CORPORATE GOVERNANCE, COMPETITION AND FINANCE: RE-THINKING LESSONS FROM THE ASIAN CRISIS

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Abstract
This paper critically examines the Greenspan-Summers-IMF thesis concerning the Asian crisis, which suggested that the fundamental causes of the Asian crisis lay in the microeconomic behavior of economic agents in these societies – in the Asian way of doing business. The paper concentrates on corporate governance and competition in emerging markets and outlines the international significance of these issues in the context of the New International Financial Architecture and the Doha Development Round at the WTO. It reviews new analyses and fresh evidence on corporate governance, corporate finance and on competition in emerging and mature markets, to suggest that the basic thesis above is not valid and the consequent policy proposals are therefore deeply flawed.

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Corporate Governance, Competition and Finance: Re-thinking lessons from the Asian Crisis

I. Introduction

This paper examines micro-economic behaviour of economic agents – corporations, financial institutions and governments in emerging economies. It focuses specifically on issues of corporate governance, financing of corporate growth as well as those relating to the nature and degree of competition in these countries. Such questions have not previously received much attention in emerging economies. The emphasis in these countries as well as in the development literature has generally been on macroeconomic issues of aggregate savings and investment, economic growth, balance of payments etc. Micro-economic issues are certainly discussed but largely this is in relation to cost benefit analysis of government and private sector projects[1]. There has, however, been scarce recognition of the fact that economic development is actually carried out by organisations and by corporations, large and small. The role of domestic, private corporations in economic development is a particularly under-researched area[2].

However, the Asian crisis of 1997-2000 has radically changed the research and policy agenda for emerging markets. As a consequence of this crisis, as well as those in Russia, Brazil, Argentina etc., issues of corporate governance and behaviour, the relationship between corporations and financial institutions as well as questions relating to the intensity of competition now command international attention. A main reason for these changed priorities has arguably been the important thesis, concerning the Asian crisis, first advanced by leading U.S. policymakers notably Alan Greenspan (1998) and Larry Summers (1998), and developed further by the IMF (see references below). Alan Greenspan, the chairman of the US Federal Reserve, in his 1998 testimony to a Congressional Committee suggested that, in the last decade or so, the world has observed "a consensus towards, for want of a better term, the Western form of free-market capitalism as the model which should govern how each individual country should run its economy…We saw the breakdown of the Berlin wall in 1989 and the massive shift away from central planning *towards free market capitalist types of structures*. Concurrent to that was the really quite dramatic, very strong growth in what appeared to be a competing capitalist-type system in Asia. And as a consequence of that, you had *developments of types of structures which I believe at the end of the day were faulty*, but you could not demonstrate that so long as growth was going at 10 percent a year"[3] [italics added]. Similarly, Summers (1998) stated: "(this crisis) is profoundly different because it has its roots not in improvidence but in *economic structures*. The problems that must

be fixed are much more microeconomic than macroeconomic, and involve the private sector more and the public sector less." [italics added]. Greenspan and Summers' structuralist view of the crisis was reflected in the IMF's (1998a, 1998b) analysis and particularly in its reform program for the crisis-affected countries. [4]

Essentially, the Greenspan-Summers-IMF (GSI) thesis asserted that although certain macroeconomic disequilibria may have provided a trigger for the crisis, its fundamental causes lay in the day-to-day microeconomic behaviour of economic agents in these societies. In short it was argued that what was at fault was nothing less than the Asian way of doing business and the institutional structures which supported that kind of business culture. This raised specifically issues of corporate governance, corporate finance, competition and more generally the relationship between the banks, the corporations and the government. How these variables and institutions interacted with each other to generate the crisis in terms of the GSI analysis is outlined in the next section, which also explains the implications of these interactions for the New International Financial Architecture (NIFA) and the WTO's Doha Development Round. G7 countries have been attempting to create NIFA in the aftermath of the Asian crisis in order to forestall future crisis. Doha Round refers to current discussions at the WTO in Geneva, following the ministerial meeting in Doha in 2001.[5]

The main purpose of this paper is to critically examine important aspects of the above Greenspan-Summers-IMF's structuralist thesis concerning the crisis. It considers empirically what is the state of corporate governance and competition in the crisis-affected countries and more generally the emerging markets, and to what extent, if any, these accord with the requirements of the structuralist thesis. For this purpose the paper reports and builds on the authors' recent empirical work in this area[6] and reviews new evidence on the state of corporate governance, how corporations finance their growth, and the state of competition in emerging markets. This research takes an international perspective and, wherever possible, it provides explicit comparisons between emerging and mature markets.

The findings of this paper are not only of intellectual interest because of their direct bearing on the structuralist thesis concerning the Asian crisis but equally importantly these also help us to assess the desirability of IMF's reform program in these countries. As IMF (1998a) noted 'The IMF-supported programs and policy advice to the Asian crisis countries have placed particular emphasis on wide-ranging structural reforms of the financial and corporate sectors, competition and governance policies and trade regimes.' [7]

The paper contributes firstly by identifying the important domestic and international policy issues which arise from the analysis of corporate sector behaviour in emerging countries. Secondly, it contributes by assessing the validity of some of the main elements of the influential Greenspan-Summers-IMF thesis. Thirdly, it also contributes by documenting important empirical anomalies which are revealed when the financing of corporate growth and the state of competition in emerging and mature markets are systematically compared. Specifically the paper finds that contrary to what one may have expected *a priori* big developing country corporations rely to a surprisingly large extent on external rather than internal finance and within external finance on equity rather than debt. Similarly, the paper suggests that contrary again to *a priori* expectations competition is no less intense in emerging markets than in advanced countries. The paper puts forward explanations to account for these anomalies, but in the process new ones arise.

The rest of the paper is organised as follows. After examining analytically the role of corporate governance, corporate finance and competition in the Asian crisis, in Section II, Section III reviews new information which has recently become available on corporate governance and comments on questions of crony capitalism and its relationship to economic crises. Analysis and evidence on the financing of corporate growth and an examination of corporate capital structures in emerging and mature economies are presented in Section IV. Section V considers the state of competition in emerging markets and reports on its nature and intensity. The results for emerging countries are systematically compared with those obtained by other investigators for advanced economies, using exactly the same methodology. Section VI provides a brief comparison of the structuralist hypothesis concerning the crisis with an alternative that it was mainly caused by precipitate financial liberalisation and Section VII concludes.

II. The Asian Crisis, Corporate Governance, Corporate Finance and Competition: Analytical Issues

The Asian crisis, which began with the floating of the Thai bhat in July 1997, quickly spread to other leading Asian developing economies of Indonesia, Malaysia and Korea. Both the severity of the crisis (in many respects it was virtually a financial meltdown), as well as the fact that it engulfed some of the fastest growing and what were generally regarded as well managed economies in the world, caused consternation among policy makers in the G7 countries and in the international financial institutions. However soon afterwards, once it became clear that the crisis was unlikely to spill over into industrial countries, the Greenspan-Summers-IMF thesis emerged[8]. The argument of their structural theory of the crisis is complex and has several strands[9].

First, it is suggested that poor corporate governance and lack of competition led to over-investment by Asian corporations. IMF (1998a) noted, in Korea, government policies, such as access to easy credit through directed lending, played an important role in allowing the chaebols (the large conglomerates) to pursue growth and market share, with inadequate attention to profitability. This excessive investment resulted in reduced profits because of excess capacity which existed in the world markets. However despite that, easy access to credit induced the chaebols to continue to invest and diversify away from core businesses into other industries, often also characterized by too large capacity. Secondly, over-investment in turn reduced rates of return which led to falls in share prices and ultimately brought about a full-blown currency and banking crisis in part because of the weakening of the equity bases of the banks. Thus in this view the crisis was not caused by market failure but rather by institutional failure in Asian economies which were unable to curb excessive corporate investment due to deficiencies in internal governance mechanisms.

