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Comment Eiji Ogawa

Kaminsky and Reinhart's paper empirically analyzes whether financial sector links via common bank lenders form a powerful channel for funda-

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mentals-based contagion. They achieve an interesting result, that the performance of bank links better explained the contagion effects than did third-party trade links, bilateral links, high-correlation cluster, or a global crisis elsewhere. They conclude that foreign banks' behavior exacerbated the original crisis by calling in loans in countries where the banks had exposure. They also point out that Japanese banks played an important role in the Asian crisis of 1997.

I have three comments on their paper, placing a focus on the use of bank links to explain the contagion effects.

First, if we focus on foreign banks' presence in Asian loan markets, we should also watch European banks' behavior in those countries. Figure 3C.1 shows stocks of bank loans to the Asian countries. European banks have a relatively larger share in the loan markets of those countries (except for Thailand), although Japanese banks have a relatively larger share in Thailand's loan market.

Second, banks do not always call in loans from countries where they have exposure. We should observe banks' loan-calling behavior by looking at the decrease in bank loans rather than at stocks of bank loans. It is certain that Japanese banks had a relatively large share in the stocks of bank loans to the Asian countries except for the Philippines. Figure 3C.2 shows flows of bank loans to these countries. Japanese banks have had a relatively large share in decreases in bank loans to Thailand since the second half of 1997. However, Japanese banks had a small share in decreases in bank loans to Korea and the Philippines, and not a very large share in decreases in bank loans to Indonesia and Malaysia. Thus, Japanese banks did not seem substantially to draw back loans from the Asian countries (except for Thailand) after the currency crisis.

Third, we should watch the capital inflows to these countries *before* the currency crises because it has been pointed out that excess capital inflows to countries with fragile banking systems brought about the severe currency and banking crises. In the Asian countries, the asset price bubbles ended by early 1994; consequently, Asian banks seemed to have built up nonperforming loans since 1994. Part of the cause of the crises was that foreign banks gave excess loans to Asian banks that had too many nonperforming loans during the 1994–97 period. Figure 3C.2 shows that European banks made relatively larger contributions to increases in bank loans to these countries (except for Thailand) during the precrisis period.

