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Benefits of Financial Market Liberalization:

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This report concludes that the foreign investment possible in liberalized markets provides important benefits to domestic economies and domestic financial service competitors in terms of improved capitalization, management techniques, business practices, and product development. The costs appear to some to be mainly related to reductions in employment in some financial sectors, but financial sector employment in liberalized financial systems is growing globally. These results are based on statistical analysis of direct investment in financial services in APEC economies and in-depth analysis of four case economies. Implications for policymakers deliberating further financial market liberalization (for example, as part of the WTO Doha Round GATS negotiations) in order to increase benefits outlined in this report are that realizing these benefits depends on further liberalization and openness. In particular, the recommendation should be to extend the unbalanced and confined liberalization that has so far occurred to all financial market sectors. Limitations on foreign investment or on product competition in some markets, like insurance and securities services, inhibit efficient restructuring of those markets. Only by opening financial markets more broadly can the benefits of increased efficiencies possible in an evolving global financial services system be provided. Furthermore, integrated and liberalized financial markets are necessary to stimulate domestic financial institutions to derive long-term viable business strategies that are essential to their survival.

Benefits of Financial Market Liberalization: Draft Report to ABAC Working Group on Financial Market Liberalization

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EXECUTIVE SUMMARY

The goal of this study is to inform recommendations to APEC concerning policies affecting financial market liberalization in the APEC region being negotiated as part of the WTO Doha Round GATS deliberation. The method used is to examine in detail the impact of financial market liberalization on economic growth, financial institution and market efficiency, employment and growth of the financial sector. Background statistics on regional trends in investment provide a context for examination of specific cross-border investments in financial service firms on a firm (micro-economic) level in four case studies. Analysis of data is supplemented by interviews and surveys in the case studies to provide qualitative information and specific examples of the effects of foreign investment. The case studies are provided in the appendix to the report.

Analysis of mergers and acquisitions in the financial services sectors of APEC economies makes clear that financial market liberalization has accelerated since the Asian Financial Crisis of 1997. The Crisis revealed weaknesses in the financial systems of several economies, demonstrating the vulnerability of these systems to large shocks and the importance of flexibility gained by liberalization. It also resulted in the opening of financial systems to foreign investment more than in the past in order to finance the restructuring and recapitalization of weakened financial institutions in the region. However, this financial market opening was not evenly balanced between financial market segments: banking markets opened more than insurance and securities markets.

Foreign direct investment in the form of mergers and acquisitions more than doubled in the post-Crisis period from 1999 to 2003 relative to the period 1990 to 1996 (Table 1). Surprisingly, such restructuring of regional financial systems that has occurred has been accomplished largely by domestic merger and acquisition activity within economies (Table 2, Panels A and B). Strikingly, in many of the economies, substantial investment came from neighboring economies: in China, Hong Kong, Indonesia, and Thailand, more than twenty percent of the investment came from economies within the Asian region (Table 2, Panel C).

More than half of the investment in financial services measured by merger and acquisition activity is concentrated in commercial banking in most economies, but the concentration in banking varies. In China, for example, roughly equal amounts have been invested in insurance and banking. Banking investments may be overstated in terms of cross-border activity since in many economies the banking data reflect acquisitions of non-performing loan portfolios. In general in the region, some large investments have been made in securities firms (about a third of the total) and insurance (over 10%) but progress in restructuring lags banking in some of these markets.

These observations serve to emphasize that foreign investment in banking services is only part of the required restructuring of financial services sectors in the APEC region, and that future restructuring must go beyond commercial banking to achieve overall financial system efficiency. Foreign investment can be an important marginal investment only if more open policies allow foreign investors flexibility in investments they make as part of the restructuring of domestic economies.

To gain a concrete perspective on the effects of liberalized cross-border investments on economic growth, efficiency, and competitiveness of the financial sector in different economies, this study focuses on four economies: Chile, Chinese Taipei, South Korea, and Thailand. The cases are used to develop a list of benefits and costs (summarized in a table) that have been

available to economies that open domestic markets to foreign investment and competition and demonstrate the role foreign investment can play in financial system restructuring. These benefits are many. Large amounts of risk capital were made available in times of crisis to assist in the restructuring of domestic financial systems. Foreign firms introduce changes in procedures and methods that assist domestic firms in becoming more efficient and in following best international practices. Domestic market participants benefit from new services and expanded financial market offerings at lower prices. Domestic financial firms refine their strategies in their markets and use the advantages of foreign firms in dealing with regulators to expand their ability to compete in new product markets.

Realization of the benefits from foreign investment has been unbalanced and limited, mainly confined to banking. Further liberalization of financial markets could broaden benefits as the efficiencies are extended to securities and insurance markets and more efficient financial service firms realize economies of scale and scope through competition in multiple segments of the financial services industry.

Financial Market Liberalization:
Report to ABAC Working Group on Financial Market Liberalization

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1. Introduction

Foreign direct investment amounting to over $100 billion in the years 1990 to 2003 played an essential role in the restructuring of financial markets in response to changes in global competitive conditions and to weaknesses identified in recent financial crises in the Asia Pacific Economic Cooperation (APEC) region. Equity capital, and especially capital provided by investors tolerant of high risk, made available by foreign investors like financial firms or investment funds, played a critical role in helping developing economies make required changes in financial market structure due to secular changes taking place in the global financial system and/or replacing capital losses stemming from failures in financial markets that had been insulated by government policy from making required adjustments in their structure and regulation.

The benefits from foreign investment is unevenly distributed among financial market segments. For a variety of reasons discussed below, liberalization of financial services has not been even across sectors. For example, in Thailand, liberalization of equity investments through relaxation of maximum foreign ownership in banking and securities business did not extend to insurance. In many economies, the insurance sector has lagged banking in terms of making required adjustments to achieve soundness and efficiency. Uneven liberalization does not allow for the benefits of synergies in providing financial services in different market segments to be realized. A goal in the evolving financial system of the future should be the most efficient integration of all financial services into all financial institutions and markets in the APEC region.

While critical and essential, the exact role of foreign direct investment in financial markets is not precisely understood by many policy-makers and market participants. This report is directed at making our understanding of the impact of foreign investors on developing domestic financial markets clearer. While total foreign investment played a key role in the restructuring going on in the global financial system, this investment has not turned even small economy financial markets upside down. Domestic financial firms and market participants have benefited from the presence of foreign investors, as this investment acts more as a catalyst of change rather than changing the fundamentals of domestic financial institutions.

