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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Competition Driver

Competition in the banking industry changes over time due to product innovations and technology developments. Banks always try to gain competitive advantages against other banks in the market. Increasing markets and monopoly powers seems to be the strategy of improving the competitiveness. With this strategy, the synergy to improve economics of scope and scale will be achieved; then the banks will be more efficient as transaction and information cost will be reduced. M&A is the way to execute the strategy. The merger of two large banks is a good example for the competition driver.

Regulatory Environment Driver

The development of a regulatory regime over the globe is the main driver of M&A. With this regime, governments and regulators tend to develop a stronger banking industry to enable them to be champions in global competition. Consolidation policies have been the main policy platform in most Association of Southeast Asian Nations (ASEAN) countries such as Singapore, Malaysia, Indonesia, and Thailand. The feature of this policy is to have a small number of banks with high economies of scale and scope. For the weak and small banks, seeking a stronger partner is the only way to be champions in local and global markets. For stronger banks, enhancement of economies of scope and scale is the only way to be more efficient and competitive in the global market. Merger and acquisitions transactions between those two create mutual benefits for both parties and provide benefits for industry as the merged firms will be stronger and more efficient in their operations. For the postcrisis countries, M&A is also one of strategies in problem bank resolutions. The evidence of the regulatory environment driver on M&A has been clearly visible in the Republic of Korea, the People's Republic of China, Taipei, and Indonesia.

Private Equity and Financial Investor Driver

In recent years, many investors in developed markets enlarged their focus of investments in overseas and emerging markets to diversity their risks and returns. Mergers and acquisitions are the most preferable transaction for investors to lock-up a longer horizon of their investment. Short-term investment in financial markets is mainly for global liquidity management and also for trading purposes. The difference between those two is very distinct. Mergers and acquisitions provide returns from income after tax and, hence, increase the equity prices at the end of the day with medium- or long-term horizons, while trading is to earn spread between buying and selling price of the instruments. The latter is less relevant to M&A matters. With M&A, the cost of each unit product will be lower in post-M&A, and the banks will provide broad-base customers to improve economies of scale and scope. The case of Newbridge's sale of Korea First Bank to Standard Chartered, Carlyle's sale of Koram Bank to Citigroup, and also the sale of Jinro to Hite Brewery are good examples of private equity drivers.

Cases of M&A in Selected Countries

Indonesia

Cross-border M&A occurred in the postcrisis when the government divested its stake in bank takeover. During the crisis, the government closed thirty-eight banks as the owners were unable to invest more capital for problem banks, and sixteen banks were taken over by government for restructuring. These banks eventually privatized in 2004 and 2005. Most of the investors were overseas banks or financial holdings such as Temasek, Faralon Capital, Khazanah, OCBC Overseas Investment, United Overseas Bank, Sorak Holding, and Standchart. The acquisition cases in Indonesia were driven by government policy to privatize former problem banks in the postcrisis. The acquirer motives could be private equity investment and also responses to the environment. The number of banks in Indonesia is still very large in the postcrisis (131 banks). The top fourteen banks account for approximately 80 percent of market share in loans. Bank Indonesia announced the consolidation of small banks (with capital less than IDR 100 million) in 2004. Failing to satisfy the capital threshold will downgrade their operation as limited banks.

Malaysia

Malaysian authorities announced a plan in September 1999 for fifty-eight local banks and finance companies to merge into six large groups. In October, these banks and finance companies were allowed to voluntarily decide their partners. By end of January 2000, all financial institutions submitted their proposals, and in February 2000, the central bank announced the ten core banking groups, which consist of six appointed anchor banks and four newcomers. By August 2000, the ten banking groups completed the signing of the merger agreements. The M&A in Malaysia was considered the most successful government-driven bank consolidation effort.

Thailand

Since the introduction of the Financial Sector Master Plan in 2003, M&A has begun turning some of the country's top financial institutions into even stronger economic powers. Though these changes precede full implementation of the Plan, they are expected to continue and even intensify over the next decade.

Hypotheses

The authors employ five hypotheses to identify the determinants of M&A: gravity, following the client, market opportunity, information cost, and regulatory restriction. Five determinants employed in this study are highly correlated and can be simplified into two groups, market and regulatory driven. The cost of each component of these market-driven determinants is the appropriate measure to identify efficiency. The M&A objective is achieved because cost indicators reduce in the post-M&A. Regulatory restriction or the regulatory driven determinant is another important point in the M&A for acquired banks. In postcrisis countries, privatization of government stakes on bailed-out banks has been the main driver from a policy perspective. The result shows the number of M&As in the postcrisis countries is extremely high. In certain circumstances, investors are interested in acquiring banks just because there is a high opportunity to create profit by selling shares to other buyers.

The authors will be benefit from outlining the structure of determinants of M&A by considering the preceding information and providing strong arguments before determining the hypothesis.

Model

The data in this study consists of cross-country and time series. Most studies using panel data must consider the different response of each country due to country-specific issues such as politics or public pressure to support or disagree with the policy of privatization. Time-specific issues may also affect the decision of M&A. Three issues must be addressed by the authors in this study:

1. How to ensure that the model ignores or accommodates the issues of country-specific determinants.
2. How the model ignores or accommodates time-specific determinants in the model.
3. How to deal with heteroskedastic variances in the regression model.

Even though the authors ignores the three preceding points, the reason and argument must be clearly stated on the chapter.

Concluding Remarks

The driving force of M&A is difficult to precisely define in some cases. The decision on M&As is not specifically based on only a single reason. In many cases, M&As have multiple objectives, such as to comply with regulatory authority policy, to improve efficiency, and to obtain capital gain.

The drivers affect the decisions simultaneously; sometimes the private equity or financial investor drivers are also the reason behind why a bank tries to acquire other banks. No single answer can respond to the question with respect to what the driving force of M&As is. The cases of Indonesia, Malaysia, and Thailand make it very clear that government policy is the main reason behind M&A. But one may come up with different answers as to why M&A occurs because of a different reason. More analysis on the reason behind M&A in both acquired and acquirer bank is very important before coming up with a hypothesis. A detailed model must be explored to satisfy general rules on regression analysis using panel data such as fixed effect and random effect.