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Who Gains from Capital Controls?
Evidence from Malaysia

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Abstract

Evidence from 1997-2000 indicates that the stock prices of Malaysian firms with strong political connections fell more in the early stages of the Asian economic crisis but rose disproportionately once capital controls were imposed. Differences in performance appear to have been driven by changes in the expected value of benefits for politically favored firms. These results hold for both financial and non-financial firms separately and are robust to controlling for firm size, sector, profitability, pre-crisis growth and whether a firm is favored because it is officially Bumiputera (with ethnic Malay ownership over 50%). Our findings are consistent with the view that capital controls provide a screen behind which politicians can support particular firms.

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1. Introduction

There are two main views on the causes and effects of capital controls. The more established view emphasizes macroeconomics. If a country faces a severe external crisis, particularly one caused by a pure panic or speculative attack, and if standard measures have failed, Krugman (1998b) argues that imposing capital controls may be an effective way to stabilize the economy. More generally, Bhagwati (1998a and 1998b) and Rodrik (2000) oppose the conventional wisdom that free capital flows help countries benefit from trade liberalization, and argue instead that capital market liberalization invites speculative attacks. Evidence from Malaysia after the imposition of capital controls in September 1998 has been interpreted as demonstrating that capital controls can have positive macroeconomic effects (Kaplan and Rodrik 2000), although the debate remains open (Dornbusch 2001a).

While not denying the importance of macroeconomic issues, the second view puts greater emphasis on institutions (i.e., the rules, practices and organizations that govern an economy). Rajan and Zingales (1998b) argue that capital controls are an essential part of the package of policies that allows “relationship-based” capitalism to function. In this system, informal relationships between politicians and banks channel lending towards approved firms, and this is easier to sustain when a country is relatively isolated from international capital flows. If capital controls are relaxed, as in some parts of Asia in the early 1990s, the result may be overborrowing and financial collapse (Rajan and Zingales 1998b).¹ In this context, Diamond and Rajan (2000) suggest that reimposing capital

¹ Theoretically, relaxing capital controls may lead to financial distress in at least three ways. First, local financial institutions may respond by taking on more risk. Second, local firms may borrow directly from international lenders who are either unable to assess risks appropriately or believe that there is an implicit

controls may be attractive if it enables politicians to support the financing of particular firms. At the same time, directed lending behind capital controls may store up problems in the form of bad loans and distorted incentives.

In principle, the empirical merit of this second view can be assessed through examining an episode in which a country which has both “relationship-based capitalism” and free capital flows responds to a macroeconomic crisis by reimposing capital controls. If the Bhagwati-Krugman-Rodrik view is correct, we would expect the imposition of capital controls either to affect all firms uniformly, or to affect firms according to their measurable financial characteristics (e.g., more indebted firms might benefit more) or according to their sector of activity (e.g., export-oriented firms might benefit less).² In contrast, if the Diamond-Rajan-Zingales view is correct, firms with stronger political connections should benefit more from capital controls.

This paper provides such a test using data from Malaysia’s recent experience with capital controls. Malaysia is an appealing case for several reasons. Political scientists and economists identified relationships between politicians, banks and firms as important before capital controls were imposed (Gomez and Jomo 1997, Rajan and Zingales 1998b). In addition, throughout the Asian financial crisis that began in 1997, Malaysia maintained a large and liquid stock market, so examining how stock prices varied across firms is a reasonable way to measure the effects of policy changes. Furthermore, the imposition of capital controls supported a shift in economic policy towards explicitly

sovereign guarantee. Third, after they lose their monopolies, local banks may be less willing to bail out firms that encounter problems, as in Petersen and Rajan (1995).

² Leading proponents of the macroeconomic view are aware that there may be institutional consequences of capital controls. For example, Kaplan and Rodrik (2000) clearly state their concerns that capital controls may distort incentives and undermine future performance in Malaysia. However, their emphasis is on macroeconomic effects (i.e., all firms), rather than the differential benefits for just some firms.

supporting particular firms with strong political connections. The anecdotal evidence suggests financial markets understood the imposition of capital controls to represent a move back to a more relationship-based allocation of capital, and these expectations have subsequently been met – for example, there have been numerous press reports of implicit and explicit government support for well-connected firms.

The evidence from Malaysian stock prices is broadly supportive of the Diamond-Rajan-Zingales view. Firms with political connections had worse stock returns in the early phase of the crisis. Once capital controls were reimposed, politically connected firms did better on average, although firms connected with the disgraced former Deputy Prime Minister did significantly worse. These results hold even when we control for other measurable characteristics of the firms, such as sector, debt and asset size. The results also hold when we control for whether a firm has the status of being “Bumiputera,” meaning that it is run by Malays and has received in the past some favoritism.

The Diamond, Rajan and Zingales view of capital controls is part of a larger literature that links political and corporate governance institutions to financial and economic outcomes. In a series of articles, La Porta, Lopez-de-Silanes, Shleifer and Vishny (LLSV 1997, 1998, and 2000) establish that institutions matter for long-term financial development, the valuation of firms and the quality of government. Rajan and Zingales (1998a) find that countries with weaker investor protection invested less in capital intensive sectors. With an instrumental variables approach, Acemoglu, Johnson and Robinson (2000) find that institutions explain roughly three-quarters of the variation in per capita income today across countries that were previously European colonies.

There may also be a link between institutions and short-term macroeconomic performance. In the Asian financial crisis of 1997-98, Johnson, Boone, Breach and Friedman (2000) find that countries with weaker legal protection of investors had larger exchange rate depreciation and a bigger fall in their stock market. Mitton (2000) finds that firms with weaker corporate governance in Asian countries open to capital flows suffered a larger stock price fall in 1997-98. Fisman (2000) estimates the value of political connections in Indonesia, through looking at how stock prices moved when Suharto's health was reported to change. None of the previous literature, however, has tested the macroeconomic and institutional views of capital controls.

Our findings are consistent with elements of at least three approaches in the theoretical literature. In Shleifer and Vishny (1994), politicians provide subsidies to firms in order to maintain employment or to achieve other politically desirable goals. This definitely seems to be the case for Malaysia. At the same time, political dynamics during the crisis period of 1997-98 bear a striking resemblance to the model in Acemoglu and Robinson (2000), where reform is blocked if politically powerful people fear losing control over the economy. The abrupt shift in power after September 1998 is consistent with results in Acemoglu and Robinson (1999), in which the elite can react against pressures for democratization and redistribution.

Section 2 reviews the nature of political connections in Malaysia. Section 3 explains our data and methodology in more detail. Section 4 reports descriptive statistics for connected and non-connected firms. Section 5 presents our main results and robustness checks. Section 6 reports the evidence on what happened to firm subsidies after the imposition of capital controls. Section 7 concludes.

2. Political Favoritism in Malaysia³

Two forms of political favoritism are reported to exist in Malaysia today. The first is the official status awarded to firms that are run by ethnic Malays. The second consists of much more informal ties that exist between leading politicians and firms that are run by both Malay and Chinese business people.

Although ethnic Malays (known as Bumiputeras, literally “sons of the soil”) account for some 60% of the population of Malaysia, business in Malaysia has historically been dominated by ethnic Chinese. With an eye toward correcting this imbalance, and partly in response to ethnic rioting in 1969, the government instituted the New Economic Policy (NEP) in 1970. A key goal of the NEP was to achieve 30% Bumiputera ownership of the corporate sector, and to create a new community of Bumiputera business people. The state has carried out this “affirmative action” program by actively intervening in the economy, granting special privileges to Bumiputeras. Since 1970 Bumiputeras have been given, among other privileges, priority for government contracts, increased access to capital, opportunities to buy assets that are privatized and other subsidies.