The analysis in the following report lead us to the following observations concerning the impact of foreign direct investment on financial service markets in developing economies in the APEC region. First, the largest domestic financial firms in these markets, whether banks or insurance companies, remain dominant in their respective markets after the entry of foreign capital in nearly all the cases analyzed. Second, the amount of foreign direct investment is often relatively small in terms overall investment activity in these markets, but these investments play a positive role in stimulating productive changes in the structure and role of financial markets in the case economies. Cross-border merger and acquisition activity usually result in foreigners having minority positions or controlling positions in smaller financial firms, so foreigners generally play a marginal role in financial market restructuring, but their impact is much greater in terms of influencing domestic firm business practices and product development and distribution. Third, foreign investment is part of an expansion and restructuring of financial services globally. In representing these global forces in domestic markets, foreign investors in domestic financial markets challenge local firms to develop long-term strategies and competencies assuring survival in more efficient and productive internationally integrated financial markets of the future. Finally, foreign direct investment in emerging markets does not follow a systematic, coordinated plan having the goal of foreign dominance of global financial services. These developments are part of a larger economic process of evolving financial structure in global markets where both domestic and international firms will have productive and profitable roles to play in the long run. Foreign direct investment consists of many firms experimenting with alternative business strategies, often in competition with each other, or attempting to exploit perceived opportunities, often accompanied by substantial risks. Internationally active financial firms are learning by trial and error, often entering a market to leave later by selling to domestic firms.

This study documents the benefits of financial market liberalization using two approaches: first, a comprehensive review of cross-border trends of investing in the financial services sector in the APEC region since 1990, and second, detailed analyses of individual economies as case studies that focus on specific examples of cross-border investments at the level of specific financial institutions and markets. The objective is to identify short-run and long-run benefits to opening of the financial services sector to foreign competition and investment in terms of financial firms' efficiency, employment, and the impact on the growth and expansion of the range of financial services and markets.

Previous Research

Many recent studies have examined the benefits of financial market opening, typically focusing on commercial banking (see for example Claessens *et al*, 2001, for a recent example of a study or the World Bank, 1997 and 1998 for a bibliography). Few of these studies have concentrated exclusively on the APEC region. Some studies have looked for macro-economic evidence of the benefits of financial services liberalization (see for example Adams, *et al*, 2003, and Eichengreen and Leblang, 2003). These studies are useful for structuring an analysis and providing a broad overview of the role of liberalization in financial services in economies, but they provide few specific examples of the types of benefits that individual economies may experience from generalized improvements in financial institution efficiency and development stimulated by foreign activity in domestic markets. That is the goal of this study: to make the benefits (and costs) of market opening understood with examples of specific outcomes in representative APEC economies.

Benefits of financial market opening are most convincingly demonstrated at the level of specific financial institutions and markets. Evidence is derived from financial performance data of individual firms or specific market segments. Demonstrable benefits of financial market opening are found in economies experiencing the availability of new financial products as a result of foreign institution investment or competition, for example widespread marketing of retail financing products. Benefits to an economy are associated with the growth or maintenance of employment or reduced losses in employment in firms with foreign investors when new investment in financial services and new management reduce costs but at the same time expand markets or product offerings; these benefits will have to be measured by comparisons between domestic firms and firms influenced by foreign investment or competition.

Aggregate data is useful in analyzing the relative importance of financial restructuring attributable to foreign investment and other activities. In reviewing these data, it must be kept in mind that financial sector restructuring is a global phenomenon. In developed economies, this restructuring results from greater reliance on market forces, rapid technological change, and integration of global financial services market. Greater efficiency of financial systems no doubt has a positive impact on the growth of all economies but the relation between restructuring and economic growth is difficult to demonstrate because of the relatively short time frame (two decades or so) over which these changes have occurred.

In several APEC economies, moreover, financial systems were protected and often weakened by structural conditions until very recently, factors that led to the Asian Financial Crisis. Foreign direct investment may play a relatively large part in these smaller economies than in the large, developed economies. The connection between foreign direct investment, financial market restructuring, and economic growth, however, will be difficult to demonstrate given the even shorter history of financial market liberalization in most APEC economies and the very recent expansion of cross-border investment in most of those economies. Such evidence as there is will be found in the growth of specific financial market size measures in financial markets like life or property and casualty insurance, securities trading activity, or the size of corporate debt or consumer credit markets. Insights will be identified by comparing experiences of economies with varying degrees of financial sector liberalization and opening to foreign investment and competition. This study, while developing some evidence of the benefits of financial market opening when possible using aggregate financial market and economic statistics, will emphasize more narrowly success stories and problems derived from an examination of specific institutions and markets.

2. Statistical Analysis And Assessment Of Cross-Border Activity

Aggregate Statistics on Financial Sector Activity and Economies

Case studies and cross-country comparisons that are the basis of this study must be imbedded in the context of general developments in APEC economies. Most of the detailed analysis of the impact of liberalization or opening of the domestic financial sector is based on the acquisition by foreign firms of domestic financial institutions or their assets. A database of mergers and acquisitions[1] was used to develop detailed statistics on total foreign investment in financial firms in each economy, the allocation of investments in different segments of the financial services industry, and finally specific deals relating to financial service firm acquisitions. It is possible to obtain information on the specifics of each acquisition (nationality of acquirer, ultimate nationality of acquirer's parent, percent of ownership, etc.). Given this information, representative transactions can be developed as the focus for case analysis in the case studies.

Tables 1 to 5 provide some examples of information on investment in financial services in the APEC economies. Using Chinese Taipei as an example, Table 1 demonstrates that $3 billion was invested in financial services in the economy over the period 1990 to 2003, but that virtually all of this foreign investment took place after the Asian Financial Crisis of 1997 in the form of 16 transactions, or deals.

The database on merger and acquisition activity does not include all foreign direct investment (e.g. a foreign firm investing in branches) but captures details of individual transactions we use below. Some of the transactions are not reported with dollar amounts so the totals are not complete. Given these limitations, the table below, extracted from Table 1, provides some interesting comparisons of the differing role of foreign activity in the APEC economies covered in the table. First, examining the allocation of investment activity to the

[1] Thompson Financial *Mergers and Acquisitions* database.

countries in the table, Mexico alone accounts for over 22 percent of foreign merger and acquisitions activity in the economies shown in the table, and Japan 19 percent. Four economies, Mexico, Japan, Australia, and Hong Kong, account for over two-thirds of this investment activity.

