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Minority Shareholders' Rights under Family Controlled Regime

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Family Control Nature in East Asia

The Asian financial crisis has been widely attributed to "crony capitalism": the domination of the corporate sector by a few politically well-connected families. This view of the crisis was based on anecdotal rather than systematic evidence. How well does it describe the reality?

Since the onset of the crisis in mid-1997, academics in and outside the region have sought evidence on whether the crony-capitalism thesis is correct. Our research both confirms and challenges established notions about East Asian corporate governance. We document an extraordinary concentration of corporate control in the region, and systematic exploitation of minority shareholders. However, we also found that family ownership is even more widespread in Western Europe, which has avoided the macroeconomic problems of Asia. Our findings may give cause for reflection by policy-makers seeking the best way forward for post-crisis Asia.

The first pioneer study of corporate ownership was published in 1999 by a group of Harvard University economists, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 'Corporate Ownership around the World,' in *Journal of Finance*. They sampled ownership in all the major economies and concluded that, outside the United States, family-controlled corporations are in a majority. Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny have published numerous articles on similar issue including "Law and Finance" in *Journal of Political Economy* and many others.

This survey article mainly discusses our view on this topic. A follow-up study by Larry Lang in collaboration with Stijn Claessens and Simeon Djankov of the World Bank in

an article, ‘Separation of Ownership from Control in East Asia,’ in *Journal of Financial Economic* (Oct., 2000a), documented the ownership and control of all stock exchange-listed corporations with credible accounting data in nine East Asian economies: Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. The resulting database includes around 3,000 corporations.

The most striking feature reported by Claessens, Djankov and Lang in World Bank working paper “East Asian Corporations: Heroes or Villains?” in 2000, depicted in Figure 1, is that the overwhelming majority of East Asian companies (75 per cent) are affiliated to a group and thus subject to the ultimate control of an entity that also controls a large number of other companies. In Japan 83 per cent of firms are group-affiliated; in the Philippines, 74 per cent; in Hong Kong, Indonesia, and Singapore, more than 60 per cent; only in Thailand are group-affiliated companies in a minority (42 per cent).

Figure 1

Source: Claessens, et al. (2000b)

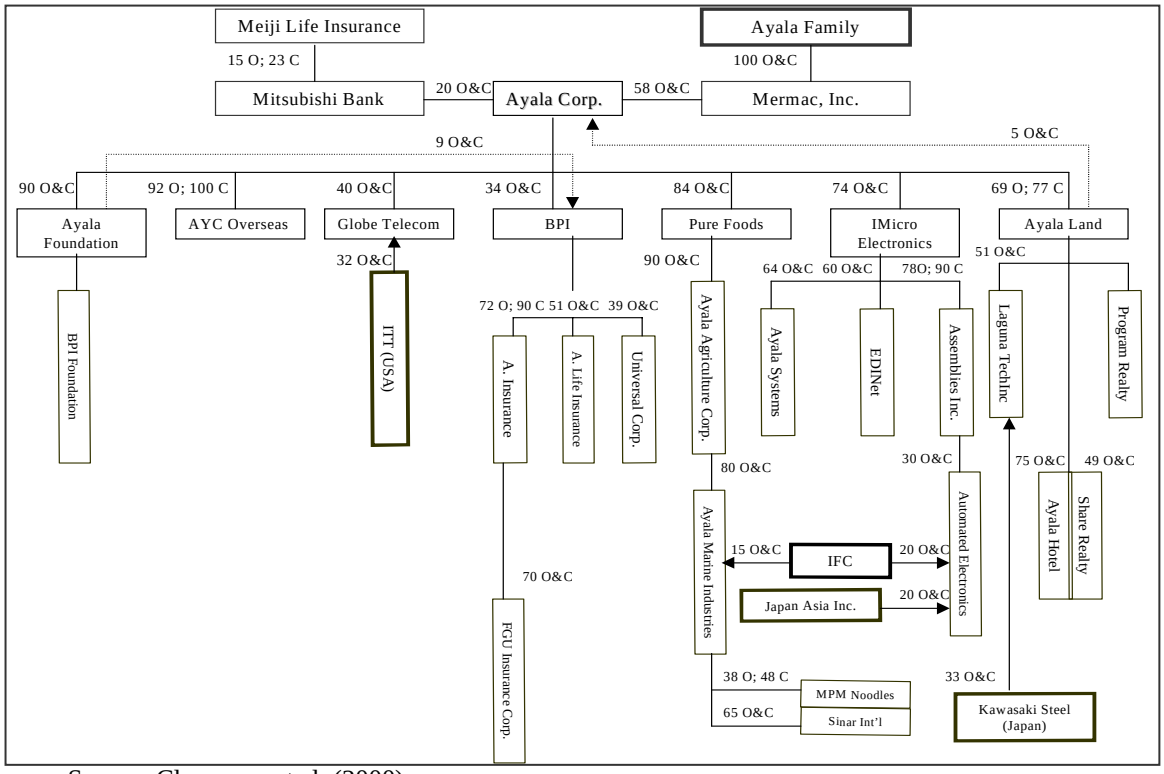
Corporate groups in East Asia are controlled by a complex web of ownership links. Typically, a corporation at the base of the pyramid is controlled by another, which is controlled by another: links in a chain of control leading up to the ultimate owner. The complex structure of corporate groups in East Asia is illustrated in Figure 2 by the group controlled by the Ayala family via a complex web of ownership links.