The suddenness of the crisis and its severity were attributed to the cronyistic relationships between corporations, financial institutions and governments. The corporate sector was highly vulnerable because of its large debt/equity ratios, itself a product of crony capitalism. The financial institutions, it is suggested, were weakened by 'relationship banking' and were therefore also vulnerable. An external economic shock involving a rise in interest rates or a fall in the exchange rates would therefore greatly damage the corporate sector. Similarly, as the Camdessus quotation in note 4 indicates, the lack of transparency in the Asian style of business - because of cross holdings and hundreds of subsidiaries owned by the large conglomerates – made it difficult to get a true picture of the financial state of a corporate group as a whole. It is suggested that once the investors became aware of these informational flaws they reassessed the risks and withdrew their capital from the crisis stricken economies, thereby exacerbating the crisis.[10]

In the structural theory of the Asian Crisis the role of competition is at first sight somewhat ambiguous. On the one hand, it is suggested that there was a competition deficiency within these countries as a result of directed and subsidised lending to favoured large firms, as well as other special concessions to these firms. On the other hand, it is argued that there was excess capacity in international markets and increased competition which led to a fall in profits. This ambiguity about the role of competition is however more apparent than real. This is because what is being suggested is that, had domestic markets been allowed to function normally (ie without distortions) large Korean companies would not have been able to continue to target growth and market share regardless of profitability.

Indeed, product market competition by itself can remedy flaws in corporate governance (Glen, Lee and Singh(2000), World Bank, 2002). Such competition was impeded in many countries by government barriers to entry and exit, the latter creating a moral hazard [through 'too big to fail' syndrome, see however (Chang 2000). The net result was over investment and other indicators of inefficiency such as a decline in profits and productivity.

Although the above structural theory of the Asian crisis is plausible, it is not the only account of the crisis, nor the one which is most persuasive. There are many alternate theories concerning this deep down-turn in economic activity. These include theories of self-fulfilling prophecies, the precipitate and unhelpful behaviour of the banks and some weaknesses in the crisis countries fundamentals[11]. Singh and Weisse (1999) and Singh, Singh and Weisse (2003), suggest that the Greenspan-Summer-IMF's structuralist thesis is deficient on several counts. First it is not compatible with the outstanding success of Asian countries for more than three decades before the crisis if their institutional structures were as deficient as is being suggested. Secondly it does not explain why countries such as China and India did not have a crisis even when India's fundamentals were worse than those of the countries which had the crisis. Thirdly, the debt-equity ratios of Indian non-financial corporations were higher than those of corporations in Thailand or Indonesia, yet the latter had the crisis and India did not (Singh, 1999a). Fourthly, the critics suggest that at a macro-economic level over-investment and mis-allocation of resources arose not so much from flaws in corporate governance and the state of competition but from financial liberalisation which a number of these countries implemented in the years immediately prior to the crisis. Corporate governance and intensity of competition were much the same in the mid-90s as they were in the previous three decades of outstanding success of these economies. What had changed in the period preceding the crisis was the role of the government following financial liberalisation. The government in countries such as Korea and Thailand, was no longer co-ordinating private sector investment activity in the way that it did in the era of fast growth, nor were firms guided or monitored on investment allocation. [12]. The crisis therefore arose not because of too much government intervention but too little, particularly in its crucial, former role of co-ordination, monitoring and guidance of private sector investment decisions. The IMF does not necessarily disagree with the view that a main cause of the crisis was premature financial liberalisation as it also emphasizes that the affected countries did not have adequate prudential supervision of the financial sector. However, as Singh (1998, 1999a) has pointed out, that despite such shortcomings in prudential supervision, financial liberalisation was encouraged, and certainly not discouraged by the IMF before the crisis. In the alternative analysis the main reason why despite contagion China and India were able to

escape the crisis was precisely because they did not have as full capital account liberalisation as the affected countries. Singh, Singh and Weisse (2003) argue that their alternative analysis is better able to explain the relevant facts concerning both affected and non-affected countries than the Greenspan-Summers-IMF structural theory.

Despite the lack of academic consensus on the reasons for the Asian crisis and in particular on the structuralist thesis, the latter nevertheless determined the IMF's policy response. The IMF programmes sought far-reaching institutional reforms in the crisis economies. These reforms at a broad level, involved the abandonment of previous practices and the establishment of arms-length relationships between government, banks and businesses, as well as big changes in the corporate governance mechanisms, in labour laws and competition laws in those economies (See footnote seven for details of the reforms in the various sectors in different Asian countries). The reform programme was subsequently universalised and specifically the reform of corporate governance became a significant part of the New International Financial Architecture which, as mentioned above, G7 countries have sought to establish in the world economy in the wake of the crisis. The responsibility for this part of the reform was assigned to the OECD and to the Work Bank. Both organisations have been collaborating on creating a 'best-practice' code for corporate governance. Despite official denials to the contrary, a careful reading of the text of the World Bank document [Iskander and Chamlu, 2000], suggests that the Bank's preferred system of corporate governance is that that found in the US, i.e. in its ideal form, it consists of corporations with widely held shares where the managers are obliged to maximise share-holder value.

Several international organisations are involved in the reform of competition and competition policies in emerging countries. These organisations include OECD, UNCTAD and most notably the WTO. In order to remove internal and external barriers to trade advanced countries are seeking to establish a multi-lateral agreement on competition policy which is to be a part of WTO disciplines. These proposals are however opposed by developing countries. Nevertheless, the international significance of the state of competition and competition law and rules in emerging economies as well as in mature countries cannot be exaggerated. [13]

Although the above discussion has concentrated on the international dimensions of corporate governance and competition issues, it is important to emphasise that there are also very good domestic reasons for giving priority today to these questions in many emerging countries. These arise from deregulation and widespread privatisation (including that of natural monopolies) and the

increasing role of the private sector in the economies. Studies of corporate governance and competition become salient for assessing and improving the efficiency of such economies, regardless of whether or not they had the crisis. Hence the analysis of corporate governance, finance and competition are of more general interest than simply as putative causal factors for the crisis in emerging markets.

III. Ownership, Control and Corporate Governance in Emerging and Mature Countries

The endorsement essentially of the structuralist theory of the Asian crisis by the International Financial Institutions` (IFIs) in their policy programs in the affected countries, did lead to a large research effort by these organizations, as well as by independent economists, to gather information on corporate governance issues in emerging countries. Although the available data is still patchy and far from being adequate to provide a solid basis for policy analysis, it is a huge improvement compared with the situation before. The main points of this new comparative information on ownership and control in emerging and mature market corporations and their implications for corporate governance may be summarised as follows:[14]

The first important point revealed by this research is that the Berle and Means 'widely held' corporation, characterised by separation between ownership and control, is a rarity rather than the norm outside the US and the UK, even for large firms. As Table 1 suggests, in the UK all the 20 largest publicly traded firms in 1996 were widely held (i.e., there was no family or other locus of control). In Mexico, on the other hand, the corresponding 20 largest firms in that country, were all family controlled. The incidence of family control in many European countries is also quite significant. More comprehensive and detailed information provided by Claessens *et al* (2000) for Asian countries indicates that for both large and small firms family control is the norm in emerging markets.

Secondly, research shows (see Table 1) that there is considerable state ownership and control of large corporations in many European and as well as emerging markets.

Thirdly, in large developing country corporations or the big conglomerate groups which are ubiquitous in emerging markets (see for example Singh, 1995; Khanna and Yafeh 2000), there is often considerable divergence between the extent of corporate equity owned by families or other controlling share-holders and the extent of actual control over the corporations. Claessens *et al* (2000)

make a useful distinction between cashflow rights and control rights. It is often found that even with a small proportion of equity, families are able to lever themselves to control a majority of the shares. This is done by a variety of devices, such as pyramiding, introduction of different classes of shares, complex cross-holdings of shares between parent and subsidiaries companies.

Thus, Table 2 indicates that among the top 44 Indian listed companies in 1999, the founding families together with the directors owned on average 23.5 (22.4+1.1) percent of the shares. The government through nationalised banks and other financial institutions owned a greater proportion (27.5 percent). Taken together, the state share holdings were so large in most big Indian corporations that the government could in principle greatly influence, if not determine, management changes in these companies. However, in practice, the Indian government allows founding families and their heirs to run and control the corporations. The government is content to support the existing family managements with its share holdings unless the firm performance is exceptionally poor.

Similarly, on Korea, Joh (2003) reports that in the mid 1990s in the 70 largest chaebol controlling shareholders owned on average about 17percent of the shares. The ownership of controlling shareholders was negatively related to the size of the corporations so that the weighted average ownership concentration in these same group of 70 larger chaebols was only 9.9percent. However, though a variety of devices of the kind mentioned above, their control rights amounted to nearly 25percent of the shares. The controlling shareholders were able to maintain control with the help of financial institutions, many of which were directly under government control or greatly influenced by it. These institutions normally supported the controlling shareholders – usually the founding families and their heirs, or certainly did not intervene continuously to ensure that there was good corporate governance.

