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Comment Mario B. Lamberte

Let me start by saying that I learned a lot from this paper. Indeed, there are very few studies that have analyzed the effects of the regional financial

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crisis on firms and their responses to such crisis using microlevel data; one of these is Dr. Fukao's paper. I would like to comment on a few points of his paper to help me better understand his results.

BoP Data versus Microeconomic Level

The paper has pointed out that Japan's FDI flows (on the basis of BoP statistics) to the Asian region increased after the crisis. The reason put forward on page 277 is that "Japanese firms increased their FDI flows to the Asian countries mainly in order to financially assist their subsidiaries that were suffering from deteriorating financial conditions." The FDI flows were not meant for merger and acquisition (M&A) purchases or for "greenfield investment." This explanation seems to be inconsistent with firm-level data. On page 275, the study points out that "according to MITI (1999b), Japan's manufacturing subsidiaries in the ASEAN-4 countries have reduced their investments in tangible fixed assets (excluding land) by 54 percent from the third quarter of 1997 to the third quarter of 1998. Even subsidiaries in the electrical machinery industry, which are the most export oriented and the least hit by the crisis, reduced their investment by 25 percent during this period."

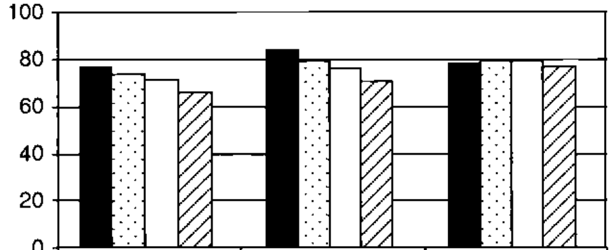
Differences in Behavior between Japanese and U.S./European Firms

The paper has noted that, "Compared with U.S. and European firms, [Japanese firms] made quite limited amounts of cross-border M&A purchases [in the ASEAN-4 countries and Korea]" (277). It could be that Japanese firms are not seizing the investment opportunities available in Asian countries during the financial turmoil. However, one must ask the question: Who is buying firms in Asia? In the case of U.S. and German firms, investment banks and companies could have been acquiring firms in Asia with the intention of unloading them later when their value returns to their precrisis level. In the case of Japanese firms, these may not be investment banks and companies, which I think are currently having financial difficulties with many of their investments turning sour, but manufacturing firms looking for strategic, long-term investment in the Asian region.

Excluding the Philippines

I am a bit disappointed to read that in the detailed microlevel portion of the paper the Philippines was excluded from the analysis because of being the least adversely affected by the it. The analysis could have been enriched had the Philippines been included, because the results could perhaps tell us how Japanese subsidiaries in the least adversely affected countries behaved differently from those hardest hit by the crisis.

The following figures reflect some of our recent findings using the latest firm-level survey data conducted by the National Statistics Office (NSO) with support from the World Bank. Figure 8C.1 shows that there was a



	None	Some	Total
■1996	76.72	83.64	78.51
1997 1st	73.47	79.17	78.81
□1997 2nd	71.48	75.54	78.69
1998 1st	65.76	70.15	77.06

Fig. 8C.1 Capacity utilization by foreign control
Source: NSO (1998).

higher proportion of domestically owned firms admitting that they had fewer workers in the wake of the regional crisis than of foreign-owned firms doing so. Figure 8C.2 shows that while the average capacity utilization of wholly domestically owned firms dropped significantly during the period 1996 to the first half of 1998, that of foreign-owned firms had hardly changed at all.

Switching from Local Sales to Exports

The paper found that subsidiaries owned by larger parents were hit harder by the crisis and that they "expanded their exports to Japan greatly. Probably, with the help of their large parent firm this type of subsidiary was able to switch from local sales to exports" (290–94). Is this a temporary measure adopted by parent firms, which are expecting the host countries' market to improve a few months down the line? Did parent companies do something quickly to their subsidiaries to make them internationally competitive? Or were the subsidiaries already internationally competitive, but were simply paying more attention to the domestic market due to huge demand for their products before the onset of the crisis?