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A

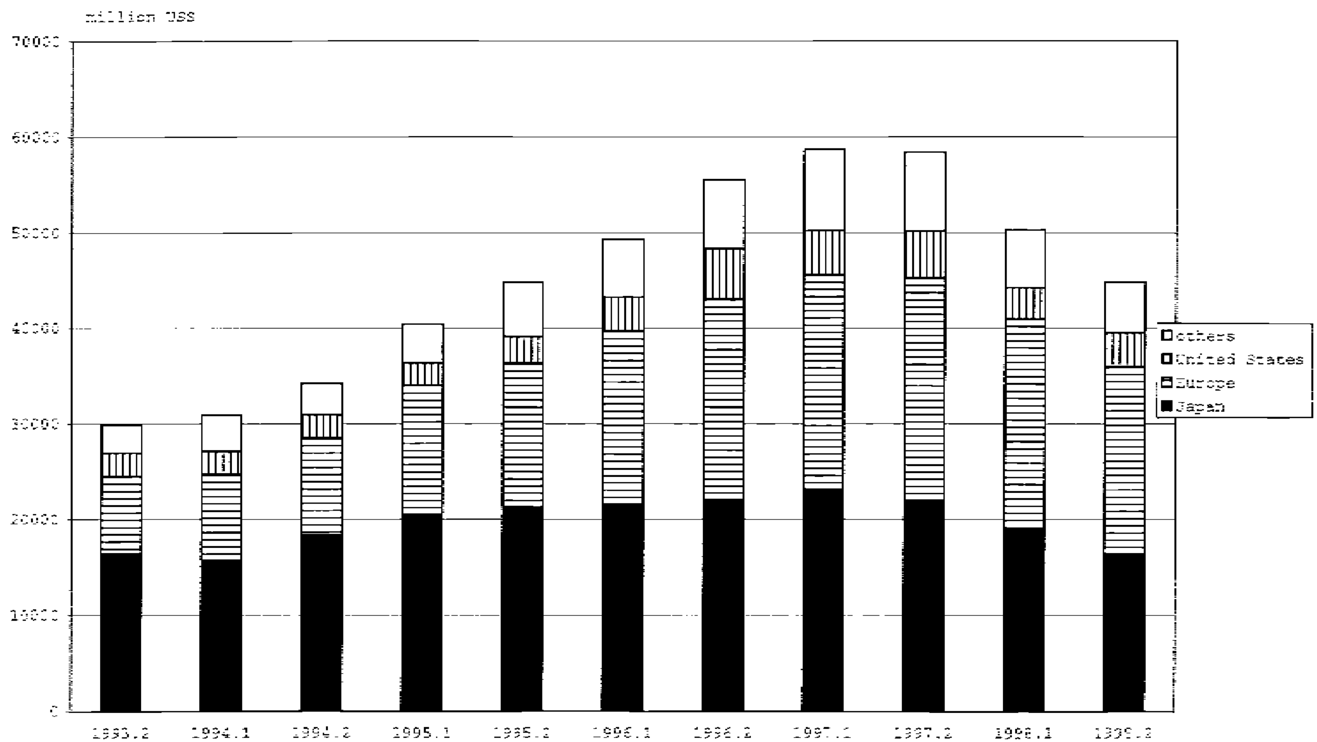


Fig. 3C.1 Stocks of bank loans: ***A*****, Indonesia;** ***B*****, South Korea;** ***C*****, Malaysia;** ***D*****, the Philippines;** ***E*****, Thailand**

Source: Bank for International Settlements (BIS), various issues.

B

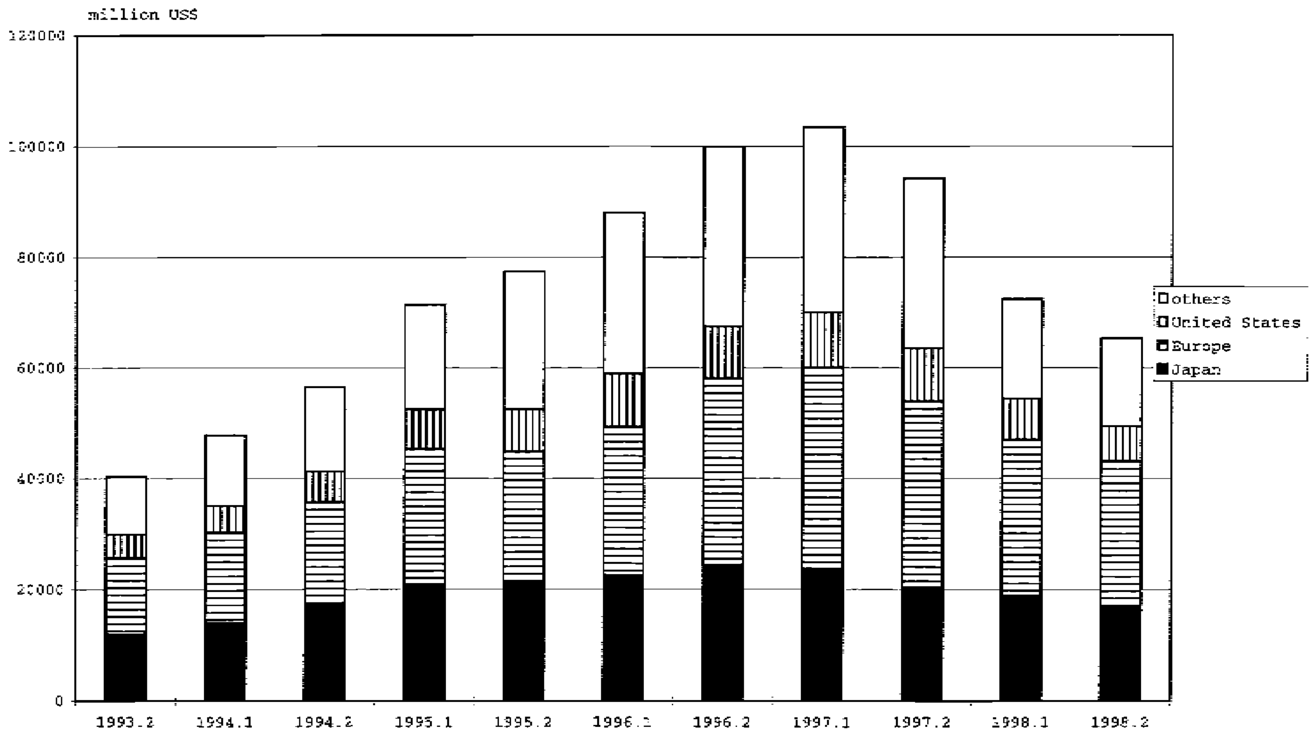


Fig. 3C.1 (cont.)