III.I Concentration of Family Control, Crony Capitalism and Economic Crises

In order to examine the phenomenom of crony capitalism and its relationship to the economic crisis Claessen *et al* (2000) provide data (see Table 3) on the concentration of the total value of corporate listed assets controlled by the top families in 9 Asian countries. In addition to 'normalisation' by total stock market capitalisation, the variable, the total value of listed assets controlled by families, is also normalised by GDP of the country concerned (the last two columns of Table 3). If concentration is measured in terms of total value of listed corporate assets the four crisis affected Asian countries, (Indonesia,

Malaysia, Korea and Thailand), had greater concentration than the non-crisis countries (Hong Kong, Japan, Philippines, Singapore and Taiwan). However, there is no relationship between concentration and crisis if the normalising variable is GDP rather than total listed corporation assets. It is arguable that GDP, being more comprehensive, would provide a more appropriate normalisation variable than total listed assets. Inter-country differences in concentration measured in terms of total stock market value may reflect more the extent of stock market development in various countries than the relative influence of top families on government policy. Ideally, what one would like is data on total wealth ownership including land holdings. For many developing countries the main locus of political power lies in land holdings and GDP is likely to be a better proxy for a country's total wealth than stock market valuation. There is thus, even in its own terms, no robust association between crony capitalism and financial crisis let alone a causal link between the two variables. Such a casual link is in any case highly problematic as the theoretical objections to it and the illustrative example of Sweden, both outlined below, indicate.

In democratic Sweden, where protestant ethic rules out any hint of cronyism or other kind of corruption, a single family, the Wallenbergs, are believed to control 60 percent of the country's industrial assets. This has not resulted in reduced efficiency or less democratic accountability of the industrial system. The analytical reasons for this phenomenon have been examined by Berglof and von Thadden (1999) and Singh, Singh and Weisse (2003). The essential argument of these authors can be summarised as follows. Crony capitalism is not a corporate governance problem as such, it is rather a product of the complex of relations between the business and political elites and could in principle arise in systems with widely dispersed ownership.

Further, as also noted earlier, the system of corporate governance in many Asian countries was not at all that different from that observed in several European countries, with family-owned and controlled firms being the norm in both sets of countries. This system worked extremely successfully in the Asian economies for the past 30 years leading to high long-term growth rates and reduction of poverty. In continental European countries such a family dominated system has worked well over a much longer period and has not led to Asian type crises.

III.2 Family Ownership and Corporate Performance

Apart from the issue of concentration of family ownership and economic crisis it is also relevant to ask how does family ownership affect corporate governance and performance at a microeconomic level. There are only a small number of empirical studies on this subject for emerging countries and they provide a mixed picture. Suehiro's (2001) comprehensive study of ownership, control and performance in Thailand in the period 1996 – 2000 came to the conclusion "…it is safe to say that the difference in ownership pattern as well as the presence of a family-run business have hardly affected corporate performance in terms of financial indicators, such as the D/E ratio, ROA and ROE. It is difficult to see any distinct interrelationship between family ownership of business and poor performance in terms of leverage and profitability. Further, contrary to the traditional argument in favour of the model of good corporate governance, *the group of corporations with no ultimate owners (WV) has always shown the worst business record among surveyed listed companies in Thailand."* [(Suehiro, p.12) emphasis in the original].

Khanna and Palepu (2000) studied a sample of large Indian firms in 1993 and concluded that firms affiliated with big diversified business groups performed better than independent firms. Lemmon and Lins' (2002) study of Korean firms suggested that there is no statistically significant relationship between ownership and Tobin's *Q*. However, Joh (2003) examined a very large sample of Korean firms in the period immediately preceding the crisis, 1993-97. Controlling for firm and industry characteristics, Joh found a cubic relationship between ownership and firm profitability; profitability generally increases as ownership of the controlling families increases. Profitability is reduced when ownership is extremely high or extremely low. Joh attributes this result to poor corporate governance and suggests that the reasons why these findings differ from those of Lemmon and Lins and of Khanna and Palepu is because he is considering the period of the mid-1990s, which is later than that of Lemmon and Lins' study when the Korean economy was less developed. His essential argument is that the business group structure found in Asian countries is helpful at lower level of economic development as it allows an internal capital market to allocate resources more efficiently than an under-developed external capital market. However, at a higher level of development, the advantages of an internal capital market are out-weighed by those of an external market.

Joh also suggests that Korean firms suffered from chronic low profitability in years before the crisis and that firm profitability was deteriorating in the pre-crisis period.[15] This proposition is examined more generally for crisis-stricken as well as non-crisis Asian countries in Tables 10 and 11. The Tables provide

information on rates of return for the same group of Asian countries for which the question of crony capitalism was considered in table 3.[16] Table 10 indicates that the inflation adjusted rates of return were low or negative in the period preceding the crisis (1994-96) in Korea and Indonesia, but so was the case in non-crisis countries such as India and Hong Kong. The last two rows of the table suggest that the period preceding the crisis there was a very little difference between the group medians of crisis and non-crisis countries. Further, Table 11 indicates that during 1994-96 the inflation adjusted returns on equity were robust and highly positive in both crisis and non-crisis economies and again there was relatively little difference between the group medians.

IV. Financing of Corporate Growth and Corporate Governance

We turn now to an analysis of the relationship between corporate finance and corporate governance. *A priori* one would expect the two variables to be closely related with causation running both ways. A central issue here is how do providers of finance to the corporation ensure that their money will be returned and not simply appropriated by the managers or whoever is controlling the enterprise (Shleifer and Vishny, 1997). This question will be discussed analytically and empirically below in two stages. Firstly, we will enquire, how do emerging firms finance their growth, i.e., to what extent firms use retained profits or long-term debt or new equity to pay for the expansion of their net assets? At the second stage the implications of the observed financing patterns for corporate governance will be examined.

IMF (1998a) and the World Bank (1998) suggest that a main reason for the shortcomings in corporate governance in emerging markets was their low level of development of the stock market. Corporations were therefore obliged to go to the banks for financing their investment needs. With the government favouring such finance for large firms it led to high-debt equity ratios; however the banks because of this cronyistic or close relationships with the government and with the corporations, did not perform the monitoring and disciplinary role which the stock market could perform. Hence in the financial sector reform program for the Asian countries, the IMF and World Bank, proposed that the Asian government should adopt the following policies (Suhero, 2001):

- Develop their stock markets in order to promote direct corporate finance;
- Appoint independent directors to company Boards and establish independent audit committees;

- Introduce new audit and accounting systems in line with the International Accounting Standards Committee (IASC) or the American Financial Accounting Standards Board (FASB);
- Introduce new legal frameworks governing bankruptcy in order to quickly resolve corporate debt conflicts between foreign creditors and local debtors and
- Promote an information disclosure system to improve local corporations' transparency for the sake of investors and minority shareholders.

However empirical evidence on the role of the stock market and the financing of corporation growth do not accord with the international financial institutions presuppositions as is indicated below. Singh and Hamid (1992) and Singh (1995), were among the first large scale studies of financing corporate growth in emerging markets. These studies (referred hereafter as S and H) arrived at theoretically quite unexpected conclusions. S and H found from their analysis of normally the 100 largest quoted firms in manufacturing in 10 leading emerging markets, that these corporations rely overwhelmingly on external finance rather than internal finance (retained profits) to pay for the growth of their net assets (see Table 4). The average quoted firm in Singh's 1995 study financed only 40 percent of its growth from internal sources and 60 percent from outside finance, with long-term debt constituting 40 percent and new equity comprising 20 percent of the total growth of net assets. As these are the average figures, the use of external finance was even higher in some of the individual countries such as Korea. In that country external finance comprised almost 85 percent of the total growth of corporate net assets.[17]

The reasons why these figures are so surprising is conveyed in part by data in Table 5 for advanced countries (ACs). This Table suggests that AC corporations unlike those from developing countries (DCs) in Table 4 seem to rely overwhelmingly on internal finance i.e., retained profits for their financing needs. The contribution of equity finance from the stock market is very small in all countries and indeed negative in the case of U.S. and U.K. Negative figures for equity indicate that the total value of new issues of stock are less than the equity redeemed either by firms purchasing their own stock or shares which are bought up during takeovers.