When we look at the ultimate owners of these groups, significant differences emerge across economies. For each East Asian corporation, the World Bank research identified ultimate owners that hold more than 20 per cent of the shares in each link in the chain of

control. A company was classified as “widely-held” if no ultimate owner controlled at least 20 per cent of its shares. Where ultimate owners could be identified, they were classified as family, state, widely-held financial institutions, and widely-held corporations.

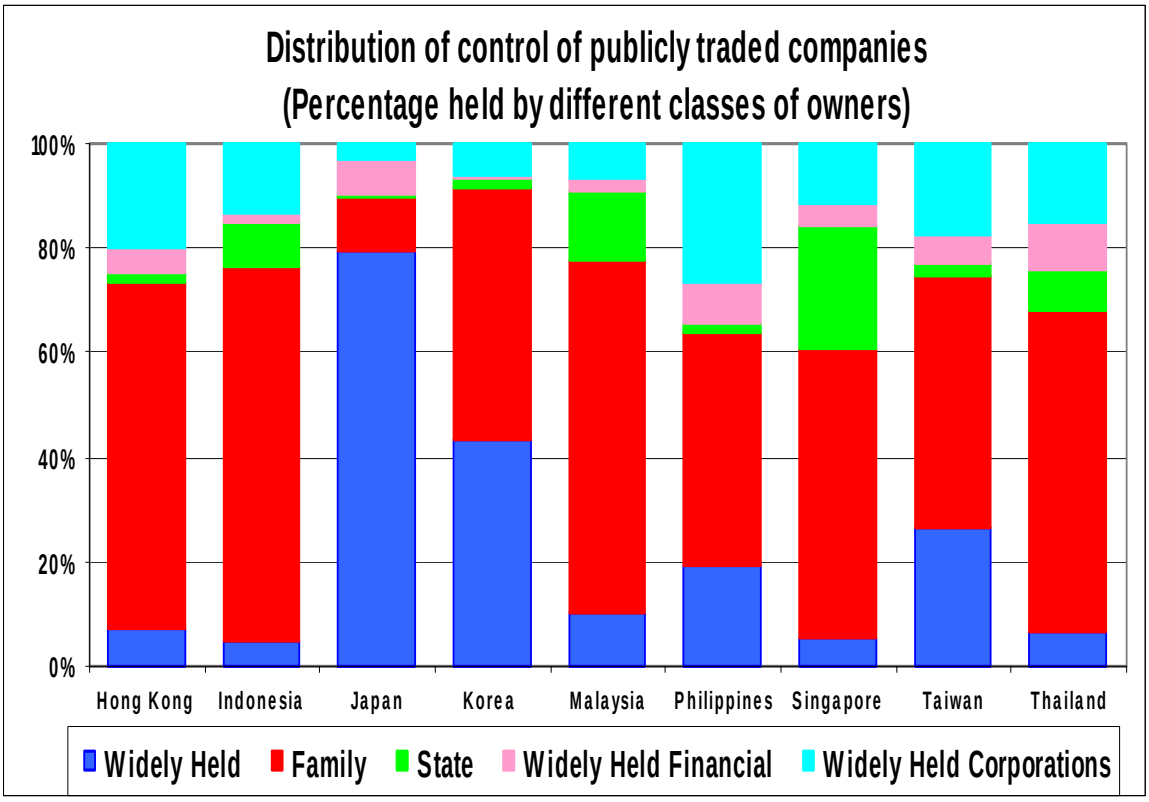
Figure 3 shows large differences across countries in the distribution of ultimate owners. Less than one-tenth of Japanese companies, or 9.7 per cent, were found to be controlled by families, while almost four-fifths (79.8%) were widely-held. By contrast, the proportion of corporations under family control was 48.4 per cent in South Korea, 48.2 per cent in Taiwan, 61.6 per cent in Thailand, 66 per cent in Hong Kong, and 67.2 per cent in Malaysia. Thus, family control is widespread across the region, except in Japan.