Table: Measures of Cross-Border Foreign Direct Investment*

Economy	(1) FDI	(2) GDP	(1)/(3) FDI/GDP	(4) FDI/Ttl	(5) Total GDP	(4)/(5) Ratio
Australia	12,482.6	570.3	2.19%	10.1%	3.7%	2.75
Chile	7,085.7	154.6	4.58%	5.7%	1.0%	5.75
China	2,621.9	6,449.0	0.04%	2.1%	41.6%	0.05
Chinese Taipei	3,012.0	528.6	0.57%	2.4%	3.4%	0.72
Hong Kong	19,504.0	212.2	9.19%	15.8%	1.4%	11.54
Indonesia	1,448.5	758.1	0.19%	1.2%	4.9%	0.24
Japan	23,982.8	3,567.0	0.67%	19.4%	23.0%	0.84
Malaysia	2,335.3	207.2	1.13%	1.9%	1.3%	1.41
Mexico	28,351.9	942.2	3.01%	22.9%	6.1%	3.78
N. Zealand	9,770.3	85.3	11.46%	7.9%	0.5%	14.38
Philippines	1,009.4	390.7	0.26%	0.8%	2.5%	0.32
S.Korea	2,293.6	855.3	0.27%	1.9%	5.5%	0.34
Singapore	6,275.3	109.1	5.75%	5.1%	0.7%	7.22
Thailand	3,359.3	475.7	0.71%	2.7%	3.1%	0.89
Vietnam	21.3	203.9	0.01%	0.0%	1.3%	0.01
Totals	123,553.9	15,509.2				

* Source: Table 1, FDI is in $ millions, GDP in $ billions

These economies vary vastly in size measured by GDP (2003 estimates), shown in column (2) of the table. To scale these differences, column (5) presents the percent of total GDP of the economies shown and the right-most column shows the ratio of the percent of total FDI measure to percent of total GDP. While limitations in the data and varying circumstances require caution in interpreting the last column, these calculations seem to capture at least to some extent the openness of an economy. By this standard, the economies most open to foreign investment stand out: Australia, Chile, Malaysia, Mexico, New Zealand, Hong Kong, and Singapore all have more FDI activity by our measure than the size of their economy measured by GDP would explain, that is, the ratio of their share of FDI is greater than their share of GDP. Hong Kong and Singapore are important financial centers of cross-border activity, so this result may not be so surprising. The other economies are simply the target of a great deal of foreign merger and acquisition activity and/or are open to greater levels of foreign investment activity.

Table 2 demonstrates that foreign activity was only a small part of the restructuring of the financial services industry taking place in APEC economies. For example, in Chinese Taipei, over $16.6 billion in merger or acquisitions activity is accounted for by domestic acquiring firms.[2] U.S. investment accounted for about a quarter of the foreign acquisitions but only 3.5 percent of total investment in the economy. Europe dominates as an investor in Chinese Taipei with most of the rest of the foreign activity. Panel C of the table in conjunction with the table discussed above may demonstrate that Taipei is less open than other economies in the region, with only 15% of the funds from foreign investors. In other economies, like China, Indonesia, Mexico, and Thailand, over fifty percent of the investments in financial firms come from outside the

[2] Great care must be taken with interpretation of these results, however. Our final analysis examines deal-specific descriptions, for firms are classified into nationality by the legal domicile of the acquiring unit, for example the U.S. unit of Allianz acquired an insurance firms, and that was classified as a U.S. investment.

domestic economy, although in the cases of China, Hong Kong, Indonesia, and Thailand, more than a third of the foreign investment comes from other Asian economies.

Table 3 places investments in commercial banking into context for APEC economies. While commercial banking is the focus of 50% of mergers and acquisitions, large amounts of activity are accounted for by insurance and securities firms. Furthermore, investments in banking in some economies do not reflect takeover of domestic banks by foreigners, but rather sales of non-performing loans.[3]

Finally, Table 4 isolates cross-border from domestic investments in financial services. The pattern of foreign investment across financial market segments roughly mirrors the totals reported in Table 3, with a slightly higher percent going into insurance than is the case with the total of domestic and foreign investments.

The data reported in the tables discussed above provide some insights concerning the role of foreign direct investment in financial services. Quantitatively, these investments are not large in terms of total domestic market merger and acquisition activity. They vary substantially across economies in terms of their industry segment and their percentage impact on domestic magnitudes like market capitalization of financial firms. However, the tables are most interesting for providing a background for our analysis of the details of the underlying transactions for the four case economies.

Tables 5 and 6 provide data gathered to examine financial sector activity and development in different APEC economies. For example, Table 5 provides data on market capitalization of commercial banks in APEC economies and Table 6 the percentage of employment in the financial services sector (finance, insurance, real estate and business services). Data contained in Table 5 is valuable in assessing the relative impact of foreign capital inflows into financial services in an economy in terms of its quantitative importance to the capital available to provide financial services. For example, in Thailand, foreign investment in domestic firms over the period 1990 to 2002 accounts for about 6% of the total market capitalization of banks in Thailand in 1998. As can be seen in Table 6, developed economies in the region tend to have above 10 percent of their employment in financial and business services (an exception being Japan), while emerging economies have a much smaller percentage (e.g. Chile, Malaysia, Mexico, and the Philippines below 10 percent[4].) However, employment in financial services as a percent of the total is tending to increase in all economies, including the developed and emerging economies. Comparison of growth rates in financial services employment is one measure of the impact of opening on financial market development.

3. Comparison of the Case Economies and Financial Market Liberalization

Role of Foreign Direct Investment in Case Economies

This report concludes that foreign direct investment has an overwhelmingly beneficial impact on domestic financial market restructuring with little apparent cost that would not be borne in any case with the natural evolution of the financial services industry. This conclusion is

[3] See the discussion below for Chinese Taipei; a similar analysis is required for other economies to determine the amount of non-performing loans represented in the tables.
[4] Data on financial services alone are not readily available but the inclusion of business services, including accounting and data processing, has the advantage of including employment related to financial firms but outsourced recently as part of industrial restructuring. For example, a bank replacing its data processing division with an outside provider would reflect reduced employment even though it continues to require information technology employees.

based on detailed analyses of the role and impact of foreign direct investment in the form of merger and acquisition activity for four case economies, Chile, Chinese Taipei, South Korea and Thailand. The case analyses are appended at the end of this report and a reading of them is essential for appreciating at a detailed level the basis for some of the following generalities. This section compares and contrasts the experience in these four economies and derives some general conclusions about the costs and benefits attributed to foreign investment in financial firms that we have summarized in the table, "Benefits and Costs of Foreign Direct Investment in Financial Services.".

Foreign Investment in Banking in the Case Economies

As discussed above, banking accounts for about half of foreign merger and acquisition activity in the APEC economies analyzed. For three of the case economies, Chile, South Korea, and Thailand, this foreign direct investment played a critical role in restructuring of their banking markets. In Chinese Taipei, the impact of foreign activity on banking markets has to date been minimal.

Chile represents a unique case among the four APEC economies studied in detail. Chile has had a policy of openness toward foreign direct investment since the 1980s, although foreign investment activity has accelerated in the last decade, as is the case for all the case economies. Foreign firms have a long history of activity in the Chile with major international firms active but confined to a small market share in the sectors they operated in, primarily banking and insurance. Recently, however, two Spanish banks acquired the current largest and fifth-largest banks in Chile, Banco Santander and BBV Argentaria Chile. These banks have challenged domestic banks with new consumer-lending products and management methods, including performance goal setting and new risk-management techniques. They have concentrated in the markets where their global and especially Latin American presence created efficiencies, focusing on retail lending markets and servicing large international corporations. These foreign banks have also exploited their international holding company structure to simultaneously compete in other financial markets, specifically the important and growing private pension fund management (AFP) market fostered by Chilean pension-fund reforms in 1981.