The policies of the NEP favoring Bumiputeras have been continued for the past 30 years. The ruling coalition in Malaysia during this time has been the Barisan Nasional, which is dominated by the United Malays’ National Organisation (UMNO). Dr. Mahathir Mohamad, who has been president of UMNO and Prime Minister of Malaysia since 1981, has consistently promoted Bumiputera capitalism. Although the

³ Much of this information is taken from Gomez and Jomo (1997), whose research was completed before the Asian financial crisis broke out in July 1997.

goal of 30% Bumiputera ownership of the corporate sector has not been achieved, Bumiputera ownership has increased substantially since implementation of the NEP, rising from 2.4% in 1970 to 20.6% by 1995 (Gomez and Jomo 1997, p. 168).

However, some have argued that the increased state intervention required for implementation of the NEP has opened the door to greater political involvement in the financing of firms in Malaysia.⁴ As the government has more actively handed out favors to firms, businessmen have increasingly used personal connections to influence the allocation of those favors. During Mahathir's tenure as Prime Minister, three government officials, along with their associated protégés, have concentrated the power to help business in Malaysia, and thus access to these officials has been most valuable for entrepreneurs. The first is Mahathir himself. The second is Daim Zainuddin, who was finance minister early in Mahathir's term and who was brought back into government in 1998. He has been perhaps the most powerful person in corporate Malaysia. The third is Anwar Ibrahim, who, before his downfall in September 1998, was second in power to Mahathir and had numerous corporate connections. While other officials in Malaysia also provide valuable connections for businessmen, Mahathir, Daim, and Anwar have clearly been the most dominant figures. This is illustrated in Appendix Table 1, which lists politically connected Malaysian companies and the nature of their connections. These connections have had considerable influence on the development of corporate Malaysia, so it is natural to suppose that they had a strong impact during the Asian financial crisis as well.

⁴ For example, when Mahathir was minister for trade and industry in 1980 he helped set up the Heavy Industries Corporation of Malaysia (known as Hicom). Hicom subsequently invested in the auto industry, steel and cement.

3. Data and Methodology

In this section we describe our sample of firms, define the crisis period, and describe the variables used and how they were constructed.

Sample Selection

The sample consists of all Malaysian firms that had at least a minimal amount of data in the Worldscope database as of October 1999. Although all firm characteristics are measured on a pre-crisis basis, we use the later version of the Worldscope database because Worldscope has substantially increased the number of firms that it covers over time.⁵ The 424 firms in the sample are representative of the firms that are listed on the main board of the Kuala Lumpur Stock Exchange. Unlisted firms not represented in the sample would include smaller Malaysian firms and multinationals with no local listing.

Definition of Crisis and Rebound Periods

Figure 1 shows an index of stock returns of Malaysian firms in Worldscope for 1990 to 1999, measured in both US dollars and Malaysian ringgit. Lines on the chart delineate the “crisis period” as defined in this paper. The beginning of the crisis period corresponds to the devaluation of the Thai Baht on July 2, 1997, a date generally considered to be the starting point of the Asian financial crisis. The end of the crisis period and start of the “rebound period” corresponds to the imposition of capital controls in September 1998 when the stock index began a sustained upward trend (see also Figure 2).

Identifying Political Connections

To identify which firms have political connections with government officials, we rely on the analysis of Gomez and Jomo (1997). We identify as “politically connected” any firm which Gomez and Jomo (1997) identify as having officers or controlling shareholders with close relationships with key government officials – primarily Mahathir, Daim, and Anwar. Appendix Table 1 lists each firm identified as connected and the source of the connection.

Using the analysis of Gomez and Jomo (1997) to identify connections suffers from two limitations. First, these authors make no claim that they have exhaustively identified every firm with political connections in Malaysia. This limitation may not be too troublesome, because if they have focused on a subset of firms with connections, it is likely the subset of firms with the strongest connections or the subset of the largest firms with connections. Because larger firms generally had better stock price performance during the crisis, it would presumably be even more difficult to find that larger connected firms performed worse during the crisis. The second limitation is that, while all connections identified by Gomez and Jomo (1997) are from before the crisis, some are identified from earlier in the 1990s, leaving the possibility that a connection could have disappeared prior to the beginning of the crisis. However, given the relative stability of the government over this period, this limitation is also not too troubling. The variable we call “Politically Connected”, then, is a dummy variable that is set to one if the firm has a connection as listed in Appendix Table 1, and zero otherwise.

⁵ All the firms included in *Worldscope* prior to the crisis were still included in October 1999, so there is no sample selection bias due to firms dropping out of the data set.

We use the same source, as reported in Appendix Table 1, to create another dummy variable called “Anwar Connected” which is set to one for politically connected firms whose connections depended primarily upon Anwar (based on the data presented in Appendix Table 1; 14 firms in total). We code a firm as “Mahathir Connected” if the connection in Appendix Table 1 is either to Mahathir or to Daim (Mahathir’s consistently close political ally) or to UMNO (the ruling party controlled by Mahathir.) Note that there are some firms that belong to both camps and for a few firms we know they are politically connected but not the precise nature of that connection.

Ethnic Favoritism

As discussed previously, some Malay firms have advantages because they are ethnically favored. As this may have affected their performance in both the crisis and rebound periods, we control for this characteristic throughout our regression analysis.

To identify whether firms are ethnically favored, we use data from the Kuala Lumpur Stock Exchange *Annual Companies Handbook*. Each firm listed in the handbook is identified according to the ownership that falls in categories of Bumiputera, non-Bumiputera, foreign, or government. The *Handbook* does not provide an exhaustive listing of all firms, so we are able to identify ethnicity of ownership for only 74% of the firms. This reduced sample size is reflected in the empirical analysis of this variable. To categorize firms as Bumiputera-controlled, we focus on a definition given by the Corporate Affairs Unit of Malaysia’s Securities Commission (press release, 8/27/96) which states that a Bumiputera-controlled company is one in which 50% or more of the

equity is held by Bumiputera shareholders or institutions.⁶ We assume that shareholdings by government agencies contribute toward this percentage.⁷ Thus, the “Ethnically Favored” variable is a dummy variable that is set to one if the Bumiputera shareholdings are above this threshold and zero otherwise.

Description of Other Variables

To measure firm performance during the crisis we use stock returns over the crisis period, from the end of June 1997 to the end of August 1998. These returns are unadjusted returns and are expressed in Malaysian ringgit. Because data limitations prevent calculation of out-of-sample betas for many of the firms in the study, we attempt to capture factors related to beta by controlling for leverage, size, and industry in the regressions.

Firm size is measured by the natural logarithm of total firm assets. As a measure of leverage we use the firm’s debt ratio, measured as the book value of total debt divided by total assets. We include dummy variables for 12 of 13 industries, where industries are defined broadly, as in Campbell (1996), and correspond with the firm’s primary SIC code. We also include as a control variable the firm’s book-to-market ratio (book value per share divided by the stock price). All of these variables are constructed using data from Worldscope, and they are measured using the last available information prior to the beginning of the crisis.

⁶ A secondary definition from the same source notes that a firm may qualify as “Bumiputera-controlled” if 35% of the equity is held by Bumiputeras and 51% or more of the officers of the firm are Bumiputera. This definition is not useful for our purposes because we cannot identify the ethnicity of the officers.

⁷ Including government agencies seems appropriate given the close connection between government and Bumiputera interests. If we do not include government agencies in the total the difference in performance becomes more pronounced and more statistically significant.

4. Descriptive Statistics

Table 1 reports the basic descriptive data for these firms. The first row shows that politically connected firms had significantly worse returns from July 1997 to August 1998. Ethnically favored firms, on the other hand, had significantly better returns during this time. The second row shows that politically connected firms had significantly better returns in September 1998, but that returns for ethnically favored firms were not significantly different during this month. The third row shows no significant differences in returns for either of these groups after September 1998.

The fourth row of Table 1 shows that total assets are not significantly different between ethnically favored and other firms. However, politically connected firms are significantly larger (about twice the size on average) compared with non-connected firms, although there is no evidence that asset growth immediately before the crisis was larger in connected firms (row 5).