C

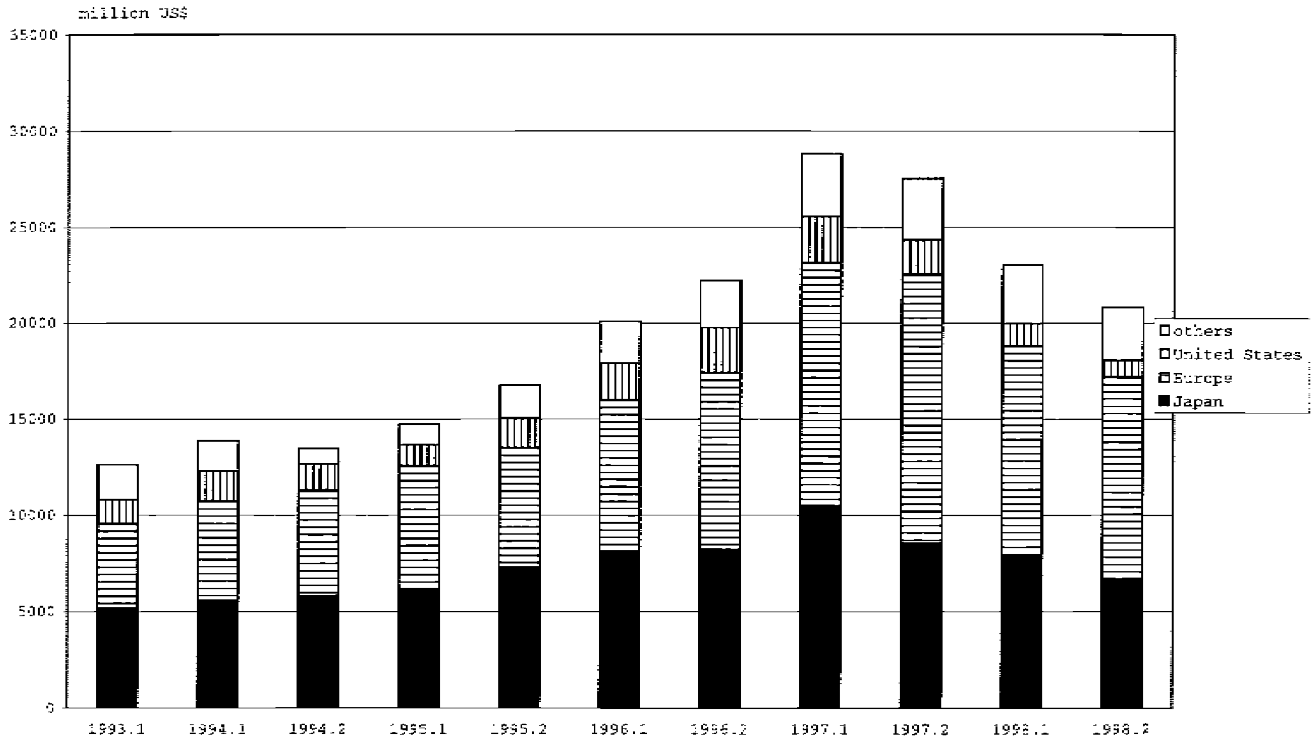
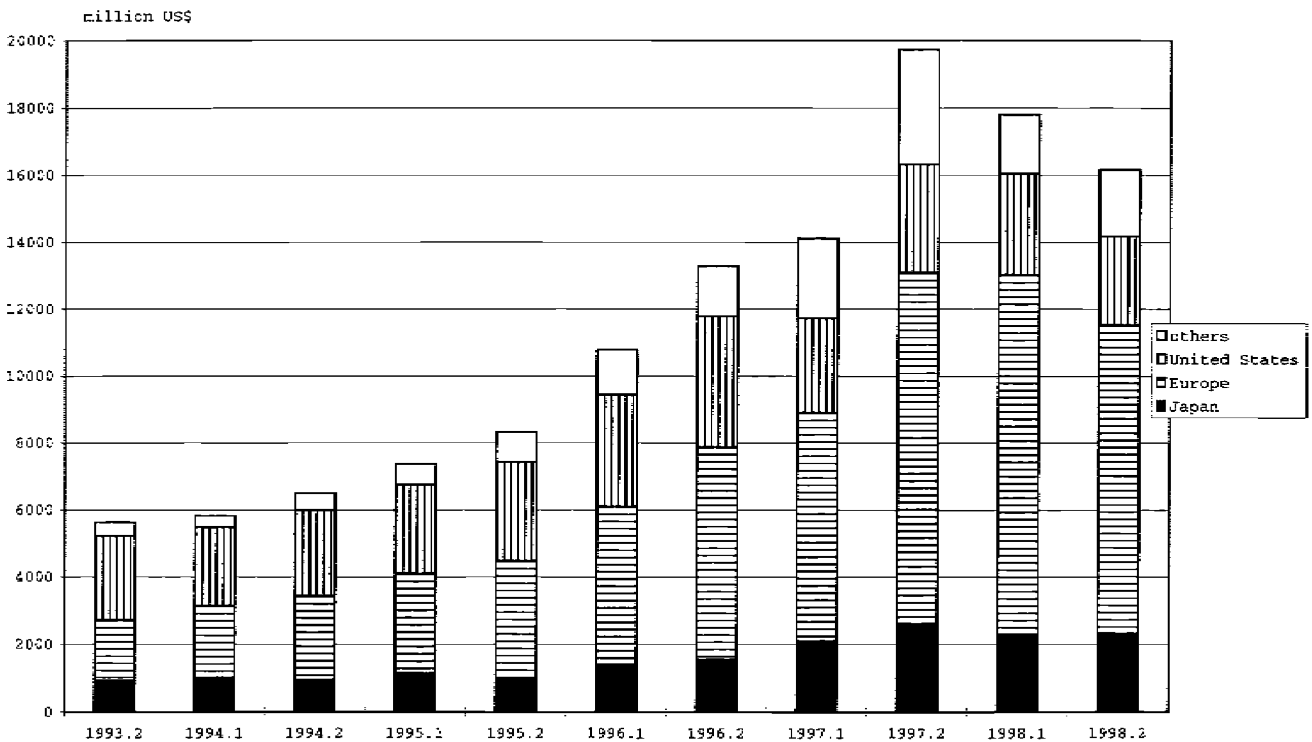


