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Comment Mario B. Lamberte

The authors have observed a significant increase in mergers and acquisitions (M&As) in Asia after the Asian financial crisis. Thus, they have attempted to empirically investigate the determinants of cross-border M&As among financial institutions in ten Asian countries and to find out whether the determinants have changed after the Asian financial crisis. They have offered five hypotheses, namely, the gravity hypothesis, following the client hypothesis, market opportunity hypothesis, information cost hypothesis, and regulatory restrictions hypothesis. Their empirical results confirm some of these hypotheses and also show some changes in effects of the determinants of M&As after the crisis.

These comments will focus on two areas, namely, data and interpretation of the empirical results.

Data

The data used by the authors need some clarification as they affect the results as well as the interpretation of the results. First, they have classified M&As by acquiring and target countries. It may be worthwhile to look at nationalities of these financial institutions as they provide additional information why a financial institution in an acquiring country has merged with a financial institution in a target country. For example, a U.S.-registered financial institution owned by Hong Kong investors may merge

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with a financial institution in Hong Kong because of better information it has regarding market opportunities and relative ease dealing with regulatory restrictions that it is familiar with. Second, the authors have divided the number of M&As into two: before the crisis (1990 to 1997) and after the crisis (1999 to 2006). They should provide an explanation why M&As in 1998 have been excluded from the analysis. Some of the M&As during the 1999 to 2006 period could have been arranged well before the crisis but completed and consummated only after the crisis. Hence, the crisis might not have been a factor determining such M&As, although the data showed that such M&As occurred after the crisis. Third, the variable **RELIGION** needs to be elaborated further, especially because this variable became a statistically significant factor determining M&As after the crisis. For instance, 90 percent of the people in Hong Kong have eclectic religions, a phenomenon that makes it almost impossible to claim that Hong Kong has the same religion as another country of which the majority of the population follows a certain religion. Fourth, in this age of greater connectivity, the variable DISTANCE may be defined differently. For instance, bank executives usually travel by air; hence, the number of commercial flights between two countries may be a better description of distance than physical distance as commonly used in gravity models. Fifth, which is a relatively minor comment, the variable **LANGUAGE** described in table 6.1, which refers to the legal systems prevailing in the target and acquirer countries, does not match with the description of the variable in the text. And, last, it is not clear how the variable TRADE is measured as can be gathered from sections 6.2.2 and 6.5 of the chapter. Does it refer to the country's total trade (as percent of gross domestic product [GDP]) or bilateral trade between acquiring and target countries?

Interpretation of the Results

The authors should have exerted more effort to explain the results of their empirical analysis, especially those that seem to be surprising results. Here, I would like to mention a few examples.

The authors have found that "the crisis evidently changed the impact of corruption on M&A activity." More specifically, before the crisis, financial institutions in countries with low corruption are more likely to acquire financial institutions in countries with high corruption, but after the crisis, such tendency has gone. The authors should expound more on this result to clarify some issues and policy implications. For instance, why would a financial institution in a country with less corruption target another financial institution in a country with high corruption before the crisis and stop doing it after the crisis? Is it because return on bribes is significantly higher before the crisis than after the crisis? For a country that encourages foreign investments in various modalities including M&A, how can such results be of use to policymakers? Some explanations are also needed with respect to the findings that financial institutions from relatively less-restrictive countries with regard to insurance and real estate have propensity to engage in M&A activities with those from relatively more-restrictive countries. What's the reason for obtaining such results, and why do such results hold before and after the crisis? Is the barrier to entry into these sectors not binding in target countries, or is the return for overcoming such a barrier, like enjoying monopoly status, very attractive?

The results generated by the variable **LANGUAGE** are quite interesting, but they also need to be elaborated. Languages in the countries being analyzed, like those variables that represent information cost, have not changed before and after the crisis, but the variable is found to have significant effect on M&A activities after the crisis. It could be that certain laws and regulations of target countries have been changed after the crisis, and financial institutions of acquiring countries find those new laws and regulations easier to access and understand if written in the same language as theirs than those written in languages different from theirs.

Comment Wimboh Santoso

In the last few years, financial sector structure and competition has changed in global perspective, especially in the post-Asian crises. New regulatory standards, financial innovations, competition strategies, and information technology are the main drivers for banks to reposition their competition strategy to improve efficiency among others by mergers and acquisitions (M&A). The growth of M&A is 25 percent per year since 2003 in Asia Pacific. This note will provide different perspectives on the main rationale and driving forces of mergers and acquisitions in the banking industry in the Asia-Pacific region.

Mergers and acquisitions are considered part of strategic management to respond to the environment evolution of the industry with the main objective to improve competitive advantages. Three main reasons behind M&A from a strategic management point of view are (1) competition; (2) responses to changing environment; and (3) private equity and financial investors. Merger and acquisitions cases in some countries may provide additional information to the authors. The note will also comment on the hypotheses and model before a summary recommendation.

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