It is not surprising in itself that there should be differences between AC and DC corporations in relation to how they would meet their financing requirements. However, what is observed is totally opposite to what economic analysis would predict to be the nature of the differences between the two groups. In view of

the fact that DC capital markets are regarded as being under-developed and imperfect one would have expected DC companies would be obliged to rely mostly on internal sources rather than on an imperfect and therefore more expensive market for outside finance. Similarly, AC corporations may be expected to use more finance from the stock market and the banks compared with those from DCs, as the former have more highly developed and efficient capital markets.

Another important reason for expecting the opposite result to what is observed lies in the volatility of share prices in DC stock markets. As stock markets in emerging countries are relatively new and firms do not have established reputations one would expect arbitrary and fluctuating prices - a prediction which is confirmed by the data (Tirole (1991), Singh (1999a). In these circumstances risk averse firms may not wish to raise funds on the stock market, may indeed shun the stock market altogether and not seek a listing at all. This point leads to another anomalous fact: an emerging stock market such as that of India has 8000 companies listed on it, more than the number listed on the New York stock market.

The pattern of finance reported in Table 5 for AC corporations is fully compatible with the so called 'pecking order' theory of finance. This theory is based on the concept of asymmetric information. In a classic paper, Majluf and Meyers (1984) showed that in the presence of asymmetric information about the firms' prospects between the managers and the investing public, it would pay rational managers to follow a hierarchy of finance with retained profits first, debt next if a firm's investment requirements are more than the funds provided by retained earnings, and only as a last resort should the firm go to the stock market.[18] However, Guggler, Mueller and Yortoglu (2003) and Singh (2003a) have noted that in view of the regulatory deficits of emerging stock markets these countries may be even more subject to asymmetric information than advanced countries. Further, Singh's (2003a) theoretical analysis of the financing of corporate growth in developing countries suggests that there are emerging market specificities, which would provide further incentive to developing country firms to use mostly internal finance rather than debt or equity. These special features of DC firms are firstly that they are family owned and therefore are much less subject to agency problems as compared to AC firms. Secondly, DC firms would like to retain family control and therefore wish to avoid the stock market to raise funds, as that would dilute their ownership and control. Taking all these considerations into account, Singh (2003a) sums up the theoretical position on the financing of corporate growth in the following terms: that if there are good reasons to expect the pecking order

pattern of finance for AC firms, there are even better reasons for doing so for DC firms.

How does one explain these theoretically anomalous results in Tables 4 and 5? The first point here is that the two tables are using different sources of data and answering different questions. Table 5 is based on flow-of-funds data and is concerned with the question how does non-financial corporate sector as a whole finance its growth. Table 4, based on accounting data, is concerned with a different question how does an individual firm finance its growth of net assets. From the perspective of the theory of the firm the second question is more appropriate since the theory relating for example to asymmetric information outlined above, is concerned with the individual firm's behaviour rather than that of the corporate sector as a whole.

Other methodological differences underlying Tables 4 and 5 are empirical rather than theoretical. In Table 4, data for corporate growth nets out depreciation from both the beginning and the end of the period assets figures, whereas in Table 5 depreciation is not netted out. However, when the same methodology is used to measure the contribution of different sources of finance to corporate growth in emerging and mature markets, the results for the two groups are much closer but nevertheless, there still remain theoretically anomalous differences.

Singh's 1995 study was based on the data for the 1980s. For the 1990s there is now more comprehensive data available which raises two issues. First, do these anomalous results for the 1980s continue into the 1990s, and secondly, whether the more comprehensive data available now leads to any revisions of the results produced by S and H with more limited data for the 1980s. Taking the second question first, this has been investigated in Singh (2003a) and in Whittington *et al*., (1997). The results indicate that in the absence of directly available data on equity financing in the 1980s exercise, estimation of the contribution of that variable by indirect methods is unlikely to have led to a persistent upward bias in the figures reported for this variable for most countries.

We turn now to the first question of how do the results of the 1990s differ from those of 1980s. Table 6 provides information on this subject for firms in 22 developing and 22 advanced countries – a much bigger and more comprehensive dataset than that which was available to S and H in the 1980s. This new dataset is described in Glen and Singh (2003). Table 6 indicates that between 1995 and 2000 on average the DC firms financed 27 percent of their growth of total assets from retained profits, 35 percent from increased debt (i.e., liabilities) and the remaining 39 percent by external equity issues. In AC corporations it would appear that, much the large part of growth of corporate

total assets has been financed by long-term debt (53 percent); the contribution of external equity at 17 percent is much smaller than for DC firms while the contribution of internal finance at 30 percent is marginally higher than the average for emerging markets. These data indicate that the pecking order theory is comprehensively rejected for many developing as well as developed countries. Further, the anomalous pattern of financing behaviour for DC corporations in 1980s continues to prevail in the 1990s although in a somewhat weaker form than before.[19]

We turn now to the implications of these observed patterns of financing corporate growth for corporate governance. The empirical results show *prima facie* that new issues on the stock market are relatively more important for corporations in emerging countries than for those in advanced countries. There are in principle three channels through which corporate governance may be affected by the stock market: a) the regulatory framework of the stock market itself concerning standards for corporate accounts, transparency, etc., b) the pricing process on the stock market and c) the takeover process. However, all three channels are not equally powerful and corporate governance is affected more by the stock market in countries such as the U.S. and the U.K. than in other countries, including DCs. The main reason for this is not that firms in the U.S and the U.K. have greater recourse to stock market finance or go more often to the stock market to raise finance than elsewhere. If anything, there is evidence that many large Anglo-Saxon firms seldom go to the stock market to raise any capital at all. Nevertheless, because of the existence of a highly active market for corporate control in the U.S. and the U.K. even firms which shun the stock market become subject to takeover discipline.

Such markets for corporate control have not yet evolved in emerging countries. These exist, if at all, in an embryonic form in a few developing economies. Significantly markets for corporate control do not exist even in most ACs, including notably West Germany and Japan. This is not an evolutionary deficit in these countries but rather a matter of deliberate design (Singh, 2001; Odagiri, 1992). Significantly, the lack of a market for corporate control has not imposed any great hardship on these economies as their superior long-term economic record say over the last 50 or a 100 years compared with that of Anglo-Saxon countries indicates. Although the main influence of the stock market on large corporations is through the takeover mechanism, they are also affected by the stock market pricing process (which affects their cost of capital) and the stock market's regulatory framework (which affects their information disclosure and treatment of minority shareholders). However, if there is no takeover mechanism and firms do not go to the stock market because there are alternative channels available for financing corporate growth from sources other than the

stock market (say, for example, the banks), the stock market would have very little influence on corporations.

An important question in the present context is whether a greater influence of the stock market would lead to an improvement in corporate governance and in corporate performance. This essentially boils down to the question whether DCs should encourage and promote a quicker development of a market for corporate control. This is a highly controversial issue. Singh (1997, 1999b, 2003a) has argued in previous contributions that the stock market pricing process and the takeover mechanism are not in general very helpful in improving economic performance in advanced countries and there are good reasons to suggest that they are even less likely to do so in developing countries.

A complex analytical and empirical argument on these issues may briefly be stated in the following terms: in relation to the pricing process in the real world stock markets, Tobin's (1984) distinction between 'information arbitrage' efficiency and 'fundamental valuation' efficiency is important. Evidence suggests, while markets may be efficient in the former sense (even that is debatable), they are not efficient in the more crucial sense of not always reflecting a corporation's "fundamentals" (Shiller, 2000; JEP, 1990). This point does not need to be belaboured today in the light of the bursting of the technology bubble in the western stock markets and ten years of stock market decline in Japan. Equally, it will be difficult to preach a gospel of the Efficient Markets Hypothesis (EMH) to citizens in Thailand or Indonesia who suffered a virtual meltdown of their stock markets during the crisis.