Other large banks in Chile have responded positively to the challenge posed by the Spanish banks operating in their domestic market: these banks have implemented more systematic management systems and focused on domestic markets where they have a competitive advantage, the professional individual and small and medium enterprise market. The large local banks are using the entry of the Spanish and other foreign banks into the pension management market as an argument in the current legislative and regulatory debate concerning further liberalization of banking activities in Chile. Domestic banks in general welcome the entrance of these larger foreign competitors and recognize that their competition has sharpened management's strategic focus and improved management goal-setting.

South Korea and Thailand both opened their banking markets as part of their negotiations with the IMF during the Asian Financial Crisis of 1997. In both cases, substantial sums of foreign capital, close to half of total foreign investment in each case, flowed into banking. The pattern of investment and the outcome on financial structure are very different from each other and, of course, from Chile.

South Korean banking markets remain dominated by large Korean controlled banks, although minority investors in those firms have provided substantial capital infusions and have connected these banks to foreign financial institutions and their methods and systems, improving risk management and risk-adjusted pricing. The foreign investors, while providing access to foreign practice through management visits and exchanges with foreign financial institutions investors, training programs, and consulting arrangements, have remained under Korean management.

Several smaller banks, ranking at the bottom of the eight nationwide commercial banks, were taken over by US investment funds that appointed foreign managers who installed modern risk measurement and risk management systems, undertook substantial middle management training, and implemented management goal-setting and controls. One of these investment-fund operated banks was subsequently sold to a global financial services bank, the other is still under the investing fund's management. Korean government officials are said to be disappointed that bank industry investors were not available to take over these smaller banks and were concerned about the perceived short-term commitment of investment funds. However, these funds appear to have created value in their investments by selling a bank at a profit in one case. In the other case, the investor seems determined to sell the bank investments to a long-term financial institution investor seeking strategic access to Korean banking markets.

In Thailand, majority ownership obtained by foreign investments in banking were possible because of a relaxation of maximum foreign-ownership limits after the crisis. These controlling investors came from neighboring Singapore and the Netherlands and the United Kingdom. As in Korea, these investments were in smaller Thai banks, ranked below ninth in terms of market share (out of thirteen commercial banks). Foreign investors also provided capital (about $5 billion over the two years 1997-1998) in the form of minority positions in larger banks. As in Korea, foreign investors have stimulated changes in management practices, particularly in risk management and product innovation. Further, smaller banks are gaining access to foreign markets and extending new services to domestic customers through their affiliation with foreign bank investors.

<u>Foreign Investment in Insurance in the Case Economies</u>

Insurance investments by foreigners has been less significant in the case economies than foreign investments in domestic banking and securities institutions, with the exception of Chinese Taipei. In that economy, foreign investment in insurance was a large part of the relatively small foreign activity in that economy. The total investment in the Chinese Taipei market, about a half a billion dollars over the period, was made in smaller firms. However, these investments have stimulated product innovation, improved risk management, and expanded management training among both foreign minority owned firms and larger domestically owned firms in Chinese Taipei. One important effect of the foreign activity in Chinese Taipei has been to influence insurance regulators to greater openness to sale of products available in foreign insurance markets.

The insurance market in Chile, like banking, has long a long history of foreign activity, but unlike banking, foreign players continue to play a relatively minor role. They have introduced new methods of risk management and some new products, but their recent investments are seen as useful in consolidating some smaller firms but not as a threat to the larger firms. The recently negotiated free trade agreement with the United States, which contains financial services provisions, is not seen has altering greatly the role of foreign insurers, including U.S. firms, in that market because cross-border sales of insurance products continues to be prohibited sand required investments in the domestic affiliates of foreign insurance firms have not been relaxed.

Investments by foreign firms in the insurance business in South Korea and Thailand have been relatively small. Thailand did not relax the maximum investments in insurance companies during the financial crisis. While foreign investments were made, largely in smaller firms, and one foreign firm in Thailand has had a dominant position for many years, the impact of foreign investment in insurance has been as a minority investor, in one case as a joint venture with a domestic banks. In both South Korea and Thailand, foreign firms investments have nonetheless have had the effect of stimulating innovation in products and product distribution systems (particularly insurance sales through bank networks) and implementation of better risk-management methods. Foreign firms have expanded training programs, upgrading the skills of Thai managers and executives and bringing insurance company management into line with global best practices.

<u>Foreign Direct Investment in Securities in the Case Economies</u>

The experience associated with foreign investment in the securities sector differs a great deal in the four case economies. In Chile, securities markets appear not to be attractive to foreign investors because of low market liquidity and tight control of the securities market by a small number of domestic firms trading securities (pension fund managers) and firms providing trading services (brokers). Government taxes and fees and commissions on securities transactions are high. Many large Chilean firms list on foreign exchanges. For these reasons, foreign securities firms do not appear to view Chile as an attractive expansion market. Securities trading remains relatively inefficient and undeveloped in Chile.

Chinese Taipei did allow a major foreign securities firm to enter the domestic market as a minority investor, but that firm withdrew from the market after a few years, selling its stake to a domestic firm. Foreign investment has not played a major role in that economy's securities market development.

South Korea and Thailand, on the other hand, have benefited from foreign investment in their securities market sector. Foreign investors have provided substantial capital investments in South Korea. In Thailand, some foreign firms have formed long-term alliances with a minority position and other international firms invested and then divested by selling to local managers, but retained strategic allegiances in product development and securities research . Thai securities firms have improved their efficiency and range of services, but foreign investors have relied on domestic managers to implement changes.

<u>Foreign Direct Investment in Other Financial Firms in the Case Economies</u>

Foreign investors have provided needed capital in a variety of other financial industry segments as discussed in detail in the case studies. In Chile, foreign investors have been active in acquiring pension fund management firms (AFPs), stimulating competition and efficiency in that business, to some extent by integrating Chilean pension-fund management systems into a larger market base, for example, Latin America. Cross-selling of pension fund services by banks and insurance companies has put pressure on regulators to relax restrictions on domestic banks and insurance firms. These developments are movements towards greater efficiency in that market.

In South Korea, foreign investors were active in supplying capital to the distressed banking system by acquiring non-performing loan portfolios. They also made substantial investments in the troubled investment trust company and merchant banking sectors. Some consumer lenders were the recipients of foreign capital injections. All of these provided capital to the crisis damaged Korean financial system.

In Thailand, foreign investors were active in acquiring the assets of finance companies, non-performing loans, and investment companies. In some cases, these investments were large. Over $1.5 billion was invested in finance companies by foreign investors, and these firms formed the basis for financial strategies broadening domestic consumer credit markets. In others investment, foreign firms were a source of capital for distressed financial firms.