Fig. 3C.1 (cont.)

D



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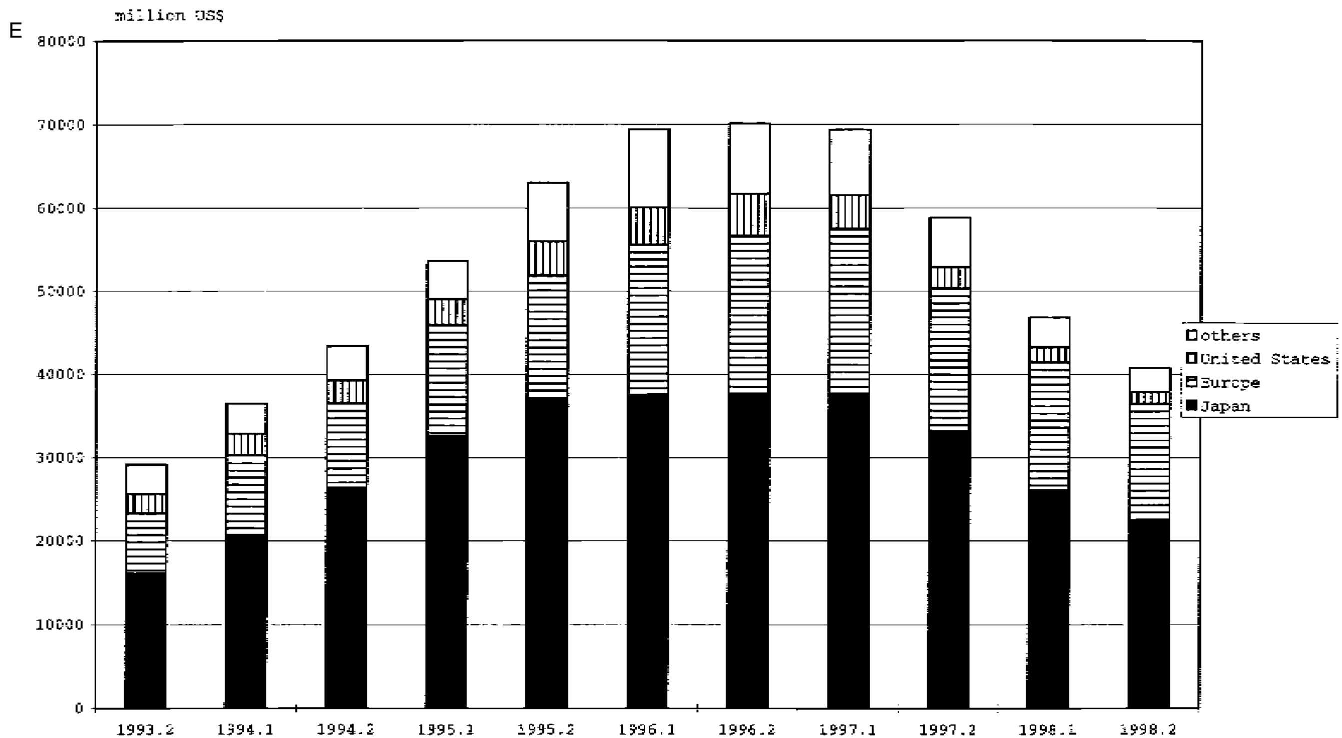
E
million US$
80000
70000
60000
50000
40000
30000
20000
10000
0
1993.2
1994.1
1994.2
1995.1
1995.2
1996.1
1996.2
1997.1
1997.2
1998.1
1998.2
Others
United States
Europe
Japan