Further, with respect to the takeover mechanism, three decades of analysis and empirical research suggests that selection in the market for corporate control does not take place on the basis of performance alone but on the basis of both size and performance.[20] Thus a large relatively unprofitable company has a better chance of surviving takeovers than a small relatively profitable company. However, not only size provides relative immunity from takeover; a large company may become bigger still through the takeover process itself. Further, there are good theoretical reasons as well as empirical evidence that takeovers may lead to "short-termism" and more broadly to economic rewards being given for financial engineering rather than for entrepreneurial efforts in improving products and cutting costs. The takeover disciplining process is thus observed to be arbitrary and a haphazard one (Ravenscraft and Scherer, 1987). The deficiencies of the pricing and the takeover processes are compounded in the case of developing countries because of the regulatory deficits and relative immaturity of their markets. Singh (1998) therefore suggested restrictions on the evolution of a market for corporate control in emerging countries.[21]

The above analysis indicates that at the very least it is arguable that the World Bank and IMF preference for the US model of corporate governance based on widely held firms and a stock market takeover mechanism may have serious drawbacks for developing countries. The international community would be ill-advised to establish such an international best-practice standard for DC firms to follow without a great deal of further analysis and supporting evidence.

V. The State of Competition in Emerging Markets[22]

We turn now to the second part of the Greenspan-Summers-IMF structuralist thesis which, as indicated earlier, asserts that the Asian crisis in a fundamental sense was caused by the Asian way of doing business. Apart from weak corporate governance the latter, in this view, also included poor competition environment. The question of intensity of competition in emerging markets will be considered here empirically in a comparative international perspective.

There is surprisingly little empirical evidence on the state of competition in emerging markets despite the fact that many of these economies have been following market-oriented policies of deregulation and privatisation now for nearly 20 years. In the absence of hard evidence there are different views among economists as to how intense competition is in emerging markets. Laffont (1999) holds for instance that as many developing countries are small with segmented markets, high transportation costs and infrastructure bottlenecks, they are unlikely to have strong competition. Similarly, de Soto's (2001) work would seem to suggest that there are government imposed bureaucratic hurdles for starting new businesses which restrict entry and therefore are not compatible with a vibrant competitive economy. Porter (1990), on the other hand, on the basis of case studies, suggests that in Korea corporations are subject to intense competition, both domestically and externally, and indeed only those industries in Korea are successful in which firms are fixed with stiff competition. Amsden and Singh (1994) also suggest that the Korean chaebol are highly rivalrous.

The small amount of data available on an international comparative basis suggests that many leading developing countries have high three or four-firm concentration ratios compared with advanced countries (World Bank, 1993). On the other hand, it is also the case that developing countries tend to have a very large proportion of small firms employing less than ten workers. These constitute normally more than 50 per cent of total industrial labour force in leading emerging countries compared with less than ten percent in the U.S. economy. Thus these static measures of competition provide conflicting evidence about the state of competition in emerging markets.

In order to overcome the well known difficulties with static measures of concentration, Glen, Lee and Singh (2001, 2002) have used time-series analysis of corporate profitability in seven emerging markets to discover the dynamic and the intensity of competition in these economies relative to what has been observed for advanced countries. Glen, Lee and Singh have employed the same methodology of the persistence of profitability (PP) studies (pioneered by Dennis Mueller and his colleagues) which has been widely used to study competition intensity in developed countries. It will be recalled that the PP methodology involves fitting the following autoregressive equation applied to the time series of profitability of individual firms

$$\pi_{i,t} = \alpha_i + \lambda_i \pi_{i,t-1} + \mu_{i,t} \qquad (1)$$

$\pi_{i,t}$ is the profitability of firm *i* at time *t*, $i = 1,\ldots,m$, $t = 1,\ldots,T$. $\mu_{i,t}$ is the usual error term and α_i and λ_i are the model parameters. λ_i indicates the speed of adjustment; if $\lambda_i < 1$, the long-run (permanent) profitability level of firm *i* is given by:

$$\pi_{i,p} = \alpha_i / 1-\lambda_i \qquad (2)$$

As is usual in PP studies, to control for business cycles and other macroeconomic shocks, the regression analysis is conducted in terms of the variable $Y_{i,t} = \pi_{i,t} - \pi_t$, where π_t is the average of the $\pi_{i,t}$ across firms. The measure Y_{it} represents the deviation of firm *i*'s profitability at time t from the profitability of all other firms in the country at that time. The analysis is based on models of the form:

$$Y_{it} = \alpha_i + \lambda_{1i} Y_{i(t-1)} + \lambda_{2i} Y_{i(t-2)} + \varepsilon_{it} \qquad (3)$$

where α_i, λ_{1i} and λ_{2i} are coefficients and the ε_{it} are random errors. The empirical analysis shows that this model is sufficient to capture the dynamics in *all* cases in the seven emerging countries studied by Glen, Lee and Singh.

From (3), the statistic $Y_{iLR} = \alpha_i / (1-\lambda_{1i} - \lambda_{2i})$ can be derived to indicate firm i's long-term profitability relative to the country average. If $\lambda_{2i}=0$, then the estimate of λ_{1i} provides a direct measure of the speed of adjustment of profitability following a shock. Assuming $\lambda_{1i} \in (0,1)$, adjustment to equilibrium is monotonic. Where λ_{2i} is not zero or $\lambda_{1i} \in (-1, 0)$, adjustment is non-monotonic and there is no unique way of characterising its speed based on the estimated parameters. [See further Goddard and Wilson (1999)].

The estimated values of λ_i and the proportion of firms for which Y_{iLR} are either significantly positive or significantly negative at the 5% level are reported in Table 7. The exactly corresponding values of these variables for advanced countries, estimated by other researchers, are reported in Tables 8 and 9.

Surprisingly, as mentioned in the Introduction, the results indicate that developing countries have, on the whole, lower persistency coefficients ($\lambda_{i)}$ than those observed for advanced countries, even when allowance is made for the shorter time series of corporate profitability available for developing than for advanced countries (see Tables 7 and 8). Further, the proportion of firms for which long-term profitability is significantly different from the norm, either in the positive or negative directions, is also much lower for developing than for advanced countries, as a comparison of Tables 7 and 9 indicates. The conventional interpretation of these results would suggest that developing countries are subject to no less, if not greater, competition than advanced countries. The possible sources of statistical bias in these empirical results for emerging economies have been examined in detail by Glen, Lee and Singh (2002) and they find that these do not affect their main conclusions.

Complementary evidence to that of Glen, Lee and Singh is provided by other research which also bears on the dynamics of the competition process but uses a different methodology. This work, which systematically analyses turnover and the mobility of firms, provides interesting results. Studies in this genre have recently been summarized by Tybout (2000) and Caves (1998). The results indicate that there is greater mobility as well as entry and exit of firms in the small number of emerging markets for which such studies have been carried out than for advanced countries.

Apart from these two kinds of studies on the dynamics of the competition process, there are also other types of evidence pertaining to the efficiency of emerging market industries and to scale economies which do not accord with the conventional anecdotal account of the lack of competition in emerging countries. This empirical research has recently been reviewed by Tybout (2000) who sums up the situation as follows:

Indeed, although the issue remains open, the existing empirical literature does not support the notion that LDC manufacturers are relatively stagnant and inefficient. Turnover rates in plants and jobs are at least as high as those found in the OECD, and the amount of cross-plant dispersion in measured productivity rates is not generally greater. Also, although small-scale production is relatively common in LDCs, there do not appear to be major potential gains from better exploitation of scale economies. (p.38)

Singh (2002a) suggests that these results on the comparative intensity of competition in emerging and mature countries are in economic terms totally plausible. This is because although there are many structural features of developing countries and the policies of their governments, which are anti-competition, there are also equally strong, if not stronger, structural factors which favour competition. The anti-competition factors would include transportation and infrastructural deficiencies as well as the maize of bureaucratic procedures often required to start a business in developing countries. However, these may be more than balanced by pro-competition forces which include lower sunk costs for starting a business in developing countries, a large demand for simple products, and at times a pro-competition government policy stance (for example, some developing countries have made firms compete for government favours by setting specified performance requirements, the so-called "contest-based" competitions (World Bank, 1993).[23]

VI. The Structural Thesis, Financial Liberalisation and Economic Crises

The previous sections have examined in detail important aspects of the Greenspan-Summer-IMF structuralist thesis. The empirical findings on the role of corporate governance, the nature of corporate finance and the state of competition in emerging markets may be summarised as follows:

(1) There is no robust evidence to suggest even an association between crony capitalism (proxied by concentration of control over corporate assets by a few top families, measured in different ways) and economic crisis, let alone a causal relationship between the two variables.[24]

(2) Available evidence does not support the view that there is a negative relationship between family ownership and control of Asian firms and their economic performance. Further, falling profitability in the years prior to the crisis in countries such as Korea was not due to family control of corporations but other factors. Moreover there is little evidence to suggest that falling profitability 'caused' the crisis since such deterioration in profits was observed in both crisis and non-crisis countries.