The book-to-market ratio is one way to examine whether investors perceive there is “tunneling” of assets. These ratios are not significantly different for any group of firms before the crisis (row 6).

There also appears to be little difference in the operational efficiency of favored and non-favored firms.⁸ Among the ratios for profitability, liquidity, and asset utilization there are no significant differences across the dimensions of ethnic favoritism or political connectedness (in terms of t-tests of the means). This analysis is not conclusive; other

⁸ Pomerleano (1998) uses ratio analysis to study the East Asian crisis, but focuses on differences across countries rather than differences among firms within a country.

less tangible factors may have made favored firms less able to deal with a crisis. But it is a strike against the idea that favored firms performed differently during the crisis because they were inherently different operationally. Regressions reported in Table 2 confirm there is no evidence politically connected firms had higher profitability before the crisis.

Corporate Indebtedness

If politically connected firms had greater leverage (or if ethnically favored firms had less leverage) prior to the crisis, then this could explain some or all of the performance differences. A firm with higher debt would naturally be expected to perform worse in a crisis because of the effect of leverage on a firm's covariation with the market and also because the depreciation of the local currency will hurt the firm to the extent that the debt was foreign-denominated. The last set of rows in Table 1 shows that firms with political connections had debt-asset ratios some eleven percentage points higher, on average, than non-connected firms prior to the crisis. However, politically connected firms had less short-term debt and while total debt to assets before the crisis went up faster in politically connected firms, the opposite was true for short-term debt. These differences are only rough measures, however, in that they do not account for differences in industry or other characteristics.

Table 3 presents the results of regressions intended to measure the effect of political favoritism on levels of debt more carefully. We estimate the following model:

$$\begin{aligned}
 \text{TotalDebt} / \text{TotalAssets} = & a + b_1(\log(\text{Size})) + b_2(\text{ReturnOnAssets}) + b_3(\text{GrowthRate}) \\
 & + \sum_{j=4}^{15} b_j(\text{Industry}_{j-3}\text{Dummy}) + \sum_{k=16}^n b_k(\text{PoliticalFavoritismVariable}_{k-15}) + e,
 \end{aligned}$$

where the inclusion of size, profitability, and growth follows the lead of Lee, Lee, and Lee (1999).

Table 3 confirms that politically connected firms had more debt before the crisis. Panel A of Table 3 shows that for the full sample, using only industry controls, politically connected firms had debt ratios eleven percentage points higher, and the coefficient is significant at the 5% level. Panel B of Table 3 shows that restricting the sample to non-financial firms does not eliminate the effect of political connections on indebtedness, although the effect is now significant only at the 10% level.

Controlling for size, profitability, growth, and industry accounts for part of the difference in leverage between favored and non-favored firms. Specifically, larger firms had higher debt ratios (as predicted by Titman and Wessels (1988)), more-profitable firms had lower debt ratios (as would be suggested by Myers (1977)), and firms with higher growth had higher debt ratios, consistent with their presumably greater level of investment. Only the coefficient on profitability is significant at standard levels, however. After controlling for these factors, firms with political connections had significantly higher debt ratios than those that were not connected. For all firms (Panel A of Table 3) this effect is only just significant at the 10% confidence level but for just non-financial firms (Panel B of Table 3) it is significant at the 5% level.

In the reduced sample (with fewer observations when we include the ethnic favoritism variable) the coefficient on “politically connected” is not significant either for all firms or for just non-financial firms. The coefficient on Ethnically Favored is also not significant in either panel of Table 3, although it is negative in both as the simple averages suggested.

5. Results

In this section we present the central results from the paper and discuss tests to evaluate the alternate views of capital controls discussed previously. We also discuss robustness checks for our main results.

July 1997-August 1998

To assess the impact of political connections on stock price performance during the crisis we estimate the following empirical model:

$$\begin{aligned} \text{CrisisPeriod Return} = & a + b_1(\log(\text{Size})) + b_2(\text{BooktoMarketRatio}) + b_3(\text{TotalDebt} / \text{TotalAssets}) \\ & + \sum_{j=4}^{15} b_j(\text{Industry}_{j-3}\text{Dummy}) + \sum_{k=16}^n b_k(\text{PoliticalFavoritismVariable}_{k-15}) + e \end{aligned}$$

Table 4 presents the results from these regressions for the period from July 1997 to August 1998. In the first three specifications, the Politically Connected variable is included. (Because 19 firms lack data on debt ratios, we run the basic regression twice, in columns 1 and 2 with and without the debt ratio as a control variable.) The coefficient on Politically Connected ranges from -5% to -9%, indicating that a strong political connection is associated with a greater stock price decline of 5% to 9%, on average, during the crisis period of July 1997 through August 1998. These coefficients are significant at the 1% level of confidence. The control variables for size and leverage are also significant in these regressions, with larger size being associated with higher returns during the crisis, and higher leverage with lower returns.

In the fifth column the Ethnically Favored dummy is also included. As mentioned earlier, data is missing on this variable for many of the firms, so the number of

observations declines in these specifications. The coefficient on Ethnically Favored is positive but not significant.

In the final specification both political favoritism variables are included. The magnitude of the coefficient on the political connection dummy decreases somewhat, but it remains significant. Together, these results indicate some strong effects on firm performance related to whether or not firms have political connections. Favoritism based on personal relationships had a strongly negative effect. This is broadly consistent with the Rajan and Zingales (1998b) view that liberalizing a “relationship-based” economy has negative consequences for firms that rely heavily on political connections.

More specifically, our results suggest that these negative consequences for politically connected firms are stronger when there are macroeconomic difficulties, for example because investors expect that implicit subsidies can no longer be provided. It is hard to know exactly what the Malaysian government was doing with regard to such subsidies in 1997-98, but Anwar’s policy was to follow tight budget discipline along the lines of a de facto IMF program (although Malaysia did not sign up for official IMF conditionality.) There was also a certain amount of political rhetoric regarding the need to reduce “cronyism” (and various statements from both Anwar and Mahathir about who was or was not a “crony’.) Our results indicate that the market interpreted the policies of July 1997 to August 1998 as particularly squeezing politically connected firms.

Note that column 4 of Table 4 shows Anwar connected firms did not do any better than politically connected firms during the “crisis period,” when Anwar was in charge of economic policy. However, if we control for being ethnically favored, in column 6, Anwar connected firms did better than politically connected firms in general through August 1998.

The Effects of Capital Controls

If politically connected firms performed poorly during the first phase of the crisis because the connections themselves decreased in value, then we might expect that the connected firms would rebound more than the non-connected firms when capital controls were reimposed. According to the Diamond-Rajan-Zingales view, imposing capital controls should make it easier to reestablish “business as usual” in which particular government officials help particular firms.

In general, it could be difficult to differentiate rebound based on political connections from a rebound based on operating characteristics of the firms. But specific political developments allow for a cleaner test for the effects of imposing capital controls. September 1998 marked both the imposition of capital controls and also the downfall of the second-most-powerful political figure in Malaysia, Deputy Prime Minister and Finance Minister Anwar. Once considered Mahathir’s certain successor, Anwar was fired on September 2, 1998, and later jailed on charges of corruption and sodomy on September 20, 1998. Clearly, these events should reduce the value of political connections for firms with strong ties to Anwar. To the extent that politically connected firms enjoyed a rebound in September due to the increased value of their connections, we would not expect the same increase in value to be enjoyed by Anwar-connected firms.

The first two columns of Table 5 presents the results of regressions of stock returns for September 1998 on the same variables as in Table 4. Politically connected firms as a whole enjoyed a rebound in September 1998. A higher return of some 21%, significant at the 1% level, can be attributed to political connections and is quite stable even when we also control for being ethnically favored. However, the coefficient on

Anwar Connected is negative, with the magnitude more than offsetting the gain attributed to political connections. The negative coefficient is significant at the 5% level in the first specification and at the 1% level in the second specification. This result suggests that the value of political connections themselves was an important determinant of the fortunes of Malaysian firms during the crisis, and was at least partly responsible for the relatively poor performance of connected firms.