Fig. 3C.1 (cont.)

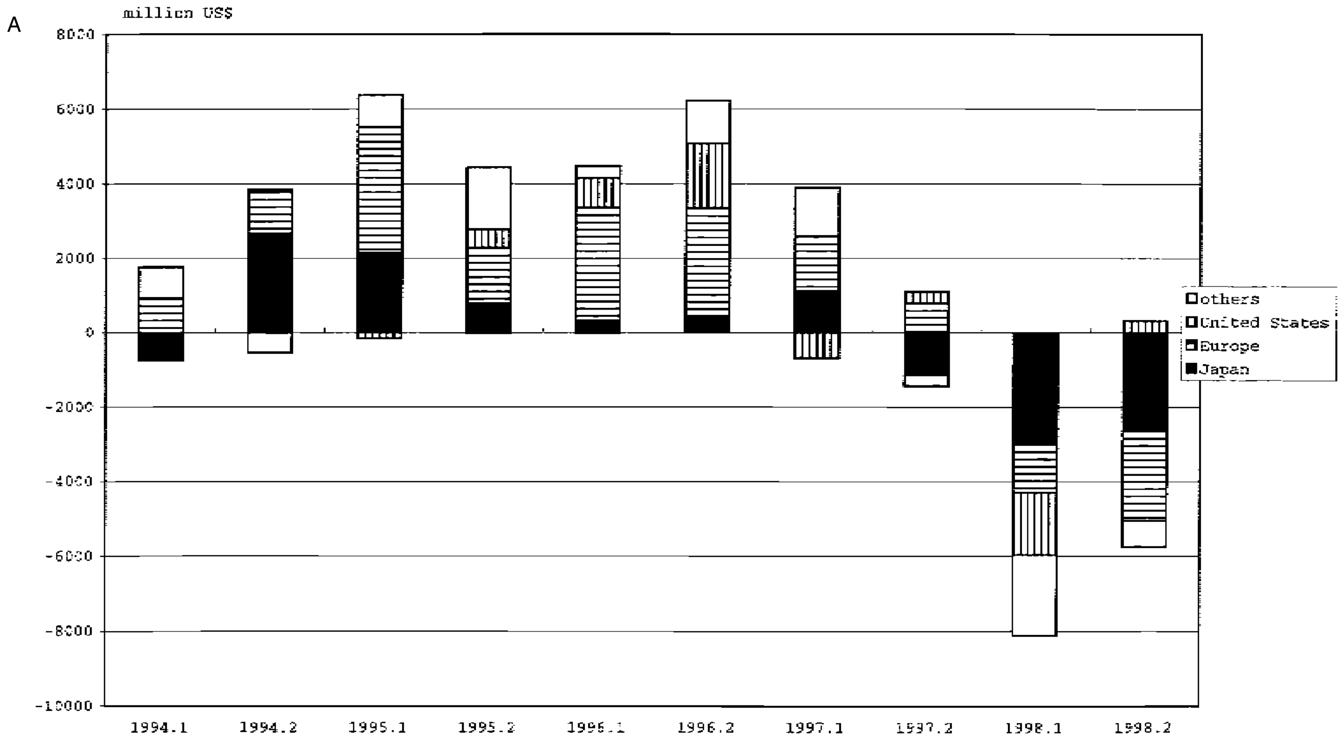

Fig. 3C.2 Flows of bank loans: ***A*****, Indonesia;** ***B*****, South Korea;** ***C*****, Malaysia;** ***D*****, the Philippines;** ***E*****, Thailand**
Source: BIS, various issues.

