883	3,086	62	1,894	-18	313	-261	246
Philippines	18,734	17,817	16,831	17,440	-6,996	-977	916	594	-911	790
Solomon Islands	150	185	192	201	4	22	4	-8	9	16
South Korea	58,124	42,980	49,259	63,058	-24,424	-15,690	7,324	-22,152	6,767	12,887
Sri Lanka	1,265	1,937	2,065	2,024	-1,328	626	62	349	171	4
Tajikistan	101	112	35	40	-90	11	9	43	-74	5
Thailand	24,085	18,850	19,398	20,515	-14,056	-5,450	-2,197	-2,518	856	1,396
Timor Leste	13	22	25	22	-	8	5	4	3	-2
Tonga	31	29	28	49	17	-4	-2	-1	-1	22
Turkmenistan	11,815	14,399	13,543	13,045	2,300	2,534	-845	-287	-796	-430
Tuvalu	14	20	18	19	15	1	-5	-4	-2	1
US Pacific Islands	182	86	360	128	-41	-99	-37	-87	279	-225
Uzbekistan	8,239	10,846	10,666	10,620	3,360	2,235	1,699	-363	264	369
Vietnam	3,438	4,086	3,776	3,899	-2,607	625	-579	1,209	-250	275
Wallis/Futuna	41	35	32	29	-94	-6	-12	-10	-1	-
Residual	76,650	90,404	91,948	90,941	-16,861	12,548	5,540	2,527	3,376	530

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Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
iii) Europe	851,496	781,458	746,354	704,754	85,875	-85,074	-30,859	-13,947	-5,704	-14,252
Albania	970	1,365	1,382	1,061	388	398	315	101	73	-250
Belarus	3,135	2,575	2,597	2,476	632	-622	-312	90	144	46
Bosnia and Herzegovina	4,899	4,965	4,329	3,720	559	74	-153	-38	-363	-287
Bulgaria	24,356	23,747	21,309	19,379	8,554	-1,275	-834	48	-1,090	-345
Croatia	43,508	45,173	41,250	38,485	1,492	314	428	-311	-1,572	28
Czech Republic	48,877	45,826	42,189	39,142	2,741	-4,181	-2,561	-563	-1,517	-1,103
Estonia	19,124	17,681	15,980	14,655	1,505	-1,921	-316	-98	-733	-705
Hungary	93,898	92,705	89,020	85,124	18,375	-3,731	-1,926	-582	517	465
Latvia	22,814	19,982	17,366	15,651	3,519	-3,453	-348	-940	-1,417	-491
Lithuania	22,100	19,903	17,333	15,457	4,274	-2,934	-436	-1,669	-1,409	-669
Macedonia, FYR	609	732	663	891	150	105	33	86	-25	19
Moldova	663	565	513	472	218	-103	-39	-15	-36	-25
Montenegro	1,489	1,723	1,457	1,365	609	206	114	90	-173	24
Poland	115,669	121,374	120,188	111,322	13,692	2,873	3,190	585	4,004	-3,791
Romania	71,064	62,263	59,578	52,003	16,923	-10,680	-6,320	-989	576	-1,821
Russia	180,623	142,395	135,667	126,034	-5,694	-39,208	-17,148	-8,501	-4,239	-7,318
Serbia	11,658	12,676	11,717	10,253	1,592	706	577	521	-248	-574
Turkey	142,599	132,774	130,895	135,560	9,160	-10,684	-2,826	516	1,512	3,129
Ukraine	36,251	26,256	24,595	23,279	6,429	-10,239	-2,923	-2,289	-1,403	-834
Res. Serbia & Montenegro	82	65	16	12	34	-19	-36	4	-47	-4
Residual Europe	7,308	6,713	8,310	8,413	721	-699	664	9	1,743	255
Liabilities										
iii) Europe	325,806	308,010	323,055	278,802	-125,192	-26,576	11,869	-31,432	25,762	-31,753
Albania	485	501	527	529	-566	2	89	-75	49	34
Belarus	2,997	2,828	3,917	3,574	-1,421	-183	-274	536	1,170	-278
Bosnia and Herzegovina	2,741	2,134	2,150	1,830	-3,560	-642	114	-99	139	-161