The last two columns of Table 5 show that, in contrast, from October 1998 to September 2000, there was no differential stock price return across firms with various types of political connections. The imposition of capital controls appears to have been an unusually powerful political and market event.

Debt and Political Connections Compared

Our estimated coefficients indicate that the “political connections” effect is large relative to one of the most important characteristics of firms – their leverage. From column 3 of Table 4, the coefficient on the debt ratio is -0.0017. The variable is expressed in percentage points, i.e., for a firm with total debt to total assets (TD/TA) of 55%, the variable would be 55.0. So an increase in the debt ratio of 10 percentage points (e.g., from the median debt ratio of 24.4 to 34.4) would correspond to a lower crisis-period return of 1.7%. The coefficient on Politically Connected is -0.079, meaning that politically connected firms had a lower crisis period return of 7.9% compared to non-connected firms. Put together, this means that having political connections had a similar effect to that of increasing the debt ratio by 46.5 percentage points (e.g., from the median of 24.4% to around 70%). The standard deviation of TD/TA is 22.48, so having political

connections is roughly equivalent to a 2-standard deviation increase in the debt ratio during the “crisis period”.

For September 1998, the magnitude is similar. Based on column 1 of Table 5, the coefficient on TD/TA is 0.0037, and the coefficient on Politically Connected is 0.213. This would mean that in September 1998, the effect of having political connections was roughly equivalent to the effect of increasing the debt ratio by 57.6 percentage points. In sum, for both periods, the leverage effect is strong, but the political connections effect is arguably much stronger.

Robustness Checks

We have performed a number of tests in order to check the robustness of the central result that favored firms performed differently during the crisis and after the imposition of capital controls compared with non-favored firms. The results of some of these tests are shown in Table 6, which repeat the regressions of Tables 4 and 5 just for financial firms (as identified by a primary SIC code in the range 6000 to 6999 in *Worldscope*.) The results are quite similar. Politically connected financial firms suffered a large stock price fall than the average from July 1997 to August 1998, although those with connections to Anwar did not do as badly. In September 1998, the stock price of financial firms with political connections surged, but Anwar-connected firms performed significantly worse by comparison. After October 1998 there was no significant difference in stock price returns between Anwar-connected and other politically connected firms.

Table 7 provides further robustness checks. Table 7 shows the results of regressions of stock returns on the same variables as in Table 4, with the Ethnically

Favored variable omitted for simplicity. In Panel A the sample is restricted to non-financial firms only. That is, we have excluded all firms that have primary SIC in the range 6000 to 6999. The motivation for doing this is simply that financial data may not be entirely comparable between financial firms and non-financial firms. The results in Panel A are similar to the base case results. The coefficients on Politically Connected are significant in the columns for the crisis period and for September 1998, and the coefficient on Anwar Connected remains negative and significant in the column for September 1998.

Panel B presents the results of regressions with the sample restricted to firms included in the International Finance Corporation (IFC) Global index only. The motivation for using this subsample is to address concerns that some of the stocks in the sample may not be very liquid, and thus may be reporting uninformative stock prices. The IFC includes stocks in its Global index only if they are among the largest and most liquid stocks in the country. In these results the coefficients on Politically Connected and Anwar Connected change in magnitude, but retain their significance and expected sign.

We have also run an additional robustness check with additional variables included as controls (not reported in the tables). The additional variables are related to corporate governance, and have been shown in Mitton (2000) to have a significant impact on firm performance during the East Asian crisis. The first variable, “Diversified,” is a dummy variable set to 1 if the firm operates in more than one 2-digit SIC segment, and 0 otherwise. The next variable, “Ownership Concentration,” is defined as the total percent share ownership of all shareholders owning 5% or more of the firm. The other two variables are indicative of disclosure quality. The first, “Big Six Auditor,” is a dummy variable set to 1 if the firm’s financial statements are audited by one of the “Big Six”

international accounting firms⁹, and 0 otherwise. Finally, “ADR” is a dummy variable set to 1 if the firm has an ADR listed in the U.S., and 0 otherwise. In these results (not reported), the Politically Connected variable is largely unaffected by the introduction of these other variables. The magnitude of the coefficient falls slightly, but the level of significance is retained. The coefficient on Ethnically Favored, however, is not significantly different from zero, indicating some colinearity with the corporate governance variables.

6. Policy Changes After the Imposition of Capital Controls

What did the Malaysian government do once capital controls were imposed? The anecdotal evidence strongly supports the idea that they used their isolation from short-term capital flows to restore implicit subsidies to some key firms. These subsidies have taken three main forms.

First, the state-owned oil company, Petroliam Nasional Bhd. (known as Petronas), has been called upon to provide bailouts to particular distressed firms (Jayasankaran 1999a). In the most prominent case, Petronas injected cash into the national car company Perusahaan Otomobil Nasional (known as Proton) (Restall 2000a).¹⁰

Second, a number of companies have received advantageous deals directly from the government. In one widely reported case, the government is preparing to buy back the 29% stake held by Tajudin Ramli in Malaysian Air System (MAS), the operator of Malaysian airlines. The Far Eastern Economic Review reports that the taxpayer will pay

⁹ The “Big Six” firms are Arthur Andersen, Coopers & Lybrand, Deloitte Touche, Ernst & Young, KPMG Peat Marwick, and Price Waterhouse, which merged with Coopers after the crisis began.

¹⁰ Petronas is not the only government-controlled institution used to save firms. Khazanah Nasional Bhd., the powerful state-owned investment fund, has proved to be an alternative vehicle for providing financial support.

more than twice the market price, effectively bailing out Mr. Tajudin at the same time as putting MAS on a firmer financial footing.¹¹

Third, arguably the most significant changes have occurred within the banking system. The government has supervised a process of consolidation, including instructing some banks to merge with others. The final picture is not yet settled, but it is clear that bankers who were connected to Anwar are likely to do relatively badly and those with connections to Daim will do relatively better (Jayasankaran 1999b).

All three forms of subsidy may also benefit minority shareholders, for example because they put the supported firms on a stronger financial basis and reduce the incentives to transfer resources out of the firms (Johnson et al 2000). In addition, however, the government has permitted companies to carry out actions that might otherwise be considered violations of laws protecting minority shareholders. The most prominent case involves Renong, which is financially distressed but has a “well-connected” chairman (Restall 2000b). In late 2000, a subsidiary of Renong, United Engineers Malaysia (which has close ties to UMNO) agreed to purchase \$1.8bn of problem assets from Renong. Shareholders have protested this action.

While it is impossible to measure the size and nature of Malaysian subsidies directly, taken together this anecdotal evidence supports the notion that well-connected firms received direct and indirect financial support from the government after the imposition of capital controls. This suggests that the market reaction to the imposition of capital controls in September 1998 was correct in anticipating that particular well-connected firms would receive greater subsidies.

¹¹ Mr. Tajudin (also known formally as Tan Sri Tajudin) has a great deal of debt: \$263bn personally and 900m ringgit borrowed by Naluri, the listed company in which Mr. Tajudin owns 44% and which in turn

7. Conclusion

Do capital controls affect all firms equally or do some firms benefit more than others do in a “relationship-based” capitalist system? The evidence from Malaysia strongly supports the idea that firms with connections to strong politicians gained more when capital controls were imposed in September 1998. This supports, although it does not prove, the Diamond-Rajan-Zingales idea that capital controls are an essential part of what makes “relationship-based” capitalism function. It is consistent with, although again does not prove, the idea that relaxing capital controls while leaving the other institutions of a “relationship-based” system intact, may cause problems.

Clearly, the mere presence of elements of political connections in East Asian economies does not mean that “political relationships” caused the crisis or even that “relationship-based capitalism” was a suboptimal system for these countries. While politically connected firms were hit harder during the crisis, the evidence presented here does not suggest that this was a punishment for past misdeeds and deficiencies. The evidence suggests rather that the crisis implied these favored firms might lose a valuable subsidy, and the imposition of capital controls was interpreted by the market as indicating that this subsidy would be restored.

holds the stake in MAS (Asian Wall Street Journal weekly edition, July 31-August 6, 2000). There has been difficulty servicing these loans.