The following table summarizes the benefits and costs to developing case economies from foreign direct investment.

Benefits and Costs of Foreign Investment in APEC Case Economies
Benefits
Provided capital for recapitalization needs and required for stability in financial sector
Financial product innovations
Improved management techniques and performance measures
Training and improved risk management
Implemented technological advances
Consolidation of existing firms into larger, more efficient units
Increased competition leading to cost and price reductions
Demonstration to regulators of advantages of changing restrictive regulations
Implementation of controls fostering better risk measurement and management and risk-based pricing
Private investors willing to take risks in implementing long-term business strategies not acceptable to government officials
Exposure to foreign financial institutions' and their consultants' recommended management practices
Emphasis on employee training
Development of new sales channels and marketing techniques
Costs
Employment reduction in pursuit of efficiencies and profits for investors
Issue of fair-level playing field in the banking sector
Acquisition by investment groups who are not strategic financial institution partners
Possible reduction in financial service providers' focus on small business market financial needs

4. Foreign Investment in the Context of the Global Financial Services Industry

The preceding discussion of the role of foreign direct investment in financial services as a result of financial market liberalization should be interpreted in the context of global developments in the financial services industry. In the most advanced economies like the United States, domestic financial market liberalization, for example the elimination of interest-rate controls, balance sheet restrictions, and prohibitions preventing cross-selling of related financial services like lending and investment banking, is a relative recent phenomenon, beginning less than two or three decades ago. Opening of financial markets like banking to foreign investors was implemented within the same time frame.

Liberalization of financial services in developed economies was inevitable because of unsustainable inefficiencies in the financial system of developed economies resulting from the inability of participants in the market to made adjustment to changing conditions due to legislative and regulatory rigidities. Consumers and corporate customers alike were demanding changes to align costs with prices and to deal with dangerously weakened financial firms.

At the same time, technological innovations in information services and communications technology having direct relevance to the provision of financial services were providing opportunities for vast cost reductions and expansion in product offerings. Data mining, telephone call centers, on-line balance inquires, computer order entry, and so forth, were unknown concepts as short a time ago as twenty years even in the most advanced economies.

While competitive conditions were being altered in advanced economies by deregulation and technological advances, globalization of financial services exploded with the expansion of trade and the interlinking of economies around the world. Firms were following customers around the globe and servicing an expanding array of foreign firms operating in domestic markets. Markets for financial instruments and services were increasingly developing without regard for national boundaries.

The long-run adjustment to the economically efficient structure of the financial services industry is nowhere near completion in even the most advanced economies. Nonetheless, dramatic changes in financial market structure are already evident. For example, in the United States, changes in the mass retail markets and large-corporate wholesale markets have meant that economies of scale can be realized from spreading fixed costs over larger markets. In retail markets, risk-pooling and use of asset-backed securities to finance retail credits have been a force in consolidating lending in some segments to giant consumer lenders. In the large business market, enormous risk exposures mandate large pools of risk capital and access to global securities markets to either fund advances to risky clients or lay off this financing and the associated risks to third-party investors in the securities markets. Reputation and technical expertise demanded in approaching financial markets are associated with large size. These developments have relevance to all economies in a globally integrated financial system as these markets evolve.

The move of large international financial firms into foreign markets can be seen as a way for these firms to further reduce risks through diversification and to exploit their investments in data intensive consumer lending and financing and risk intensive large corporate lending by expanding into new markets. Economic forces compelling the realization of efficiencies are driving much of the activity we observe in global financial markets. These developments have the desirable effect of reducing the costs of funds and spreading the bearing of risks to consumers and large corporations. These efficiencies result from the forces of global competition in expanding markets. The realization of the associated benefits of these efficiencies are not possible without continuing financial market liberalization within and between global economies.

The inevitable movement of financial institutions and markets towards economic efficiency has produced some remarkable outcomes in developed economies that could not have been imagined two decades ago. To illustrate with the situation in the United States again, note the following selection of facts: five of the ten largest banks in California are owned by Japanese banks. There is no bank headquartered in the State of Texas. Credit card operations and telephone service centers are located in places like North Dakota and India. Banks were underwriting corporate securities legally even before the repeal of the prohibition of the combination of commercial and investment banking in the United States.

The implication of a movement toward the efficient allocation of capital in financial services to developing economies is that there will be large changes around the world and in their economies in the future. These changes benefit economic growth and development because they reduce the cost of funds for investment in productive activities and distribute risk more broadly. The cost of funds will be reduced in all economies around the world if these developments are allowed to occur through further liberalization of financial markets.

Survival of domestic firms, however, in the face of some large multinational financial firms operating across markets to realize economies of scale from risk capital and capital investment, will require adjustments. In economies that are more liberalized and open, like Chile, domestic financial firms have started to make necessary adjustments. Financial firms in all economies, including developing economies, will have to identify strategies where they have a comparative advantage. Economies delaying their opening to international competition will likely be unable to protect these firms from the realities of the evolving financial system forever. Ultimately, these firms will have to make more painful adjustments or may not survive.

Domestic firms will no doubt find their greatest advantage in dealing with those aspects of their economies that are most resistant to standardization and where cross cultural differences stemming from language barriers, institutional variation, and local market conditions, are hardest for remote firms to understand and service,. The most likely markets where domestic firms will have a competitive advantage is in the markets serving heterogeneous customers like small and medium businesses and professional and wealthy individuals. Here, personal service and understanding of local customs and conditions are essential to provide what customers need and want.

Financial institutions developing profitable strategies by serving heterogeneous customers in somewhat segmented financial markets does not mean that they will want to reduce the movement towards global financial market integration, however. They can exploit these markets to reduce the cost of their funding by tapping into investors seeking diversification and higher returns. They can utilize these markets by using financial contracts that reallocate and reduce the costs of bearing risks. They can expand their range of services by collaborative strategies with foreign firms operating in their markets who can help them provide services involving international markets at reduced costs.

The exact nature of these developments cannot be predicted. The implication is invariant, however. In order to realize the maximum efficiencies and exploit profitable opportunities in domestic markets, financial market liberalization must proceed.

5. Summary, Conclusions, and Recommendations

This report has demonstrated a wide range of benefits, and few costs, associated with developing economies opening their financial markets to foreign investment. It stresses that developments in those markets in the last ten years are only the beginning of a process that will expand the benefits of an efficient financial system to a widening range of economies. The changes that have taken place so far, however, have not revolutionized or traumatized financial market participants in economies that have opened. In fact, the most regrettable fact is that some economies have missed the opportunity to improve their financial systems even more by limiting the extent of financial market liberalization to narrow segments of their economies. APEC policy makers should pursue continued liberalization of their financial systems. The benefits identified in this study should allow them to present convincing arguments in the debate concerning the threat to domestic financial firms from foreign competition. In the face of the benefits identified from liberalization in the case economies and the APEC region discussed above, it is hoped that officials will structure their policy deliberations more along the lines of how to expand the benefits of foreign investment more broadly in their financial systems by reducing barriers that continue to exist in certain market segments. This discussion emphasizes that more liberal policies would have expanded the progress that has been made in restructuring financial institutions and markets in line with long-term movement towards efficiency in the global financial system.