(3) Contrary to much economic analysis and World Bank-IMF conjectures, stock markets in emerging countries provided a surprisingly large proportion of resources for the growth of corporate net assets during the 1980s, and this trend, broadly speaking, continued into the 1990s, until the Asian crisis. However it was noted that the main influence of the stock market on corporate governance

comes through the market for corporate control. Such a market has not yet evolved in most emerging countries, although it exists in an embryonic form in a few of them. Economic analysis as well as the experience of advanced countries suggests that the fuller development of such a market will not necessarily be helpful to most developing countries.[25]

(4) Contrary to the structuralist thesis, corporations in leading emerging markets are subject to intense competition and display highly rivalorous behaviour. Empirical studies, using different methodologies indicate that competition in emerging countries is at least as intense as in mature countries.

Thus micro-economic behaviour and structures in emerging markets do not provide robust evidence in favour of the structuralist thesis. In sharp contrast, it is important to note that there is strong and robust support for the alternative analysis, which attributes the Asian crisis mainly to precipitate financial liberalisation. Apart from the analysis and broad brush evidence in favour of this hypothesis outlined earlier, systematic studies including those by Kaminski and Reinhart (1999) and by Dominique and Detragiache (1998) indicate that there is a close relationship between financial liberalization and economic crisis in developing countries, which may take the form of a banking crisis, currency crises or both. The evidence on this subject has been reviewed recently in Singh (2003b). The empirical findings of this literature contradict neoclassical theory which suggests that financial liberalisation and new financial instruments should lead to consumption smoothing rather than to crises. The reasons for this disjuncture between the traditional theory and evidence have also been explored in this large literature which attributes it to the following main factors:

- Inherent volatility in capital flows due to irrational exuberance or unwarranted pessimism of investors[26]

- Increased competition among banks following liberalization[27]

- The changes in the global financial system and the short-termism of the leading players[28]

- In theoretical terms, liberalization of trade in goods (i.e. free trade), which is presumed to lead to Pareto-optimal allocation of resources under well-known conditions, is quite different from financial liberalization. This is because such liberalization is dominated by informational asymmetries, problems of morals hazard and adverse selection among other difficulties.[29]

After having promoted capital account liberalisation in emerging markets for many years (see for example Fischer 1997), IMF (2003) indicates a definite change in direction[30]. The IMF paper sums up the empirical evidence on this issue in the following terms,

'There is little evidence that financial integration has helped developing countries to better stabilize fluctuations in consumption growth, notwithstanding the theoretically large benefits that could accrue to developing countries in this respect. In fact, new evidence presented in this paper suggests that low to moderate levels of financial integration may have made some countries subject to even greater volatility of consumption relative to that of output. Thus, while there is no proof in the data that financial globalisation has benefited growth; there is evidence that some countries may have experienced greater consumption volatility as a result.

Singh, Singh and Weisse (2003) suggest that a viable explanation of the Asian crisis that encompasses all the observed facts for both the crisis and non-crisis economies is that the afflicted "economies dismantled their controls over the borrowing of the private sector and embraced financial liberalization. As a consequence, the private sector built up short-term foreign currency debt that often found its way into the non-tradable sector and into speculative real estate ventures. Accompanying financial liberalization was the irrational exuberance and contagion that are always latent in private international financial flows." Thus it can be argued that the crisis occurred not because the Asian model was followed but precisely because it was not followed. Singh, Singh and Weisse (2003) go on to add that "while Edmund Phelps identifies the crisis with the failure of Asian corporatism (Phelps, 1999), in reality this system underpinned the most successful industrialization drive in history and dramatically reduced poverty. The system, however, was vulnerable to the forces unleashed by financial liberalization."

VII. Conclusion

It has been argued in this paper that instead of the corporate governance system and the state of competition in emerging markets being flawed, it was the Greenspan- Summers-IMF thesis which attributed the fundamental causes of the Asian crisis to these factors that was deeply flawed. The IMF's structural reform programme, based on this flawed thesis, is consequently not very helpful for developing countries. The analyses and evidence presented and reviewed in this paper suggest that the replacement of the existing system of family ownership and control in these countries by the Anglo-Saxon system of

corporate governance (based on well-developed stock markets, widely held firms and shareholder wealth maximization by managers) is unlikely either to benefit economic development or to make the liberalized global economy more stable.

Space does not permit a full discussion of the policy implications of the alternative thesis, which attributes the Asian economic crisis primarily to precipitate financial liberalization. Suffice it is to say that the reform program based on this alternative theory of the crisis does not necessarily involve full re-imposition of the former planning regimes. In the situation following the crisis, it rather calls for deepening of the co-operation between government and business by including labour in the process. During the course of economic development, purposeful co-operation between these entities is much to be preferred to conflictual and adversarial relations between them. To take a specific example, in the case of the Korean chaebol, one way of implementing this alternative reform programme would be to establish a German type two-tiered board system for these large corporations, where the employers and employees are represented on the higher level supervisory board (which takes strategic decisions), while day to day governance would rest with corporate management. There may need to be some variation on this model in the Korean situation which may well also require representation of the civil society and the government on the supervisory boards. Such reforms of corporate governance in leading emerging markets are arguably more likely to foster economic development than the proposals put forward by international financial institutions emphasising labour market flexibility, widely held corporations, etc.[31]

In view of the domestic as well as international policy significance of corporate governance and competition outlined earlier (in relation to the New International Financial Architecture and the current Doha Developmental Round at the WTO), it is important that policy analysis in this area should be based on solid, unbiased empirical research. This paper has hopefully contributed to this endeavour in some small way.

Tables

Table 1: Control of publicly traded firms around the world, 1996 (per cent) of the 20 largest firms under each category[32]

Economy	Widely held	Family owned	State owned	Widely held financial	Widely held corporation
OECD countries (non-Bank borrower)					
Australia	65	5	5		25
Austria	5	15	70		
Belgium	5	50	5	30	
Canada	60	25			15
Denmark	40	35	15		
Finland	35	10	35	5	5
France	60	20	15	5	
Germany	50	10	25	15	
Greece	10	50	30	10	
Ireland	65	10			10
Italy	20	15	40	5	10
Japan	90	5	5		
Netherlands	30	20	5		10
New Zealand	30	25	25		20
Norway	25	25	35	5	
Portugal	10	45	25	15	0
Spain	35	15	30	10	10
Sweden	25	45	10	15	
Switzerland	60	3		5	
UK	100				
USA	80	20			
Bank borrowers and others					
Argentina		65	15	5	15
Hong Kong	10	70	5	5	
Israel	5	50	40		5
Mexico		100			
Singapore	15	30	45	5	5
Korea, Rep. of	55	20	15		5

Source: Iskander and Chamlou (2001) original source Claessens and others (1998b)

Table 2: Ownership structure of Indian companies. Top 44 listed companies in manufacturing

(percentage of equity owned by various companies)

Quartile	Foreign	Government	Corporate	Directors	Public	Total
Quartile 1	16.1	28.9	23.1	1.1	30.8	100
Quartile 2	24.3	25.6	25.6	1.2	23.3	100
Quartile 3	20.7	23.9	17.9	0.7	36.8	100
Quartile 4	22.9	33	19.2	1	23.8	100
Total	**19**	**27.9**	**22.4**	**1.1**	**29.6**	**100**

Note:

1.Foreign refers to foreign collaborators, foreign institutional investors, foreign OCBs, foreign others and NRIs.

2.Government refers to all public financial institutions, including central and state banks.

3.Corporate refers to promoters, subsidary companies and holding companies.

4.Directors refers to directors and relatives.

5.Public refers to general public companies.

Source: Singh, Singh and Weisse (2003)

Table 3. How concentrated is family control?