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Table 1
Summary statistics and ratio analysis
All Malaysian firms with data in Worldscope database

	POLITICAL CONNECTIONS						ETHNIC FAVORITISM					
	All Firms			Non-Financial Firms			All Firms			Non-Financial Firms		
	Politically Connected	Non-Connected	(p-value)	Politically Connected	Non-Connected	(p-value)	Ethnically Favored	Non-Favored	(p-value)	Ethnically Favored	Non-Favored	(p-value)
Number of Firms	67	357		50	262		84	234		63	176	
RETURNS												
July 1997 to August 1998	-83.9%	-78.6%	(0.010)	-82.7%	-78.2%	(0.082)	-78.5%	-81.3%	(0.110)	-77.6%	-81.1%	(0.099)
September 1998	53.2%	37.1%	(0.000)	49.0%	36.5%	(0.015)	41.0%	41.5%	(0.917)	39.9%	39.7%	(0.974)
October 1998 to Sept. 2000	80.0%	78.4%	(0.906)	76.5%	73.2%	(0.832)	83.3%	73.3%	(0.453)	88.6%	65.4%	(0.120)
ASSET SIZE AND GROWTH												
Total Assets (Ringgit '000)	4,592,439	2,108,916	(0.014)	3,220,966	1,169,136	(0.000)	3,275,588	2,358,121	(0.374)	1,669,385	1,675,416	(0.992)
Total Asset Growth (1-year)	34.9%	47.7%	(0.421)	38.9%	42.9%	(0.817)	52.7%	36.5%	(0.107)	49.2%	33.1%	(0.093)
VALUATION												
Book-to-Market Ratio	0.47	0.45	(0.568)	0.45	0.42	(0.450)	0.45	0.45	(0.968)	0.46	0.42	(0.330)
PROFITABILITY												
ROA	6.44%	9.28%	(0.286)	7.17%	8.45%	(0.574)	7.24%	9.41%	(0.444)	7.37%	8.40%	(0.633)
Profit Margin	9.66%	6.60%	(0.868)	8.17%	0.31%	(0.746)	9.87%	2.22%	(0.713)	6.39%	-3.53%	(0.710)
LIQUIDITY												
Current Ratio	1.54	1.82	(0.433)	1.55	1.72	(0.516)	1.82	1.88	(0.866)	1.82	1.72	(0.724)
Quick Ratio	1.21	1.27	(0.791)	1.21	1.27	(0.807)	1.51	1.26	(0.316)	1.51	1.26	(0.312)
ASSET UTILIZATION												
Asset Turnover Ratio	0.47	0.56	(0.147)	0.56	0.66	(0.170)	0.52	0.54	(0.719)	0.58	0.63	(0.415)
Inventory Turnover Ratio	33.90	16.58	(0.149)	34.42	17.13	(0.152)	15.34	20.54	(0.639)	15.61	20.81	(0.645)
LEVERAGE												
Total Debt/Total Assets (TD/TA)	34.7%	23.4%	(0.000)	37.7%	24.6%	(0.000)	24.7%	26.0%	(0.615)	26.0%	27.1%	(0.700)
Short-Term Debt/Total Debt (STD/TD)	57.2%	62.8%	(0.216)	59.3%	62.2%	(0.574)	57.2%	62.2%	(0.255)	56.5%	62.2%	(0.247)
Increase in TD/TA	6.25%	2.02%	(0.062)	7.93%	2.25%	(0.046)	1.36%	2.75%	(0.369)	1.48%	3.03%	(0.384)
Increase in STD/TD	-7.70%	-1.10%	(0.088)	-9.00%	-0.50%	(0.062)	-0.80%	-3.10%	(0.575)	-1.20%	-3.80%	(0.563)

Summary statistics of Malaysian firms in the Worldscope database that meet minimal data requirements. "Politically connected" refers to a firm with identifiable political connections from Gomez and Jomo (1997). "Ethnically favored" refers to a firm controlled by Bumiputeras (primarily indigenous Malays). A financial firm is defined as one with primary SIC in the range 6000-6999. Listed p-values are from t-test of differences of means. Total number of firms in ethnic favoritism category does not add to total sample size of 424 because ethnicity not identifiable for some firms. Financial figures are calculated from Worldscope data and come from the last reported financial statements prior to July 1997. Crisis period is defined as July 1997 to August 1998. All figures are simple averages and based on pre-crisis data unless noted otherwise. Data points are missing for some firms, thus the number of observations included for each average may vary.

Table 2
Political Favoritism and Pre-Crisis Profitability

	Panel A: All Firms			Panel B: Non-financial firms only		
	Industry controls only	All controls	All controls and ethnic favoritism	Industry controls only	All controls	All controls and ethnic favoritism
<i>Dependent Variable is Pre-Crisis Profitability</i>						
Intercept	3.850 [0.75]	6.564 [0.38]	13.685 [0.71]	3.406 [0.67]	-4.930 [-0.31]	6.878 [0.37]
Politically Connected	-3.192 [-1.13]	-2.383 [-0.84]	-1.727 [-0.63]	-1.194 [-0.45]	-1.557 [-0.45]	1.257 [0.58]
Ethnically Favored			-4.158 [-1.26]			-0.923 [-0.38]
Log(Total Assets)		-0.881 [-0.30]	-2.820 [-0.88]		1.317 [0.50]	-1.185 [-0.38]
Growth (1-yr. In Total Assets)		5.228 [1.59]	13.973 [1.96]		1.482 * [1.67]	3.873 ** [2.22]
Industry Dummies	Included	Included	Included	Included	Included	Included
Number of Observations	357	318	235	270	244	182
R-squared	0.052	0.150	0.305	0.049	0.070	0.093

Regressions to analyze the effect of political connections on profitability before 1997. Panel A shows regressions of profitability (return on assets) on political favoritism variables and other control variables using data from prior to the beginning of the East Asian crisis in July 1997. All Malaysian firms with available data in the Worldscope database are included. Panel B shows regressions using just non-financial firms. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. "Politically Connected" means firm has an identifiable connection with key government officials from Gomez and Jomo (1997). "Ethnically Favored" means firm is controlled by Bumiputeras (primarily ethnic Malays). Industry dummies included for 12 of 13 industries as defined in Campbell (1996), with industry corresponding to the primary SIC code of each firm. Number of observations varies in each specification due to missing data points.

Table 3
Political favoritism and pre-crisis leverage

	Panel A: All Firms			Panel B: Non-Financial Firms Only		
	Industry controls only	All controls	All controls and ethnic favoritism	Industry controls only	All controls	All controls and ethnic favoritism
	<i>Dependent Variable is Pre-Crisis Debt-to-Asset Ratio</i>					
Intercept	20.901 *** [4.27]	23.038 [1.43]	12.180 [0.86]	20.604 *** [4.24]	23.312 [1.23]	16.563 [1.05]
Politically Connected	11.122 ** [2.21]	10.873 * [1.92]	4.308 [1.48]	12.755 * [1.94]	13.186 ** [2.07]	5.331 [1.47]
Ethnically Favored			-2.858 [-1.08]			-3.401 [-1.15]
Log(Total Assets)		0.382 [0.14]	3.043 [1.32]		0.604 [0.85]	2.657 [1.02]
Profitability (ROA)		-0.446 * [-1.67]	-0.223 ** [-2.06]		-0.984 ** [-2.35]	-0.529 [-2.68]
Growth (1-yr. In Total Assets)		1.992 [1.55]	0.955 [0.52]		1.074 [0.92]	-2.345 * [-1.24]
Industry Dummies	Included	Included	Included	Included	Included	Included
Number of Observations	405	318	235	305	244	182
R-squared	0.103	0.216	0.199	0.099	0.359	0.275

Regressions to analyze the effect of political connections on debt ratios. Panel A shows regressions of debt ratios (total debt/total assets) on political favoritism variables and other control variables using data from prior to the beginning of the East Asian crisis in July 1997. All Malaysian firms with available data in the Worldscoop database are included. Panel B shows the same regressions just for non-financial firms. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. Politically Connected means firm has an identifiable connection with key government officials from Gomez and Jomo (1997). "Ethnically Favored" means firm is controlled by Bumiputeras (primarily ethnic Malays). Industry dummies included for 12 of 13 industries as defined in Campbell (1996), with industry corresponding to the primary SIC code of each firm. Number of observations varies in each specification due to missing data.