ATTACHMENTS:

(1) Case Study: Chile
(2) Case Study: Chinese Taipei
(3) Case Study: South Korea
(4) Case Study: Thailand

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Table 1: Cross-Border Mergers and Acquisitions in Financial Services

Panel A: Foreign Investment in Financial Services (US$ millions and number of transactions)*

Economy	1990-1996 Total Value	1990-1996 Number	1997-1998 Total Value	1997-1998 Number	1999-2003 Total Value	1999-2003 Number	Total Total Value	Total Number
Australia	3,069.6	60	1,014.0	20	8,399.0	65	12,482.6	145
Chile	1,801.0	11	1,125.4	9	4,159.3	15	7,085.7	35
China	108.0	4	196.5	5	2,317.4	44	2,621.9	53
Chinese Taipei	18.2	5	50.6	2	2,943.2	16	3,012.0	23
Hong Kong	2,667.0	57	4,131.0	30	12,706.0	71	19,504.0	158
Indonesia	338.0	15	188.0	7	922.5	21	1,448.5	43
Japan	226.6	4	2,029.2	5	21,727.0	35	23,982.8	44
Malaysia	945.6	22	84.9	7	1,304.8	15	2,335.3	44
Mexico	1,032.5	10	1,737.5	14	25,581.9	34	28,351.9	58
N. Zealand	4,041.0	23	1,060.8	13	4,668.5	15	9,770.3	51
Philippines	322.7	19	150.3	10	536.4	16	1,009.4	45
Singapore	459.6	24	167.1	8	1,666.9	28	2,293.6	60
S.Korea	259.0	4	381.2	3	5,635.1	28	6,275.3	35
Thailand	72.8	7	2,213.4	25	1,073.1	23	3,359.3	55
Vietnam	6.3	2	0.0	0	15.0	2	21.3	4
Totals	15,367.9	267	14,529.9	158	93,656.1	428	123,553.9	853

*** Total value of transactions for which acquisition costs are provided by source**

Panel B: Foreign investment in financial services (total number of transactions)**

Economy	1990-1996		1997-1998	1999-2003	Total
Australia	60		20	65	145
Chile	11		9	14	34
China	17		23	121	161
Chinese Taipei	5		2	16	23
Hong Kong	57		30	71	158
Indonesia	15		7	21	43
Japan	11		14	67	92
Malaysia	22		7	15	44
Mexico	10		14	34	58
N. Zealand	23		13	18	54
Philippines	19		10	16	45
Singapore	22		8	27	57
S.Korea	4		3	28	35
Thailand	7		34	40	81
Vietnam	3		0	6	9
	286	194	559	1039	1039

**** Total number of transactions including those for which acquisition costs are not provided by source**

Source: Thompson Financial *Mergers and Acquisitions Database* available through December, 2003 as of May, 2004

Table 2

Panel A: Investment in Financial Services (US$ millions; number of transactions in parentheses*) 1990-2003

Economy	Australia	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Malaysia	Mexico	N. Zealand	Philippines	Singapore	S. Korea	Thailand	Vietnam
Australia	48,459.3 (381)				355.8 (7)	78.0 (3)		4.4 (1)	24.0 (1)	1,662.7 (18)		35.5 (3)		4.1 (1)	2.6 (1)
Canada	65.5 (5)	256.7 (3)	0.0		0.5 (1)	60.7 (3)	703.3 (2)		893.6 (4)	32.0 (1)	6.4 (1)	48.4 (2)		0.0	0.0
Chile		7,002.0 (37)													
China	0.0 (1)		1,499.2 (30)	29.4 (1)	1,189.3 (20)						10.5 (1)	9.3 (1)			
Chinese Taipei			0.0	16,610.8 (34)	110.7 (6)		0.0				71.8 (2)			120.2 (3)	10.0 (1)
Hong Kong	122.9 (4)		1,169.2 (23)	8.8 (2)	19,073.4 (319)	30.0 (1)	0.0	133.8 (4)			56.1 (7)	328.4 (7)	188.7 (3)	0.0	
Indonesia					45.1 (1)	1,442.5 (31)						71.5 (2)			0.0
Japan	84.0 (2)		161.6 (4)	32.2 (2)	321.6 (3)	172.2 (5)	241,967.8 (240)	13.7 (2)			138.7 (4)	16.6 (2)	338.7 (5)	11.1 (1)	
Malaysia	104.1 (5)		22.4 (2)	2.2 (1)	39.9 (7)	299.0 (12)		19,694.1 (363)		1,423.1 (5)	99.4 (7)	86.2 (9)		103.9 (4)	
Mexico									23,230.2 (59)						
N. Zealand	147.6 (6)				190.6 (2)					5,490.5 (51)					
Philippines					112.5 (2)						4,903.3 (55)	183.7 (2)			
Singapore	173.5 (7)		16.8 (5)	0.1 (1)	8,562.4 (33)	429.2 (9)	8.3 (1)	653.2 (13)		557.5 (2)	477.2 (8)	14,324.4 (116)	30.0 (1)	909.1 (14)	
S. Korea			8.5 (1)									7.2 (1)	11,454.8 (55)		5.0 (1)
Thailand		154.8 (1)	0.0		46.4 (2)	225.0 (1)					12.5 (2)	15.7 (1)		2,154.8 (104)	0.0
Vietnam															3.7 (1)
USA	2,385.8 (15)	522.5 (6)	799.4 (7)	777.0 (6)	428.3 (6)	81.0 (3)	16,702.2 (27)	14.7 (2)	17,172.6 (21)	192.4 (5)	60.3 (2)	110.5 (4)	4,059.1 (14)	1,259.2 (10)	
Europe	5,345.6 (39)	3,377.8 (18)	781.3 (10)	2,162.3 (10)	3,543.6 (28)	56.8 (3)	2,580.8 (6)	311.2 (7)	8,522.1 (25)	1,004.9 (9)	17.7 (3)	1,228.2 (8)	1,412.4 (10)	707.8 (16)	
Others	1,031.5 (19)		158.7 (7)	3.2 (1)	276.0 (9)	10.9 (3)	3,638.5 (6)	23.3 (10)		6.1 (1)	0.0 (1)	191.7 (11)	268.4 (4)	70.4 (5)	5.0 (1)
Total investment	57,919.8 (484)	11,313.8 (65)	4,617.1 (89)	19,626.0 (58)	34,296.1 (446)	2,885.3 (74)	265,600.9 (282)	20,848.4 (402)	49,842.5 (110)	10,369.2 (92)	5,853.9 (93)	16,657.3 (169)	17,752.1 (92)	5,340.6 (158)	26.3 (5)