Bulgaria	7,285	8,565	8,228	6,985	-1,197	1,045	-357	1,348	136	-925
Croatia	9,075	9,412	8,490	8,163	-5,177	181	1,366	-425	-395	282
Czech Republic	21,025	19,792	19,251	19,330	2,360	-1,693	-1,642	-111	289	708
Estonia	3,064	1,666	1,731	1,444	-166	-1,433	-522	-420	151	-193
Hungary	11,789	16,099	17,659	15,977	619	3,358	-1,914	-376	2,411	-799
Latvia	2,526	4,273	4,006	4,380	-1,509	1,616	1,035	-225	-103	528
Lithuania	1,995	3,133	3,332	3,701	-1,413	1,010	777	-221	387	492
Macedonia, FYR	616	725	592	631	-499	82	27	-33	-103	65
Moldova	901	1,107	1,016	992	10	182	302	134	-47	30
Montenegro	215	258	217	217	-479	34	109	-67	-29	16
Poland	22,218	17,156	22,275	18,663	-20,852	-5,464	-822	-3,026	5,873	-2,993
Romania	3,934	5,006	4,823	3,267	-4,642	917	2,770	-1,971	54	-674
Russia	131,108	117,501	129,555	97,822	-92,676	-18,141	13,998	-27,342	15,949	-28,108
Serbia	3,190	3,034	3,567	3,203	-3,449	-198	661	-47	716	-134
Turkey	65,137	59,443	55,484	53,096	5,770	-8,474	-5,612	-589	-2,525	758
Ukraine	19,880	18,580	17,746	19,564	-1,301	-1,660	77	-326	-343	2,395
Res. Serbia & Montenegro	231	214	186	192	-615	-18	-100	-37	-28	5
Residual Europe	15,394	16,583	18,303	15,241	5,574	902	1,787	1,938	2,012	-2,803

The Role of Foreign Banks in Emerging Countries

Table 6A (cont.)

Vis-à-vis countries	Amounts outstanding				Estimated exchange rate adjusted changes					
	Dec 2008	Dec 2009	Mar 2010	Jun 2010	2008	2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Assets										
iv) Latin America/Caribbean	408,269	411,208	435,625	453,162	5,749	1,249	8,289	11,871	28,601	20,402
Argentina	17,792	14,303	14,437	14,168	-4,911	-3,552	-1,304	-1,076	218	-154
Belize	2,415	2,926	2,926	2,726	365	468	235	303	75	-34
Bolivia	350	709	594	551	-128	355	63	314	-112	-40
Brazil	155,894	165,667	184,870	204,652	-1,810	8,759	10,817	2,935	20,849	22,081
Chile	38,570	46,153	45,477	44,940	4,573	7,519	503	6,325	-311	-320
Colombia	12,662	10,667	10,764	11,710	-2,138	-1,963	-444	75	156	882
Costa Rica	7,301	5,911	5,832	5,929	943	-1,378	-210	-113	-70	102
Cuba	1,933	1,984	1,760	1,627	-882	-13	-87	277	-151	-40
Dominica	120	62	63	77	30	-58	3	-7	2	15
Dominican Republic	3,751	3,613	3,671	3,907	-652	-166	-44	-176	117	293
Ecuador	2,434	2,134	2,099	2,134	-872	-300	-23	23	-29	37
El Salvador	3,565	2,913	2,687	2,491	1,131	-658	-153	-10	-223	-194
Falkland Islands	37	35	32	36	-21	-5	-4	-2	-1	6
Grenada	60	52	58	58	-26	-8	-3	-6	6	-3
Guatemala	4,554	3,764	3,885	3,945	680	-751	-209	-291	127	64
Guyana	875	836	767	746	815	-39	98	-75	-68	-22
Haiti	252	196	201	189	62	-58	22	-32	8	-8
Honduras	1,535	1,285	1,223	1,194	7	-255	-37	-38	-56	-20
Jamaica	2,089	2,346	2,483	1,773	63	271	487	227	175	-660
Mexico	102,345	95,590	101,685	101,679	7,761	-7,273	-1,756	2,862	7,273	-395
Nicaragua	694	606	586	515	74	-89	-1	-44	-16	-65
Paraguay	1,136	830	988	1,001	15	-282	-32	-83	162	32
Peru	15,306	14,553	14,827	14,189	2,994	-582	-28	1,101	386	-544