Table 4
Political favoritism and crisis-period stock returns

Coefficient estimates from regressions of crisis-period stock returns on political favoritism variables

	Political connections, without controls	Political connections, with controls, no leverage	Political connections, with controls, incl. leverage	Political/Anwar connections, leverage included	Ethnic favoritism, leverage included	Political/Anwar connections and ethnic favoritism
<i>Dependent Variable is the percentage change in stock price from July 1997 to August 1998</i>						
Intercept	-0.786 *** [-91.77]	-1.251 *** [-15.53]	-1.268 *** [-15.87]	-1.267 *** [-15.83]	-1.106 *** [-13.23]	-1.161 *** [-13.16]
Politically Connected	-0.053 *** [-3.29]	-0.092 *** [-4.74]	-0.079 *** [-3.83]	-0.083 *** [-3.58]		-0.0675 *** [-2.87]
Anwar Connected				0.021 [0.66]		0.0567 * [1.79]
Ethnically Favored					0.019 [1.21]	0.0184 [1.17]
Log(Total Assets)		0.070 *** [4.70]	0.082 *** [5.34]	0.081 *** [5.30]	0.050 *** [3.23]	0.061 *** [3.68]
Book/Market Ratio		-0.011 [-0.33]	-0.042 [-1.28]	-0.040 [-1.20]	0.003 [0.09]	0.007 [0.19]
Total Debt/Total Assets			-0.0017 ** [-2.27]	-0.0017 ** [-2.23]	-0.0029 *** [-7.47]	-0.0027 *** [-7.06]
Industry Dummies	No	Included	Included	Included	Included	Included
Number of Observations	424	424	405	405	307	307
R-squared	0.015	0.201	0.264	0.264	0.317	0.339

Regressions of stock returns on political favoritism variables and other control variables over the East Asian crisis period of July 1997 to August 1998. All Malaysian firms with available data in the Worldscope database are included. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. "Politically Connected" means firm has an identifiable connection with key government officials from Gomez and Jomo (1997). "Ethnically Favored" means firm is controlled by Bumiputeras (primarily ethnic Malays). Industry dummies included for 12 of 13 industries as defined in Campbell (1996), with industry corresponding to the primary SIC code of each firm. Number of observations varies in each specification due to missing data points.

Table 5
Political favoritism and rebound-period stock returns

Coefficient estimates from regressions of stock returns on political favoritism variables

	September 1998		Oct. 1998 to Sept. 2000	
	Without ethnicity variable	With ethnicity variable	Without ethnicity variable	With ethnicity variable
	<i>Dependent Variable is percentage change in stock price in period indicated</i>			
Intercept	0.617 *** [2.90]	0.426 [1.65]	1.382 [0.95]	1.635 [1.50]
Politically Connected	0.213 *** [3.25]	0.207 *** [2.76]	-0.138 [-0.82]	-0.081 [-0.46]
Anwar Connected	-0.256 ** [-2.45]	-0.372 *** [-2.81]	0.167 [0.33]	-0.234 [-0.81]
Ethnically Favored		-0.017 [-0.42]		0.039 [0.30]
Log(Total Assets)	-0.028 [-0.83]	0.009 [0.21]	0.099 [1.08]	0.073 [0.75]
Book/Market Ratio	0.088 [1.23]	0.082 [0.82]	-0.102 [-0.61]	-0.004 [-0.02]
Total Debt/Total Assets	0.0037 *** [3.90]	0.0037 *** [3.33]	0.0027 [1.09]	0.0026 [0.95]
Industry Dummies	Included	Included	Included	Included
Number of Observations	395	298	375	285
R-squared	0.167	0.172	0.087	0.117

Regressions of stock returns on political favoritism variables and other control variables over the rebound period beginning September 1998. All Malaysian firms with available data in the Worldscope database are included. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. "Politically Connected" means firm has an identifiable connection with key government officials from Gomez and Jomo (1997). "Anwar Connected" means the firm is connected primarily through Anwar Ibrahim. "Ethnically Favored" means firm is controlled by Bumiputeras (primarily ethnic Malays). Industry dummies included for 12 of 13 industries as defined in Campbell (1996), with industry corresponding to the primary SIC code of each firm. Number of observations varies in each specification due to missing data points.

Table 6
Political favoritism and stock returns of financial firms

Coefficient estimates from regressions of stock returns on political connections variables (financial firms only)

	July 1997 to Aug. 1998 (without leverage)	July 1997 to Aug. 1998 (with leverage)	Sept. 1998	Oct. 1998 to Sept. 2000	July 1997 to Sept. 2000
	<i>Dependent Variable is percentage change in stock price in period indicated</i>				
Intercept	-0.838 *** [-8.60]	-0.869 ** [-8.13]	0.470 * [1.74]	-2.274 [-2.12]	-1.004 *** [-3.20]
Politically Connected	-0.103 *** [-5.95]	-0.090 *** [-4.88]	0.415 *** [3.45]	-0.083 [-0.17]	-0.043 [-0.59]
Anwar Connected	0.090 *** [2.73]	0.055 * [1.86]	-0.368 ** [-2.10]	0.052 [0.11]	0.014 [0.09]
Log(Total Assets)	0.007 [0.45]	0.018 [1.09]	-0.023 [-0.49]	0.501 *** [2.68]	0.073 [1.38]
Total Debt/Total Assets		-0.002 ** [-2.41]	0.002 [0.99]	0.003 [0.43]	0.000 [0.08]
Number of Observations	112	100	99	93	91
R-squared	0.072	0.119	0.186	0.101	0.033

Regressions of stock returns on political connections indicator and other control variables over the East Asian crisis period of July 1997 to August 1998 and subsequent rebound periods. All Malaysian firms with available data in the Worldscope database are included provided their SIC code identifies them as a financial firm. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. "Politically Connected" means firm has an identifiable connection with key government officials from Gomez and Jomo (1997); "Anwar Connected" means Anwar Ibrahim is the primary connection.

Table 7
Robustness checks

Coefficient estimates from regressions of stock returns on political favoritism variables

	A: Financial Firms Excluded		B: IFC Global Firms Only	
	June 1997 to Aug. 1998	Sept. 1998	June 1997 to Aug. 1998	Sept. 1998
	<i>Dependent Variable is percentage change in stock price in period indicated</i>			
Intercept	-1.319 *** [-13.86]	0.578 ** [2.49]	-1.451 *** [-11.08]	1.683 *** [3.59]
Politically Connected	-0.076 ** [-2.57]	0.1445 ** [2.01]	-0.055 ** [-2.05]	0.239 ** [2.53]
Anwar Connected	0.001 [0.03]	-0.234 * [-1.89]	-0.01 [-0.25]	-0.383 *** [-2.68]
Log(Total Assets)	0.092 *** [4.99]	-0.021 [-0.56]	0.112 *** [5.25]	-0.130 ** [-2.12]
Book/Market Ratio	-0.069 * [-1.72]	0.113 [1.31]	-0.146 *** [-2.97]	0.101 [0.76]
Total Debt/Total Assets	-0.0017 ** [-2.13]	0.0038 *** [3.72]	-0.0011 [-1.50]	0.0038 ** [2.14]
Industry Dummies	Included	Included	Included	Included
Number of Observations	305	296	149	143
Adjusted R-squared	0.292	0.177	0.430	0.363

Regressions of stock returns on political favoritism variables and other control variables over the East Asian crisis period of July 1997 to August 1998. All Malaysian firms with available data in the Worldscope database are included. Numbers in parentheses are heteroskedasticity-robust t-statistics. Asterisks denote levels of significance: *** means significant at the 1% level, ** is the 5% level, and * is the 10% level. "Politically Connected" means firm has an identifiable connection with key government officials from Gomez and Jomo (1997). Industry dummies included for 12 of 13 industries as defined in Campbell (1996), with industry corresponding to the primary SIC code of each firm. Number of observations varies in each specification due to missing data points.