Country	Average number of firms per family	% of total value of listed corporate assets that families control (1996)				% of GDP 1996
		Top 1 family	Top 5 families	Top 10 families	Top 15 families	Top 15 families
Hong Kong	2.36	6.5	26.2	32.2	34.4	84.2
Indonesia	4.09	16.6	40.7	57.7	61.7	21.5
Japan	1.04	0.5	1.8	2.4	2.8	2.1
Korea	2.07	11.4	29.7	36.8	38.4	12.9
Malaysia	1.97	7.4	17.3	24.8	28.3	76.2
Philippines	2.68	17.1	42.8	52.5	55.1	46.7
Singapore	1.26	6.4	19.5	26.6	29.9	48.3
Taiwan	1.17	4.0	14.5	18.4	20.1	17.0
Thailand	1.68	9.4	32.2	46.2	53.3	39.3

Note: Newly asembled data for 2,980 publicly traded corporations (including both financial and non-financial institutions). The data was collected from Worldscope and supplemented with information from country-specific sources. In all cases, we collect the ownership structure as of the end of fiscal year 1996 or the closest possible date. The "average number of firms per family" refers only to firms in the sample. To avoid discrepancies in the cross-country comparison due to different sample coverage, we have scaled down the control holdings of each family group in the last four columns by assuming that the firms missing from our sample are not controlled by any of the largest 15 families. The percent of total GDP is calculated using market capiotalization and GDP data from the World Bank.

Source: Claessens *et al.* (2000), p.108.

Table 4: The financing of corporate growth in ten emerging markets during the 1980s

Country	**Internal finance**	**External finance (equity)**	**External finance LTD**
Brazil	56.4	36.0	7.7
India	40.5	19.6	39.9
Jordan	66.3	22.1	11.6
Malaysia	35.6	46.6	17.8
Mexico	24.4	66.6	9.0
Pakistan	74.0	1.7	24.3
Republic of Korea	19.5	49.6	30.9
Thailand	27.7	NA	NA
Turkey	15.3	65.1	19.6
Zimbabwe	58.0	38.8	3.2
All	38.8	39.3	20.8
F^1	20.0*	31.4*	21.2*
F^2	16.69*	18.93*	6.38*

Note:
1. F-statistic for comparison of means across countries. '*' implies rejection of the null hypothesis of the equality of means
2. Bartlett-Box F-statistic for variance across countries. '*' implies rejection of the null hypothesis of equality of variance.
3. External finance LTD refers to long-term debt. The accounting identity, which is the basis of the figures in this table, ensures that the total growth of net assets equals the sum of internal and external sources of financing growth. The external sources are subdivided into: (a) new equity issues, and (b) long-term debt.
Source: Singh (1995)

Table 5: Net sources of finance for Germany, Japan, U.K. and U.S., 1970–1989 (percentages)

	Germany	**Japan**	**U.K.**	**U.S.**
Internal	80.6	69.3	97.3	91.3
Bank finance	11.0	30.5	19.5	16.6
Bonds	-0.6	4.7	3.5	17.1
New equity	0.9	3.7	-10.4	-8.8
Trade Credit	-1.9	-8.1	-1.4	-3.7
Capital transfers	8.5	-	2.5	-
Other	1.5	-0.1	-2.9	-3.8
Statistical adj.	0.0	0.0	-8.0	-8.7

Source: Corbett and Jenkinson (1994)

Table 6: Financing of corporate growth in 1995-2000*

Developed Markets	**Liabilities**	**Ext F.**	**Int F.**	**Emerging Markets**	**Liabilities**	**Ext F.**	**Int F.**
AUSTRALIA	58%	32%	11%	ARGENTINA	46%	16%	38%
AUSTRIA	52%	3%	45%	BRAZIL	74%	11%	15%
BELGIUM	56%	6%	38%	CHILE	44%	33%	23%
BERMUDA	41%	23%	36%	COLOMBIA	73%	16%	11%
CANADA	56%	32%	12%	CZECH	33%	21%	46%
CAYMAN ISLANDS	90%	8%	2%	HONG KONG	44%	20%	35%
DENMARK	72%	6%	23%	HUNGARY	28%	1%	71%
FINLAND	53%	26%	22%	INDIA	53%	5%	43%
FRANCE	61%	7%	31%	INDONESIA	110%	12%	-23%
GERMANY	62%	5%	33%	ISRAEL	54%	6%	40%
GREECE	52%	34%	14%	KOREA	27%	48%	25%
IRELAND	76%	5%	18%	MALAYSIA	40%	18%	42%
ITALY	68%	5%	27%	MEXICO	61%	30%	10%
JAPAN	62%	6%	32%	PHILIPPINES	34%	17%	49%
NETHERLANDS	65%	9%	26%	SOUTH AFRICA	49%	10%	41%
NORWAY	50%	23%	27%	TAIWAN	59%	40%	1%
SINGAPORE	66%	15%	19%	THAILAND	74%	11%	15%
1 SPAIN	68%	-9%	40%	TURKEY	61%	18%	21%
SWEDEN	57%	4%	39%	VENEZUELA	27%	54%	19%
SWITZERLAND	54%	7%	39%				
UNITED KINGDOM	52%	21%	27%				
UNITED STATES	47%	21%	32%				
Group Average	53%	17%	30%		35%	39%	27%
Global Average	49%	22%	29%				

Filter: Companies are excluded if any of their ratios are outside [-200,+200]
Sample Size: 3360

* The basis of figures in this table is the same as that for Table 4. The only difference is that instead of net assets, this table considers corporate growth in terms of percentage change in total assets. The latter is decomposed into growth of liabilities, of equity finance and that of internal finance.

1 Spain has 18 companies, one of which experienced a small decline in total assets over 1995-00. That company also saw external equity increase, which resulted in a large negative value for the external equity ratio. Excluding that one company the sample mean of the ratio is 3%; the internal equity ratio would decline accordingly.

Source: Glen and Singh (2003)

Table 7: Developing countries: mean values of λ_i and proportion of significantly positive and significantly negative Y_{iLR}

	Mean λ_i	Positive Y_{iLR}	Negative Y_{iLR}
Brazil	0.013	1 / 56	3 / 56
India	0.229	2 / 40	4 / 40
Jordan	0.348	1 / 17	0 / 17
Korea	0.323	7 / 82	2 / 82
Malaysia	0.349	4 / 62	7 / 62
Mexico	0.222	0 / 39	0 / 39
Zimbabwe	0.421	0 / 40	4 / 40

Source: Glen, Lee and Singh (2002)

Table 8: Persistence of Profitability Studies for Industrial Countries

Author(s)	Country	Sample Period	Observations per firm	Number of firms	Sample mean (λ_i)
Geroski and Jacquemin (1988)	UK	1947-77	29	51	0.488
	France	1965-82	18	55	0.412
	Germany	1961-81	21	28	0.410
Schwalbach et al. (1989)	Germany	1961-82	22	299	0.485
Mueller (1990)	US	1950-72	23	551	0.183
Cubbin and Geroski (1990)	UK	1948-77	30	243	0.482
Khemani and Shapiro (1990)	Canada	1964-82	19	129	0.425
Odagiri and Yamawaki (1990)	Japan	1964-82	19	376	0.465
Schohl (1990)	Germany	1961-81	21	283	0.509
Waring (1996)	US	1970-89	20	12,986	0.540

Source: Goddard and Wilson (1999)

Table 9: Statistics on Long-Run Profitability: Advanced Country Corporations

	(1) Positive Y_{iLR}	**(2) Negative Y_{iLR}**
United Kingdom 1951-77 (243 firms)	37 (15.2)	37 (15.2)
United States 1950-72 (551 firms)	125 (22.7)	149 (27.0)
United States 1964-80 (413 firms)	66 (16.0)	137 (33.2)
Sweden 1967-85 (43 firms)	7 (16.2)	8 (18.6)
Canada 1968-82 (161 firms)	33 (20.5)	23 (14.3)
Fed. Rep. of Germany 1961-82 (290 firms)	53 (18.3)	50 (17.2)
France 1965-82 (450 firms)	NA	NA
Japan 1964-82 (376 firms)	62 (16.5)	56 (14.9)

Note: Figures in brackets are percentages.
Source: Odagiri and Yamawaki (1990)

Table 10: Median Return on Assets (%) by Country and Year (Inflation adjusted)

	2000	1999	1998	1997	1996	1995	1994
JAPAN	5.5	3.7	1.7	2.0	4.5	4.3	2.8
SINGAPORE	5.8	6.8	5.1	3.9	5.6	5.2	5.1
HONG KONG	10.0	9.5	0.6	0.4	2.1	-1.5	0.3
INDIA	5.0	2.8	-7.8	-0.6	-0.1	-0.1	-1.2
INDONESIA	-11.1	-13.3	-55.7	-5.1	0.2	-2.1	-0.3
KOREA	4.0	5.3	-4.5	-0.9	-0.1	0.5	-1.4
MALAYSIA	5.2	2.4	-2.3	4.4	5.3	5.5	4.7
PHILIPPINES	2.5	-3.1	-5.8	-0.9	1.2	1.5	-0.2
TAIWAN	5.1	6.4	3.3	6.1	5.8	4.0	5.1
THAILAND	5.5	5.6	0.5	-11.4	1.5	2.3	3.3
Group Median (Crisis countries)	4.6	3.9	-3.4	-3.0	0.9	1.4	1.5
Group Median (Non-crisis countries)	5.0	3.8	-1.4	-0.1	1.7	1.5	0.9