St. Lucia	605	428	377	434	155	-180	-4	-23	-46	61
St. Vincent	1,250	1,315	1,284	1,254	61	34	-20	3	6	-4
Surinam	30	35	37	36	-1	3	4	-3	4	-
Trinidad and Tobago	5,861	6,364	6,402	5,759	2,709	439	79	292	147	-564
Turks and Caicos	512	978	772	618	45	455	-2	549	-193	-147
Uruguay	3,402	4,080	3,772	3,546	224	666	-1,332	-123	-271	-277
Venezuela	8,139	7,488	7,445	7,044	-3,040	-732	525	-994	73	-305
Residual	12,800	13,385	13,621	14,234	-2,480	514	1,144	-320	366	625
Int. organisations	77,925	117,072	129,488	132,967	-5,795	35,137	6,609	-6,033	16,832	11,579
Unallocated	628,851	556,839	571,837	430,974	193,813	-92,291	-12,976	-9,775	48,691	56,543
Liabilities										
iv) Latin America/Caribbean	393,206	381,423	383,964	387,285	14,230	-14,302	-1,016	-466	5,956	6,626
Argentina	28,493	28,048	28,374	27,826	-676	-592	-456	-859	562	-246
Belize	9,561	9,587	9,103	8,842	1,493	-142	620	-677	-312	66
Bolivia	3,308	2,814	2,797	2,575	-58	-496	-39	138	9	-190
Brazil	63,787	63,940	65,137	64,721	-2,695	-163	3,653	3,765	1,773	561
Chile	23,626	24,582	23,145	22,747	-3,982	748	-1,596	4,592	-1,113	-55
Colombia	13,680	15,169	14,826	14,834	-2,044	1,451	-84	93	-286	-181
Costa Rica	6,092	4,656	4,623	4,520	-477	-1,481	-468	-340	23	-38
Cuba	2,849	4,288	4,514	4,702	1,226	1,325	1,710	-866	481	508
Dominica	218	273	264	245	24	48	-16	57	-1	-12
Dominican Republic	6,491	5,899	6,052	6,141	-1,006	-605	191	489	191	148
Ecuador	6,214	7,334	7,108	6,557	851	1,109	301	735	-208	-531
El Salvador	2,369	2,860	2,987	2,649	-85	486	752	-397	135	-345
Falkland Islands	119	135	130	127	22	4	-6	6	3	-2
Grenada	183	139	155	132	97	-49	-16	-25	21	-20
Guatemala	3,778	4,194	4,155	4,324	-130	409	-147	198	-26	185
Guyana	531	441	548	495	-57	-97	152	-86	104	-54
Haiti	679	789	1,093	1,239	13	108	42	166	299	149
Honduras	3,170	3,578	3,355	3,157	-790	405	216	22	-217	-190
Jamaica	2,191	1,883	2,396	2,111	-470	-334	-53	-27	500	-266
Mexico	91,281	81,343	82,511	89,833	13,873	-10,480	780	-5,799	1,632	6,763
Nicaragua	1,014	1,317	1,455	1,650	296	301	-170	19	142	200
Paraguay	1,777	1,834	1,821	1,893	134	38	-26	-161	4	96
Peru	9,231	9,474	12,248	14,031	-6,037	199	803	-416	2,814	1,823
St. Lucia	409	482	429	376	72	63	-84	71	-45	-45
St. Vincent	3,435	2,780	2,604	2,371	542	-724	-175	-101	-85	-92
Surinam	1,092	1,264	1,311	1,218	230	147	-1	44	93	-66
Trinidad and Tobago	9,082	7,728	7,519	7,537	882	-1,440	-1,800	-143	-150	64
Turks and Caicos	2,037	2,217	2,140	2,070	757	118	-169	42	-19	-7
Uruguay	12,965	14,639	15,194	15,080	-318	1,620	-654	1,384	668	134
Venezuela	59,772	53,841	51,889	49,714	7,057	-6,180	-2,694	-1,669	-1,528	-1,396
Residual	23,772	23,895	24,081	23,568	5,491	-121	-1,582	-719	493	-333
Int. organisations	214,940	210,744	211,527	214,387	-12,318	-11,915	-1,481	-17,909	10,250	15,316
Unallocated	2,839,984	3,169,884	3,113,306	2,712,682	160,331	209,900	79,517	-22,699	50,762	-43,855