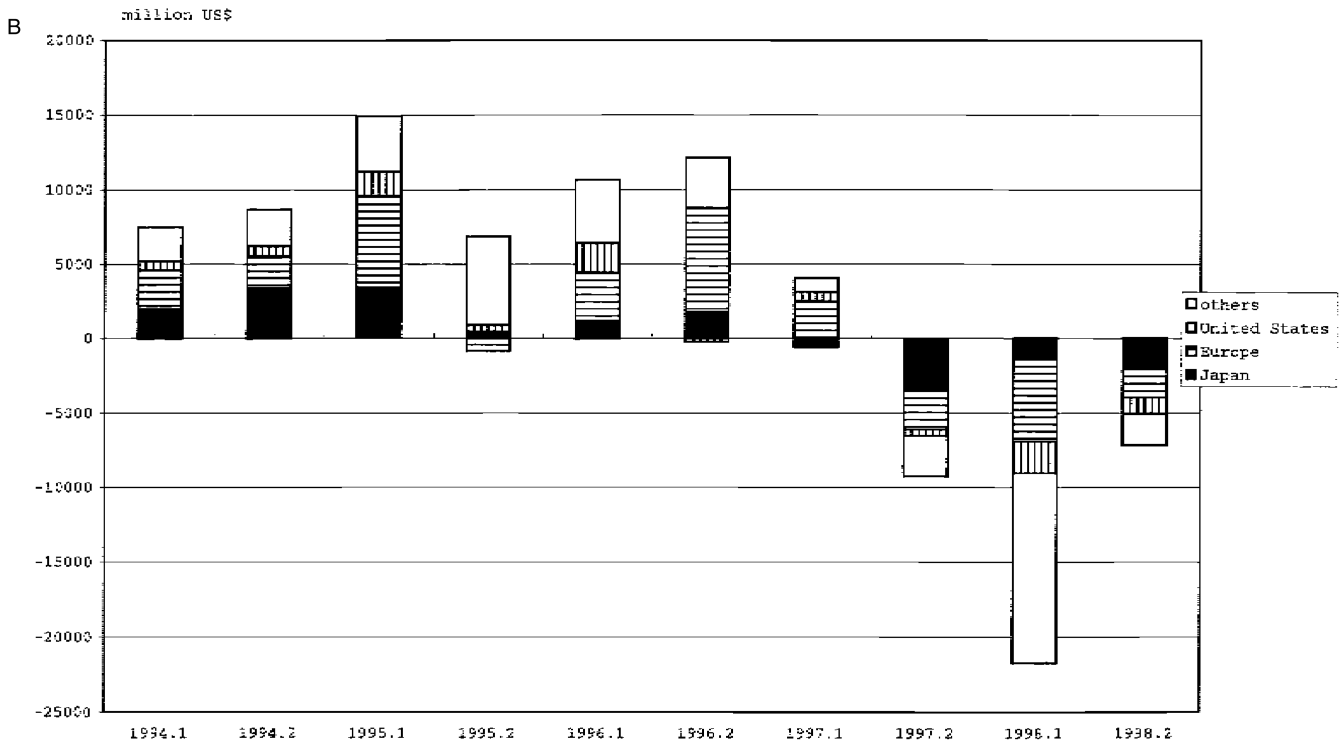
B
million US$
20000
15000
10000
5000
0
-5000
-10000
-15000
-20000
-25000
1994.1
1994.2
1995.1
1995.2
1996.1
1996.2
1997.1
1997.2
1998.1
1998.2
Others
United States
Europe
Japan

Fig. 3C.2 (cont.)