Table 2 (Continued)

Panel B: Investment in Financial Services (Total number of deals), 1990-2003

Economy	Australia	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Malaysia	Mexico	N. Zealand	Philippines	Singapore	S. Korea	Thailand	Vietnam
Australia	659			2	9	5		3	1	30	2	6		2	1
Canada	7	3	1	1	6	5	2		4	1	1	2		1	2
Chile		60													
China	1		92	2	29						2	4			
Chinese Taipei			4	54	9		1				2			4	1
Hong Kong	8		30	4	383	3	1	8			8	13	6	1	
Indonesia					1	58						3			1
Japan	3		6	2	7	7	567	7			7	5	5	2	
Malaysia	7		2	1	21	15		961		5	12	29		5	
Mexico		1							80						
N. Zealand	14				2					99					
Philippines					3						104	1			
Singapore	10		11	3	55	17	5	25		2	11	239	1	20	
S. Korea			1									1	96		2
Thailand		1	1		3	3					2	1		145	1
Vietnam															4
USA	37	13	17	13	17	8	40	5	42	8	9	10	24	16	
Europe	63	26	18	16	58	9	20	14	31	11	6	24	14	22	
Others	27		11	1	18	6	6	32	2	9	2	18	6	7	1
Total investment	836	104	194	99	621	136	642	1,055	160	165	168	356	152	225	13

Panel C: Investment in Financial Services from Asian and Total Cross-Border Investment (US$ millions and percent)

Region	Australia	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Malaysia	Mexico	N. Zealand	Philippines	Singapore	S. Korea	Thailand	Vietnam
Asian Total	484.5	154.8	1,378.5	72.7	10,427.9	1,155.4	8.3	800.7	0.0	1,980.6	866.2	718.6	557.4	1,144.3	15.0
Total	57,919.8	11,313.8	4,617.1	19,626.0	34,296.1	2,885.3	265,600.9	20,848.4	49,842.5	10,369.2	5,853.9	16,657.3	17,752.1	5,340.6	26.3
Percent Asian	0.84	1.37	29.86	0.37	30.41	40.04	0.00	3.84	0.00	19.10	14.80	4.31	3.14	21.43	57.03
Percent Foreign	16.33	38.11	67.53	15.36	44.39	50.01	8.90	5.54	53.39	47.05	16.24	14.01	35.47	59.65	85.93

Source: Thompson Financial *Mergers and Acquistions Data Base* through December 2003; Panel A numbers are for transactions with values; Panel B are total transactions

Table 3
Investment by Financial Services Industry Segment 1990 - 2003
Panel A: Investment by Financial Services Industry Segment (US$ millions and number of transactions)

Economy	Commercial Banks & Bank Holding Companies Value	Number	Insurance Value	Number	Investment & Commodity Firms/Dealers Value	Number	Credit Institutions Value	Number	Total Investment	Total Number
Australia	16,116.4	36	12,274.3	80	27,504.6	345	2,024.6	23	57,919.9	484
Chile	7,526.8	22	2,280.0	26	1,324.5	15	183.0	2	11,314.3	65
China	1,663.9	8	1,149.6	9	1,803.7	72	0.0		4,617.2	89
Chinese Taipei	13,107.9	14	3,639.4	9	2,784.4	30	94.2	5	19,625.9	58
Hong Kong	12,600.6	36	535.0	19	20,448.4	381	712.1	10	34,296.1	446
Indonesia	2,142.6	30	213.9	15	392.9	25	136.0	4	2,885.4	74
Japan	210,715.1	58	22,297.8	56	13,156.5	109	19,431.6	59	265,601.0	282
Malaysia	8,704.3	47	1,682.8	35	9,643.8	295	817.4	25	20,848.3	402
Mexico	33,264.9	45	8,454.7	32	8,042.5	30	80.3	3	49,842.4	110
N. Zealand	5,714.9	16	1,052.8	13	3,382.3	54	219.2	9	10,369.2	92
Philippines	5,282.7	35	146.6	13	365.6	41	59.1	4	5,854.0	93
Singapore	11,585.1	9	959.5	20	3,414.6	130	698.0	10	16,657.2	169
S. Korea	10,290.8	22	1,356.9	10	4,674.7	50	1,429.9	10	17,752.3	92
Thailand	1,905.9	15	198.3	31	1,475.6	91	1,757.8	21	5,337.6	158
Vietnam	15.0	2			11.3	3			26.3	5
Total	340,636.9	395	56,241.6	368	98,425.4	1,671	27,643.2	185	522,947.1	2,619
Panel B: Investment by Financial Services Industry Segment (Total number of transactions)										
Australia		50		167		573		46		836
Chile		27		41		30		6		104
China		22		20		150		2		194
Chinese Taipei		24		16		49		10		99
Hong Kong		50		30		523		18		621
Indonesia		52		26		54		4		136
Japan		155		87		272		128		642
Malaysia		60		45		917		33		1,055
Mexico		53		48		49		10		160
N. Zealand		21		22		107		15		165
Philippines		68		26		65		9		168
Singapore		14		30		294		18		356
S. Korea		35		25		78		14		152
Thailand		32		47		123		23		225
Vietnam		7		2		4		13		26
Total		670		632		3,288		349		4,939

Source: Thompson Financial *Mergers and Acquistions Data Base* through December 2003; Panel A numbers are for transactions with values; Panel B are total transactions

Table 4
Cross-Border Investment by Financial Services Sector
Panel A: Foreign Investment by Industry (US$ millions and number of transactions)