Source: Extracted from Glen and Singh (2003)

Table 11: Median Return on Equity (%) by Country and Year (Inflation Adjusted)

	2000	1999	1998	1997	1996	1995	1994
JAPAN	7.4	5.4	2.9	4.1	7.1	6.6	4.6
SINGAPORE	9.3	10.7	8.4	7.9	9.3	9.0	8.7
HONG KONG	14.0	14.0	5.0	6.6	9.0	3.2	7.9
INDIA	11.1	9.2	-2.8	5.0	7.0	10.3	7.2
INDONESIA	-39.0	11.9	-54.2	-5.2	8.5	6.7	7.1
KOREA	8.0	10.8	-0.5	2.2	4.5	6.4	4.4
MALAYSIA	8.9	7.1	-0.2	9.5	11.7	12.5	11.6
PHILIPPINES	5.9	-2.9	-1.7	1.3	3.6	11.1	1.1
TAIWAN	7.5	10.2	5.5	10.8	10.1	7.2	7.5
THAILAND	12.9	10.4	15.9	-19.2	6.5	10.1	9.7
Group Median (Crisis countries)	8.5	10.6	-0.4	-1.6	7.5	8.4	8.4
Group Median (Non-crisis countries)	8.4	9.7	4.0	5.8	8.1	8.1	7.4

Source: Extracted from Glen and Singh (2003)

Notes

[1] There are also microeconomic studies based on household surveys on poverty and related issues. For an insightful review of this literature, see the excellent textbook by Bardhan and Urdy (1999). However, despite its title "Development Microeconomics", the book does not discuss developing country corporations.

[2] However, as explained in Section II and III below there has been a great deal more research on these subjects since the Asian crisis.

[3] Quoted in the *International Herald Tribune*, February 13, 1998.

[4] The then managing director of the IMF, Mr Camdessus (IMF, 1998b), observed in relation to South Korea, 'In Korea, for example, opacity had become systemic. The lack of transparency about government, corporate and financial sector operations concealed the extent of Korea's problems – so much so that corrective action came too late and ultimately could not prevent the collapse of market confidence, with the IMF finally being authorised to intervene just days before potential bankruptcy'. See also not 7 below.

[5] Developing countries would regard the title Development Round to be a misnomer in the light of the progress made in the negotiations so far.

[6] See Domowitz, Glen and Madhava, (2001); Glen, Lee and Singh (2001,2002); Singh (2002c, 2003a); Glen and Singh (2003).

[7] In broad terms the suggested reforms included:

Financial and Corporate Sector Reforms

- Liberalization of foreign investment in domestic banks (Korea, Indonesia and Thailand).
- The introduction of more stringent conditions for official liquidity support (Indonesia, Malaysia and Thailand).
- Restructuring of domestic and external corporate debt (Indonesia, Korea and Thailand? And closure of nonviable firms (Korea).

Competition and Governance Policies

- Establishment of competitive procedures for privatisation of government assets and for procurement (Indonesia; planned in Malaysia and Thailand).
- Announcement of bans on or limits to the public funds to bail out private corporations (Indonesia, Korea, Malaysia and Thailand).
- Introduction or strengthening of bankruptcy laws and exit policies (Indonesia, Korea and Thailand).

- Strengthening of corporate disclosure standards (Korea)
- Liberalization of foreign investment in ownership and management in sectors other than the financial sector (Korea, Indonesia, Malaysia and Thailand).

[8] The role of the World Bank has been ambiguous as the Bank's then Chief Economist, Professor Joseph Stiglitz formed a rather different view of the crisis than that of the IMF. However, as Wade and Veneroso (1998) suggest, Professor Stiglitz's dissent was not shared by the World Bank's operational staff who carried out much the same reform program that the IMF did. Thus the World Bank (1998): "The main lesson from the East Asian crisis is that it is important to take an integrated approach to the issues of corporate governance and financing. The poor system of corporate governance has contributed to the present financial crisis by shielding the banks, financial companies, and corporations from market discipline. Rather than ensuring internal oversight and allowing external monitoring, corporate governance has been characterized by ineffective boards of directors, weak internal control, unreliable financial reporting, lack of adequate disclosure, lax enforcement to ensure compliance, and poor audits. These problems are evidenced by unreported losses and understated liabilities." This is not much different from the Greenspan-Summers IMF analysis.

[9] Other contributors to the structural thesis include Summers (2000), Phelps (1999), IMF (1997) and US Council for Economic Advisers (1998,1999). For an implicit or explicit critique of the structuralist thesis see Chang (2000), Sakakibara (2001), Stiglitz (1999), Wade and Veneroso (1998) Sachs and Radelet (1998), Singh and Weisse (1999) and Jomo (2001).

[10] The Johnson et al (2000) study suggesting that the decline in stock market valuation of firms as well as currency depreciations in Asian crisis countries were directly related to poor corporate governance; broadly supports the conclusions of the structuralist theory.

[11] For differing perspectives on the causes, consequences and remedies of the financial crisis in East Asian countries, see three recent collections of articles published by National Bureau of Economic Research: Feldstein (2002), Dooley and Frankel (2002), Edwards and Frankel (2002).

[12] In Korea this was due to its membership of OECD. In 1991 the government dissolved its planning office. In Thailand financial liberalisation was instituted in order to bolster Thailand's claim to be the financial centre of the East. Chang (2000), Singh (1999a).

[13] On the competition policy controversy between emerging and advanced countries at the WTO, see Singh (2002c), Hoekman and Kostecki (2001).

[14] The main references in relation to this new information include, Claessens et al (2000), Iskander and Chamlou (2000), La Porta et al (1999) and Singh, Singh and Weisse (2003)

[15] See also Johnson *et al.* (2000) on this point.

[16] The tables have been extracted from Glen and Singh's (2003) large study of corporate finance in emerging and mature markets referred to earlier.

[17] All the data pertain to public companies listed on the stock markets in each country, equity finance therefore, refers to the resources obtained from the stock market through new issues, including rights issues. See also Domowitz, Glen and Madhaven (2001)

[18] Donaldson's (1961) classic contribution provided the empirical bases for the 'pecking order' theory for large US corporations. He ascribed the phenomenon essentially to the relative transactions costs of different sources of finance and to managerial control of the corporations.

[19] There is no necessary contradiction between Asian corporations generally being family controlled while raising a large portion of their resources for growth from the stock market. Family control in the case of large corporations, as indicated in the previous section, arises from the fact that although family ownership is often much less than 50%, the financial institutions (which have considerable ownership and often are government-owned or influenced) generally back the founding families to allow them to maintain control over the corporations. Moreover families use various pyramiding devices to maintain and expand their control over very large corporations.

[20] For recent reviews see Hughes (1991); Mueller (1997); Tichy (2001); Singh (2000).

[21] For a full analysis of the issues raised in this paragraph, see Singh (1997, 1998, 2000) and Singh and Weisse (1998).

[22] This section is based on Singh (2002a) and Glen, Lee and Singh (2002)

[23] For a fuller discussion of these issues, see Singh (2002a); Glen, Lee and Singh (2002).

[24] As noted in Section III.I, the change of the normalising variable alters the nature of the association between crony capitalism and crisis, this association cannot be regarded as being robust.

[25] For the fuller discussion of these issues, see the references provided in Section IV

[26] See further Kindleberger (1984) and Greenspan (1998)

[27] See further Furman and Stiglitz (1999) and Stiglitz (1999)

[28] See further Kaufman (2000) and Williamson (2002)

[29] See further Stiglitz (1999); Singh and Zammit (2000); see, however, Summers (2000)

[30] The last contribution suggests that rather than being an abrupt change in direction it has been a gradual process.

[31] This subject is discussed in detail in Singh (2002b).

[32] The data are based on cross-sectional analysis of the ownership structure of the 20 largest firms by capitalisation in 27 countries using a 20% threshold for control.

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