Figure 1
Index of Malaysian stocks, 1990-1999
Equal-weighted indices of firms in Worldscope database

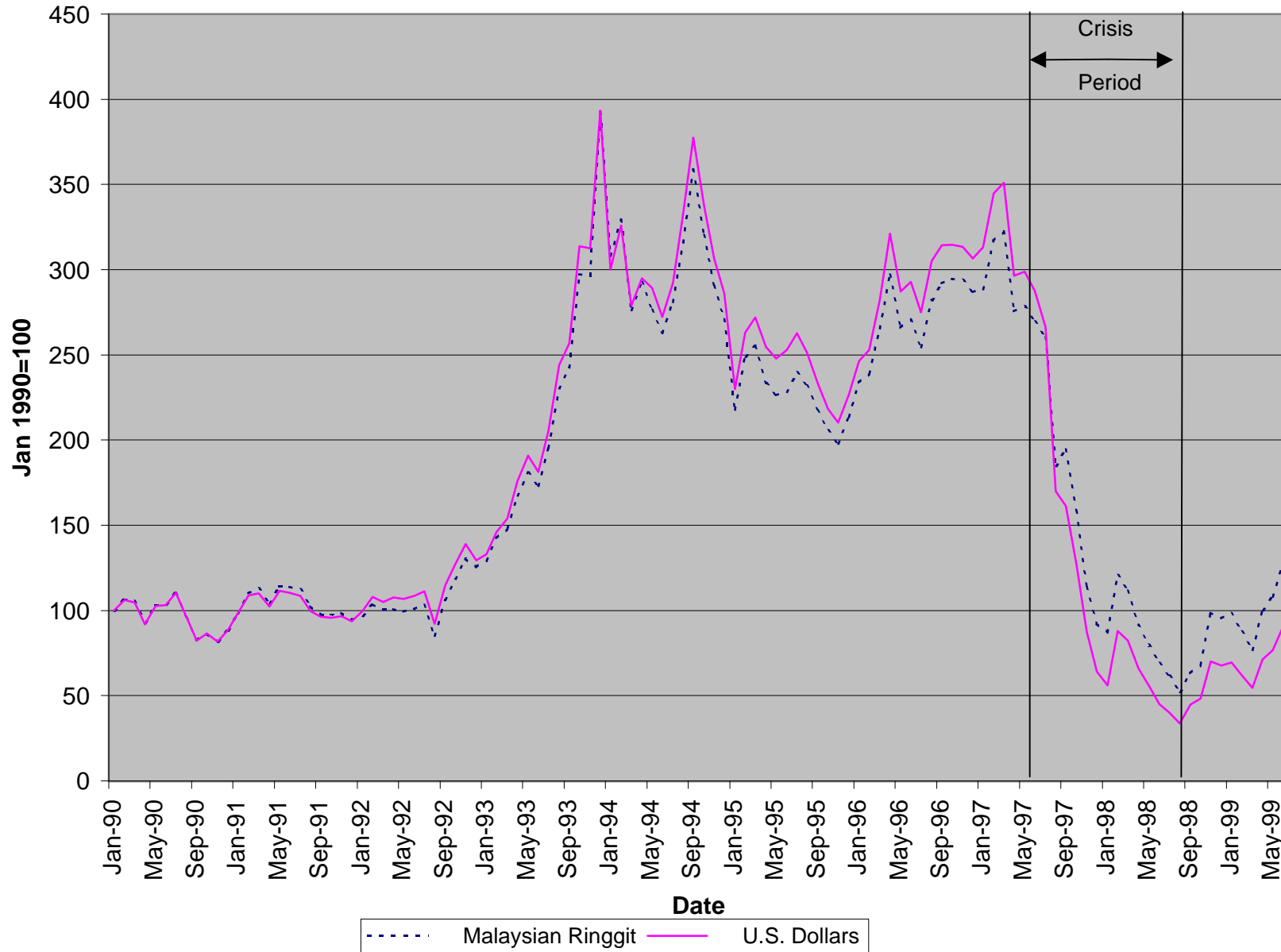
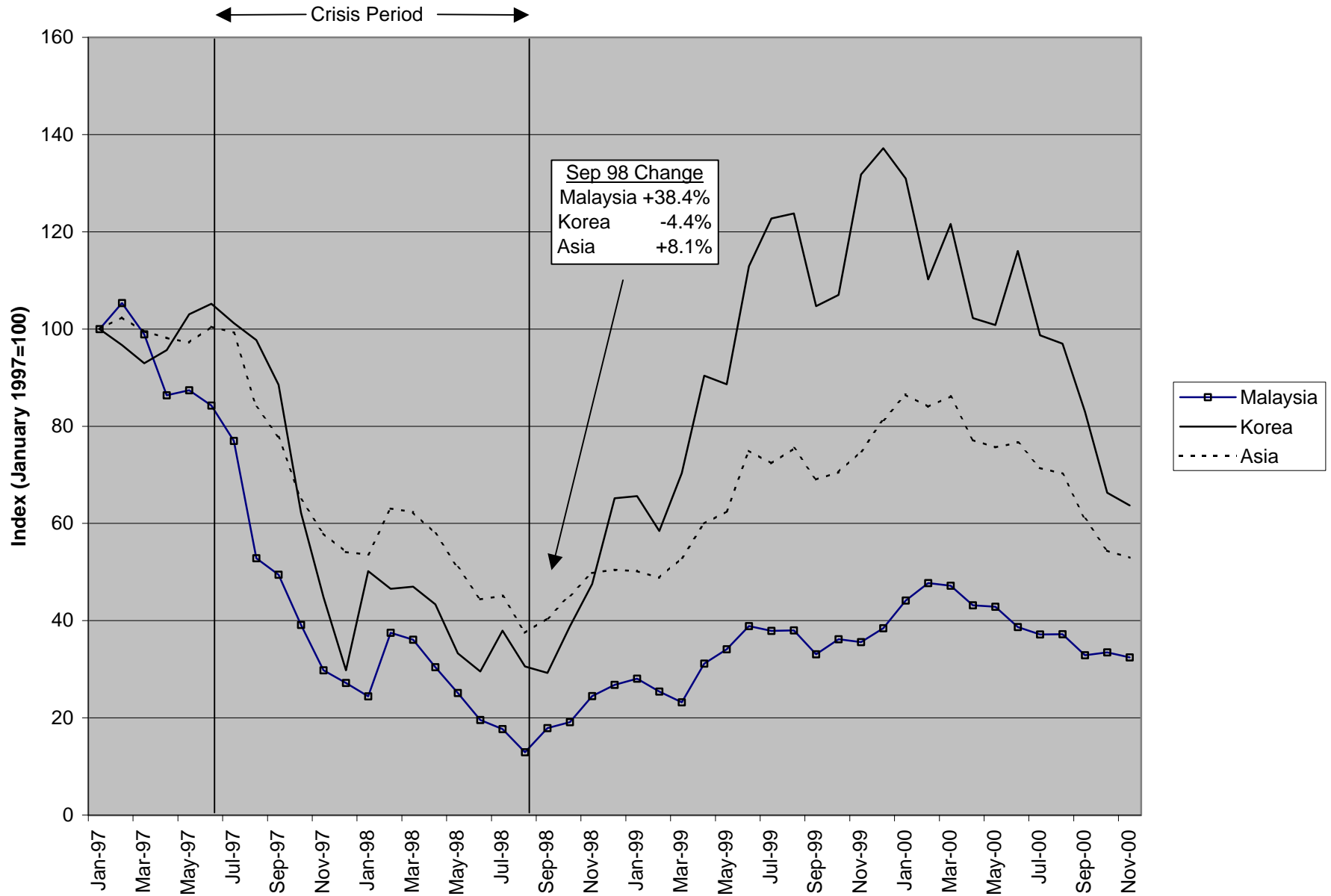


Figure 2
Stock Indexes: Malaysia compared with Korea and an Asian composite
(IFC Global Indexes in \$U.S.)