C

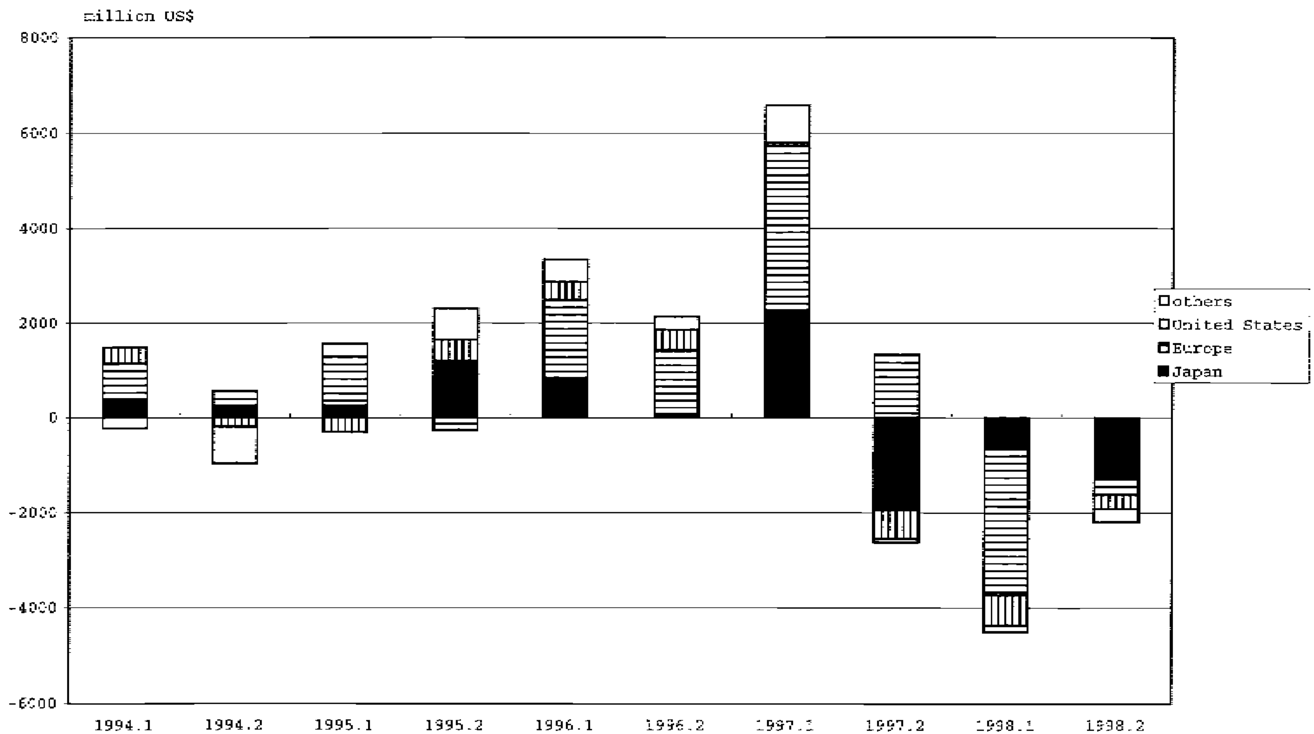

Fig. 3C.2 (cont.)

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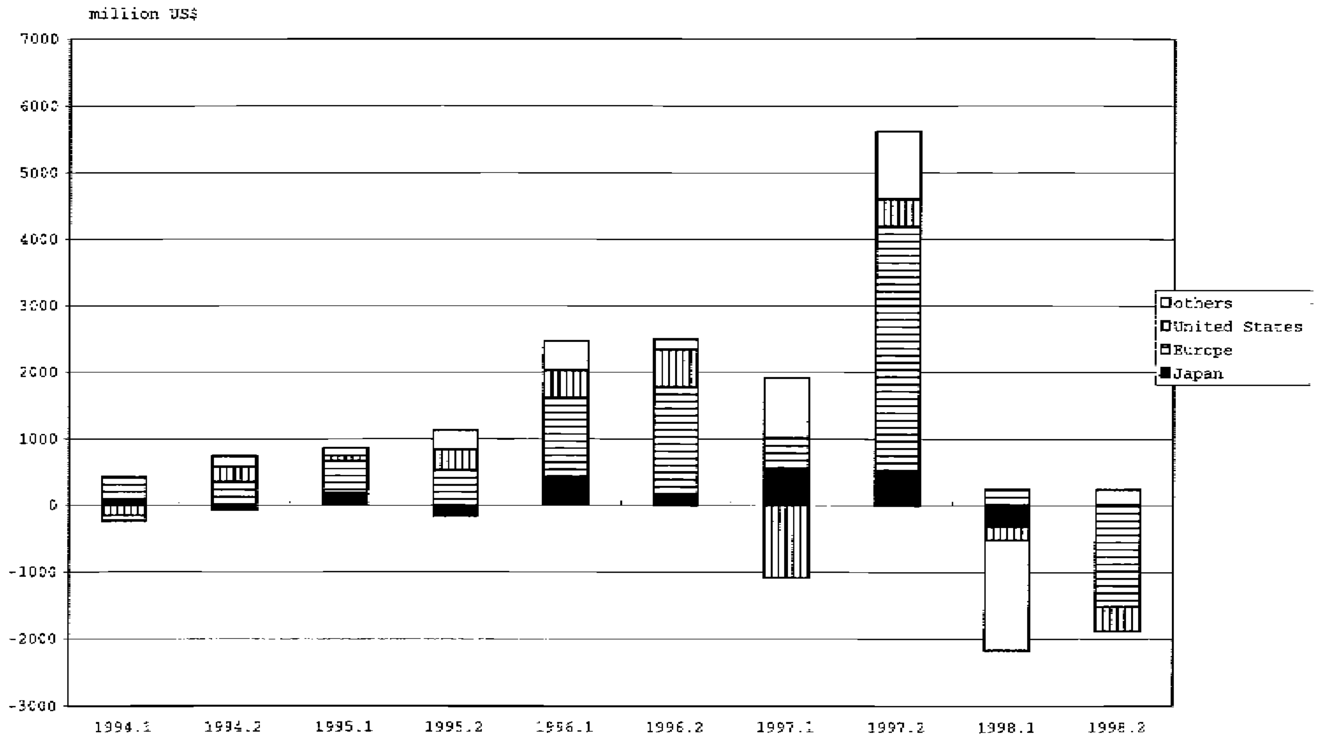