	Commercial Banks & Bank Holding Companies		Insurance		Investment & Commodity Firms/Dealers		Credit Institutions		Total	Total
Economy	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Investment**	**Number**
Australia	2,954.6	10	2,720.9	28	5,626.3	102	1,180.3	5	12,482.1	145
Chile	5,079.1	12	1,598.4	17	253.5	5	154.8	1	7,085.8	35
China	670.3	5	1,043.9	7	907.7	41			2,621.9	53
Chinese Taipei	1,577.9	4	572.2	4	816.8	12	45.0	3	3,011.9	23
Hong Kong	10,142.2	20	526.7	16	8,406.9	117	427.9	5	19,503.7	158
Indonesia	794.3	15	187.5	10	330.8	14	136.0	4	1,448.6	43
Japan	3,705.0	5	10,456.7	18	333.8	6	9,487.1	15	23,982.6	44
Malaysia	1,194.4	9	349.9	10	633.3	24	157.7	1	2,335.3	44
Mexico	19,148.8	18	4,966.4	18	4,194.2	20	42.4	2	28,351.8	58
N. Zealand	5,661.8	14	949.9	7	2,976.6	31	181.7	2	9,770.0	54
Philippines	811.1	14	28.7	6	152.5	22	17.0	3	1,009.3	45
Singapore	879.2	2	454.3	11	1,113.6	46	29.5	1	2,476.6	60
S. Korea	3,791.7	11	542.4	4	1,168.0	17	773.1	3	6,275.2	35
Thailand	1,451.0	7	95.6	11	587.1	33	1,225.5	4	3,359.2	55
Vietnam	15.0	2			6.3	2			21.3	4
Total	57,876.4	148	24,493.5	167	27,507.4	492	13,858.0	49	123,735.3	856
Percent	46.8%	17.3%	19.8%	19.5%	22.2%	57.5%	11.2%	5.7%		
Panel B: Foreign Investment by Industry (number of transactions)										
Australia		10		28		102		5		145
Chile		12		16		5		1		34
China		5		9		60		1		75
Chinese Taipei		4		4		12		3		23
Hong Kong		20		16		117		5		158
Indonesia		15		10		14		4		43
Japan		9		24		32		27		92
Malaysia		9		10		24		1		44
Mexico		18		18		20		2		58
N. Zealand		14		7		31		2		54
Philippines		14		6		22		3		45
Singapore		2		11		43		1		57
S. Korea		11		4		17		3		35
Thailand		7		11		33		4		55
Vietnam		4		2		3		0		9
Total		154		176		535		62		927
Panel C: Foreign Investment as Percent of Total										
Australia	18.3%	27.8%	22.2%	35.0%	20.5%	29.6%	58.3%	21.7%		
Chile	67.5%	54.5%	70.1%	65.4%	19.1%	33.3%	84.6%	50.0%		
China	40.3%	62.5%	90.8%	77.8%	50.3%	56.9%	**n/a**	**n/a**		
Chinese Taipei	12.0%	28.6%	15.7%	44.4%	29.3%	40.0%	47.8%	60.0%		
Hong Kong	80.5%	55.6%	98.4%	84.2%	41.1%	30.7%	60.1%	50.0%		
Indonesia	37.1%	50.0%	87.7%	66.7%	84.2%	56.0%	100.0%	100.0%		
Japan	1.8%	8.6%	46.9%	32.1%	2.5%	5.5%	48.8%	25.4%		
Malaysia	13.7%	19.1%	20.8%	28.6%	6.6%	8.1%	19.3%	4.0%		
Mexico	57.6%	40.0%	58.7%	56.3%	52.2%	66.7%	52.8%	66.7%		
N. Zealand	99.1%	87.5%	90.2%	53.8%	88.0%	57.4%	82.9%	22.2%		
Philippines	15.4%	40.0%	19.6%	46.2%	41.7%	53.7%	28.8%	75.0%		
Singapore	7.6%	22.2%	47.3%	55.0%	32.6%	35.4%	4.2%	10.0%		
S. Korea	36.8%	50.0%	40.0%	40.0%	25.0%	34.0%	54.1%	30.0%		
Thailand	76.1%	46.7%	48.2%	35.5%	39.8%	36.3%	69.7%	19.0%		
Vietnam	100.0%	100.0%	**n/a**	**n/a**	55.8%	66.7%	**n/a**	**n/a**		

Source: Thompson Financial *Mergers and Acquistions Data Base* through December 2003; Panel A numbers are for transactions with values; Panel B are total transactions; Panel C percentages are as of Table 3 total values

Table 5: Market Capitalization of Commercial Banks (US$ million)

Economy	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Canada	244,784	326,542	316,315	366,996	487,509	569,535	544,664	804,015	844,290	704,737
USA	4,485,040	5,136,199	5,067,016	6,857,622	8,484,433	11,308,780	13,451,350	16,635,110	15,104,040	13,810,430
Chile	29,644	44,623	68,196	73,861	65,941	72,047	51,867	68,228	59,940	56,735
Mexico	139,282	201,034	130,444	90,827	106,673	156,762	91,807	154,050	125,277	126,652
HK	172,119	385,525	269,802	303,934	449,628	413,434	343,630	609,679	623,492	506,700
Indonesia	12,038	32,953	47,241	66,585	91,016	29,105	22,104	64,087	26,834	23,006
Japan	2,399,023	2,999,972	3,720,205	3,667,666	3,089,106	2,216,717	2,495,852	4,547,216	3,157,368	2,251,981
Malaysia	94,277	220,679	199,600	223,121	307,906	93,714	98,667	145,445	116,935	118,981
Philippines	15,283	40,342	56,837	58,940	80,694	31,362	35,317	48,093	51,556	21,327
Singapore	49,088	133,219	135,174	148,778	150,219	106,663	94,673	198,989	153,179	117,451
S. Korea	107,448	139,420	191,779	181,956	138,818	46,052	121,157	395,667	171,587	232,070
Taiwan										
Thailand	58,259	130,560	131,479	141,537	99,839	23,541	34,911	58,371	29,490	36,342
Australia	144,809	204,944	220,112	246,870	313,912	297,414	329,328	430,446	373,841	374,936
N. Zealand	15,363	25,604	27,323	32,032	38,770	30,560	25,138	28,250	18,875	17,845

Table 6: PercentageOf Total Employed In Finance, Insurance, Real Estate And Business Services

Economy	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Canada	13.79	13.98	14.15	14.55	14.71	15.10	15.56	15.63	15.82	16.00	16.00	16.26
USA	10.61	10.85	11.02	10.96	11.19	11.40	11.75	12.03	12.21	12.34	12.48	12.83
Chile	5.15	5.79	5.98	6.44	6.97	7.00	7.47	7.22	7.91	7.56	7.84	7.90
Mexico	3.29	3.29	3.20	3.26	3.86	4.05	3.81	3.74	3.77	3.86	3.83	3.89
HK	8.47	10.33	11.35	11.76	11.75	12.69	13.07	13.97	13.96	14.70	14.79	15.13
Indonesia	0.72	0.71	0.82	0.76	0.81	0.75	0.70	0.71	0.98	1.24	1.24	1.36
Japan	8.48	8.48	8.51	8.60	8.65	8.77	9.10	9.27	9.56	9.81	10.01	10.25
Malaysia	4.25	4.47	4.60	4.76	4.91	5.22	4.95	5.28	4.96	5.20	5.10	5.27
Philippines	1.89	2.03	1.96	2.14	2.48	2.44	2.46	2.56	2.44	2.82	2.79	2.98
Singapore	10.88	10.89	12.04	14.89	14.08	14.94	15.66	15.98	15.40	17.19	17.29	18.23
S. Korea	6.46	7.05	7.51	8.01	8.50	9.00	9.28	9.49	9.90	10.12	10.60	11.06
Thailand												
Australia	12.75	12.31	13.03	13.63	13.78	14.28	14.91	14.83	15.57	15.71	16.07	16.73
N. Zealand	10.75	9.96	10.20	10.68	11.18	12.89	12.86	13.06	12.90	12.72	12.66	13.03

Source: International Labor Organization (through Euromonitor)