Appendix 1
Politically connected Malaysian firms

COMPANY NAME	Primary Connected Major Shareholder/Director	Primary Political Connection
ADVANCE SYNERGY BHD	Ahmad Sebi Abu Bakar	Daim, Anwar
ANTAH HOLDINGS BHD	Negeri Sembilan royalty	Mahathir
AOKAM PERDANA BHD	Samsudin Abu Hassan	Daim
ARAB MALAYSIAN CORPORATION BHD	Azman Hashim	Unspecified
AUSTRAL AMALGAMATED BHD	Samsudin Abu Hassan	Daim
BAN HIN LEE BANK BHD	Quek Leng Chan	Anwar
BANDAR RAYA DEVELOPMENTS BHD	MCA	MCA
BERJAYA GROUP BHD	Vincent Tan Chee Yioun	Daim
BERJAYA SPORTS TOTO BHD	Vincent Tan Chee Yioun	Daim
COLD STORAGE (MALAYSIA) BHD	Basir Ismail, Samsudin Abu Hassan	Daim
CONSTRUCTION AND SUPPLIES HOUSE	Joseph Ambrose Lee, Abdul Mulok Awang Damit	Daim
CYCLE & CARRIAGE BINTANG BHD	Basir Ismail	Daim
DAMANSARA REALTY BHD	Koperasi Usaha Bersatu Bhd	UMNO
DATUK KERAMAT HOLDINGS BHD	Koperasi Usaha Bersatu Bhd	UMNO
DIVERSIFIED RESOURCES BHD	Yahya Ahmad, Nasaruddin Jalil	Anwar, Mahathir
EKRAN BHD	Ting Pek Khiing	Daim, Mahathir, Abdul Taib Mahmud
FABER GROUP BHD	UMNO	UMNO
GADEK (MALAYSIA) BHD	Yahya Ahmad, Nasaruddin Jalil	Anwar, Mahathir
GEORGE TOWN HOLDINGS BHD	Tunku Abdullah	Mahathir
GOLDEN PLUS HOLDINGS BHD	Ishak Ismail, Mohamed Sarit Haji Yusoh	Anwar
GRANITE INDUSTRIES BHD	Samsudin Abu Hassan	Daim
HICOM HOLDINGS BHD	Yahya Ahmad	Anwar, Mahathir
HO HUP CONSTRUCTION COMPANY BHD	Halim Saad	Daim
HONG LEONG BANK BHD	Quek Leng Chan	Anwar
HONG LEONG CREDIT BHD	Quek Leng Chan	Anwar
HONG LEONG INDUSTRIES BHD	Quek Leng Chan	Anwar
HONG LEONG PROPERTIES BHD	Quek Leng Chan	Anwar
HUME INDUSTRIES (MALAYSIA) BHD	Quek Leng Chan	Anwar
IDRIS HYDRAULIC (MALAYSIA) BHD	Ishak Ismail	Anwar
KAMUNTING CORPORATION BHD	T.K. Lim	Daim
KFC HOLDINGS (MALAYSIA) BHD	Ishak Ismail	Anwar
KINTA KELLAS PUBLIC LIMITED CO	Halim Saad	Daim
KRETAM HOLDINGS BHD	UMNO Youth, Wan Azmi Wan Hamzah	Daim
KUMPULAN FIMA BHD	Basir Ismail	Daim
LAND & GENERAL BHD	Wan Azmi Wan Hamzah	Daim
LANDMARKS BHD	Samsudin Abu Hassan	Daim

(Continued on next page)

Appendix 1 (Continued)
Politically connected Malaysian firms

COMPANY NAME	Primary Connected Major Shareholder/Director	Primary Political Connection
MAGNUM CORPORATION BHD	T.K. Lim	Daim
MALAKOFF BHD	Malaysian Resources	UMNO
MALAYSIAN AIRLINE SYSTEM BHD	Tajudin Ramli	Daim
MALAYSIAN RESOURCES CORPORATION	Wan Azmi Wan Hamzah	UMNO, Anwar
METROPLEX BHD	Dick Chan	Unspecified
MULTI-PURPOSE HOLDINGS BHD	T.K. Lim	Daim
MYCOM BHD	Mohd Tamrin Abdul Ghafar	Ghafar Baba
NANYANG PRESS (MALAYA) BHD	Quek Leng Chan	Anwar
NEW STRAITS TIMES PRESS (MALAYSIA)	Unspecified	Anwar
O.Y.L. INDUSTRIES BHD	Quek Leng Chan	Anwar
PACIFIC CHEMICALS BHD	Ting Pek Khiing, Robert Tan	Daim, Mahathir, Abdul Taib Mahmud
PENKALEN HOLDINGS BHD	Joseph Ambrose Lee, Abdul Mulok Awang Damit	Daim
PRIME UTILITIES BHD	Ahmad Sebi Abu Bakar	Daim, Anwar
PROMET BHD	Ibrahim Mohamed	Unspecified
R.J. REYNOLDS BHD	Wan Azmi Wan Hazmah	Daim
RASHID HUSSAIN BHD	Wan Azmi Wan Hamzah	Daim
RENONG BHD	Halim Saad	Daim
SAPURA TELECOMMUNICATIONS BHD	Unspecified	Mahathir
SETRON (MALAYSIA) BHD	Penang Bumiputera Foundation, Kamarudding Jaafar	Anwar
SISTEM TELEVISYEN MALAYSIA BHD	UMNO Companies	UMNO
STAR PUBLICATIONS (MALAYSIA) BHD	Vincent Tan Chee Yioun	Daim
TAIPING CONSOLIDATED BHD	Vincent Tan Chee Yioun	Daim
TANJONG PUBLIC LIMITED COMPANY	T. Ananda Krishnan	Mahathir
TECHNOLOGY RESOURCES INDUSTRIES	Tajudin Ramli	Daim
TIME ENGINEERING BHD	Halim Saad	Daim
TONGKAH HOLDINGS BHD	Mokhzani Mahathir	Mahathir
UNIPHONIX CORPORATION BHD	Ibrahim Mohamed	Unspecified
UNIPHONE TELECOMMUNICATIONS BHD	Shamsuddin bin Abdul Kadir	Mahathir
UNITED ENGINEERS (MALAYSIA) BHD	Halim Saad	Daim
UNITED MERCHANT GROUP BHD	Ahmad Sebi Abu Bakar	Daim, Anwar
UNITED PLANTATIONS BHD	Basir Ismail	Daim
UTUSAN MELAYU (MALAYSIA) BHD	UMNO	UMNO
WEMBLEY INDUSTRIES HOLDINGS BHD	Ishak Ismail	Anwar
YTL CEMENT BHD	Yeoh Tiong Lay	Unspecified
YTL CORPORATION BHD	Yeoh Tiong Lay	Unspecified
YTL POWER INTERNATIONAL BHD	Yeoh Tiong Lay	Unspecified

Lists Malaysian firms in the Worldscope database which have an identifiable tie with high ranking political figures. The information is compiled from Gomez and Jomo (1997). Under "Primary Political Connection" Mahathir refers to Mahathir Mohamad, Daim refers to Daim Zainuddin, and Anwar refers to Anwar Ibrahim. "UMNO" refers to the United Malays' National Organisation, an ethnically based political party that dominates the government's ruling coalition.