Fig. 3C.2 (cont.)

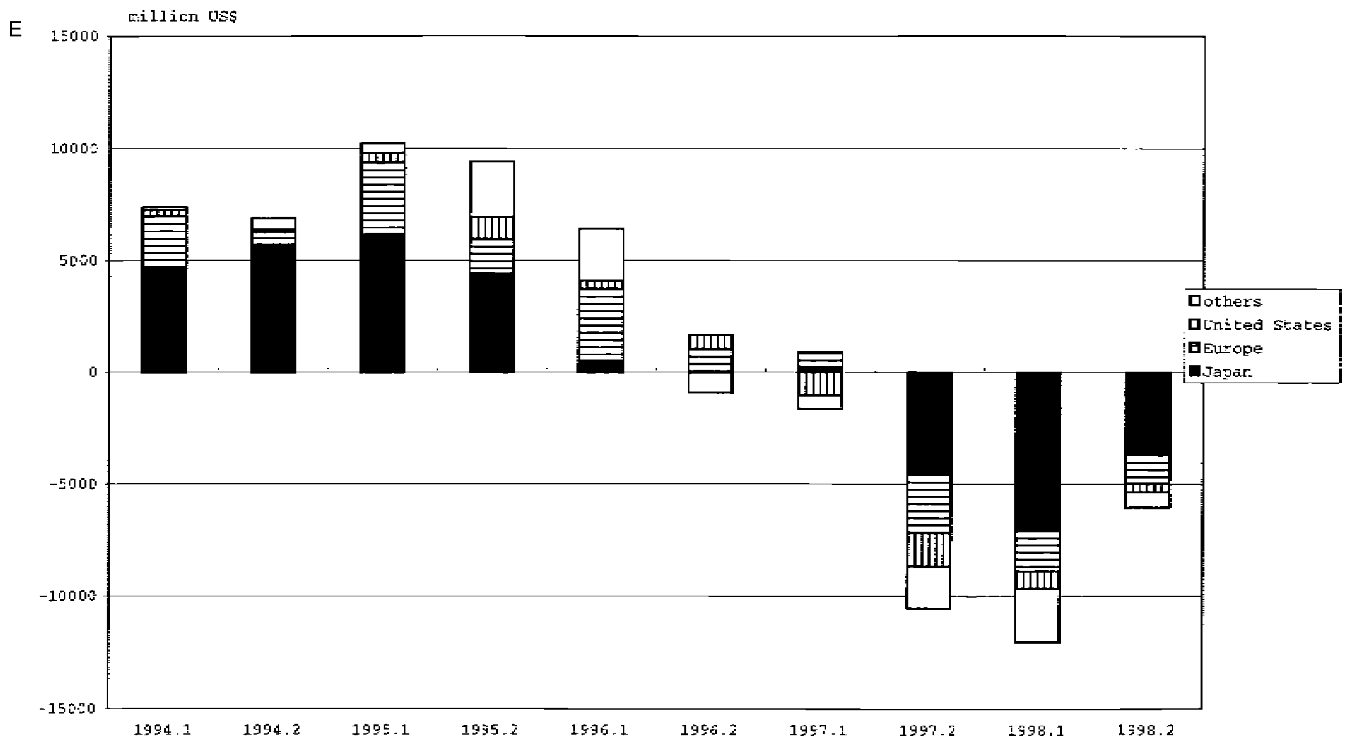
E
million US$
15000
10000
5000
0
-5000
-10000
-15000
1994.1
1994.2
1995.1
1995.2
1996.1
1996.2
1997.1
1997.2
1998.1
1998.2
Others
United States
Europe
Japan

Fig. 3C.2 (cont.)