Comments

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My comments are on the original and old version of Prof. Kawai's paper (Oct. 2000). Responding to my comments, Prof. Kawai revised the paper substantially. I regard his replies with satisfaction. Especially, I think that "a currency basket system with a managed float" as a regional exchange rate arrangement is a remarkable idea. This idea should be developed in detail from now on.

The paper by Masahiro Kawai shows an insightful analysis of the East Asian financial crisis. We not only understood the causes and the mechanism of the crises, and also learned the lessons from the crises. I expected, further, Kawai would propose a new design of the international monetary framework for the East Asian region in order to help the steady growth of the region, as a new architecture.

But, my expectation was not fulfilled. The proposals presented were how to strengthen the existing architecture, and how to behave in the architecture. Even though I do not have any objections to the proposals, I regret that we can not see the future roles of IMF and World Bank clearly.

Next, I would like to comment to some specific points in detail. First, I consider the causes of the East Asian financial crisis. As the causes of the crises, Kawai emphasizes that a build - up of domestic vulnerabilities brings about the losing of confidence. This change of expectation triggers the massive outflow of capital. This is the financial crisis.

But my view is slightly different. The main cause is the large current account deficits financed by short - term capital inflow under the quasi - fixed exchange rate regime (Dollar—Link). In this situation, the over - valued currency is likely under speculative attacks by foreign investors. For example, the Thai baht was attacked in May and July 1997. I think that the devaluation is the key point of the financial crisis. The massive outflow of capital was the selling in a flurry.

In this sense, it is interesting to see the description in footnote 5 of the paper. That is "Foreign investors appear to have reduced their holdings prior to the crisis, particularly in Thailand, and increased their holdings afterwards". This fact implies that foreign investors sold bahts at a profit.

Second, I comment on the contagion process. After the Thai baht devaluation a financial crisis spread to other East Asian countries within several months. My question is why the contagion did not spread more quickly. Vulnerability Indicators in June 1997 (Figure 1) show that Indonesia and Korea were also in critical situations. If the losing of confidence is the main reason of crisis, the contagion should spread instantly.

Third, I mention the reforms of international financial architecture. The proposals by Kawai were summarized as 1) transparent information, 2) sound macroeconomic policy, 3) prudent corporate finance, and 4) gradual capital inflows. These proposals are fair and proper. But the accomplishment of these proposals is difficult. The East Asian countries have not achieved the aims yet. It is important to prepare an institutional system to

guarantee the accomplishment the aims. Such reformation of system should include the reformation of exchange rate system.