Econometric Analysis

In the econometric model, the dependent variable is GEMP, which is the growth of employment from March 1997 to March 1998. During the crisis period, the laying off of workers was only one of the responses of firms. There were other measures, such as cutting down on work hours or the workweek, forced vacation, and so on. In the Philippines, foreign-owned firms took advantage of these measures (see table 8C.1).

The net profit–total asset ratio of the prime Japanese parent firm in

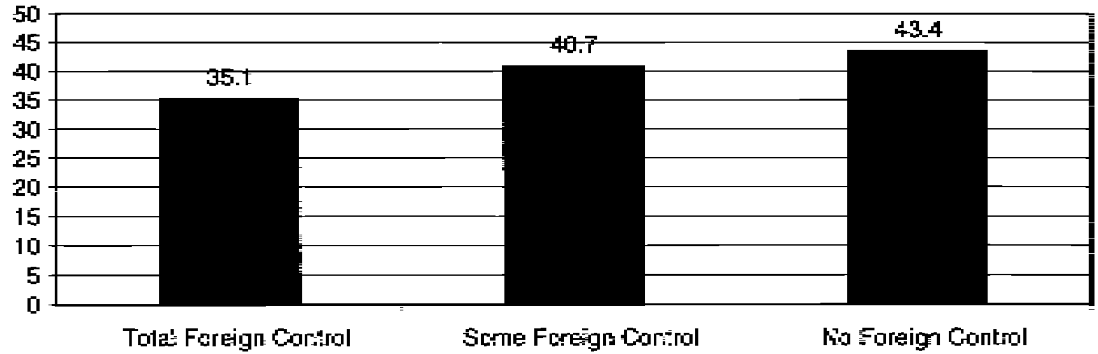


Fig. 8C.2 Percent of firms with fewer workers
Sources: Lamberte et al. (1999); NSO (1998)

Table 8C.1 **Responses to Crisis: Labor**

	Are Filling Up Vacancies (%)	Laying Off Workers (%)	Pay Severance (%)	Cut Down on Hours (%)	Compressed Work Week (%)	Forced Vacation (%)	Freeze Salary: Rank and File (%)	Freeze Salary: Management (%)	Salary Cut: Rank and File (%)	Salary Cut: Management (%)
By foreign control										
None	36	32	63	40	19	23	30	34	3	5
Some	34	30	57	44	23	23	40	42	6	6
Total	50	21	52	28	16	26	16	17	3	4

Source: NSO (1998).

fiscal year 1996 was used as one of the independent variables in one of the regression runs. Was this based on a consolidated financial statement or did it exclude the contribution of the subsidiaries? These different measurements could have different impacts on the dependent variable.

By estimating equations using different representations of the variable CHAR, the variable in question could have picked up the effects of other variables. Why not estimate an equation using all the variables representing CHAR, except ASSET, which could be highly correlated with PROF or CAP?

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Comment Assaf Razin

An important aspect of FDI is that it is proven to be resilient during financial crises, in situations of international illiquidity, when the country's consolidated financial system has short-term obligations in foreign currency in excess of the amount of foreign currency to which the country has access on short notice. In this context, FDI flows provide the only direct link between the domestic capital market in the host country and the world capital market at large. Indeed, FDI flows to the East Asian countries were remarkably stable during the global financial crises of 1997–98. In sharp contrast, portfolio equity and debt flows, as well as bank loans, dried up almost completely during the same period. The resilience of FDI to financial crisis was also evident in the Mexican crisis of 1994 and the Latin American debt crisis of the early 1980s. This may reflect a unique characteristic of FDI, which is determined by considerations of ownership and control by multinationals of domestic activities, which are more long term in nature, rather than by short-term fluctuations in the value of domestic currency and the availability of credit and liquidity.

Kyoji Fukao has access to a unique data set that can shed light on the resiliency of FDI. He sets himself up to deal with one empirical hypothesis: Due to firm-specific skills and sunk (human and physical capital) in-

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