Figure 2: The AyalaGroup



Source: Claessens, et al. (2000)

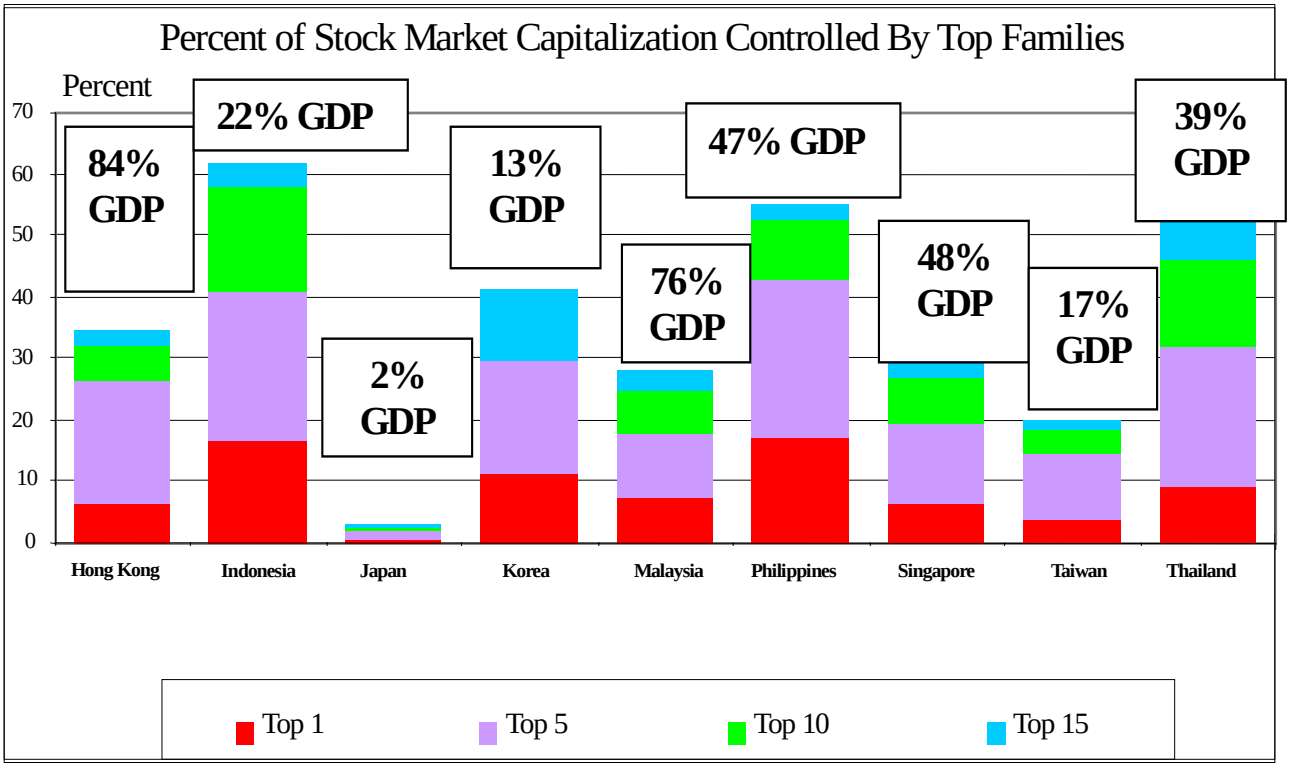
Figure 3



Source: Claessens, et al. (2000a).

Another measure of the significance of family control is the share of total market capitalization held by the top families (Figure 4). At one extreme, about one-sixth of the total market capitalization in Indonesia and the Philippines was controlled by the top family; more than half the market capitalization of each economy was controlled by the top ten families. Concentration was also high in Thailand and Hong Kong, where the top 5 families controlled 26 per cent of market capitalization. In South Korea, Malaysia, and Singapore, over 25 per cent of market capitalization was controlled by the top 10 families. By contrast, family control in Japan was insignificant. In a related study, Claessens, Djankov and Lang ("The Separation of Ownership and Control in East Asian Corporations," *Journal of Financial Economics*, 2000) report for each East Asian economy that the top 15 families control companies with a total market capitalization equal to the following percentages of 1996 GDP: Hong Kong 84.2%, Malaysia 76.2%, Singapore 48.3%, the Philippines 46.7%, Thailand 39.3% Indonesia 21.5%, Taiwan 17%, Korea 12.9% and Japan 2.1%.

Figure 4

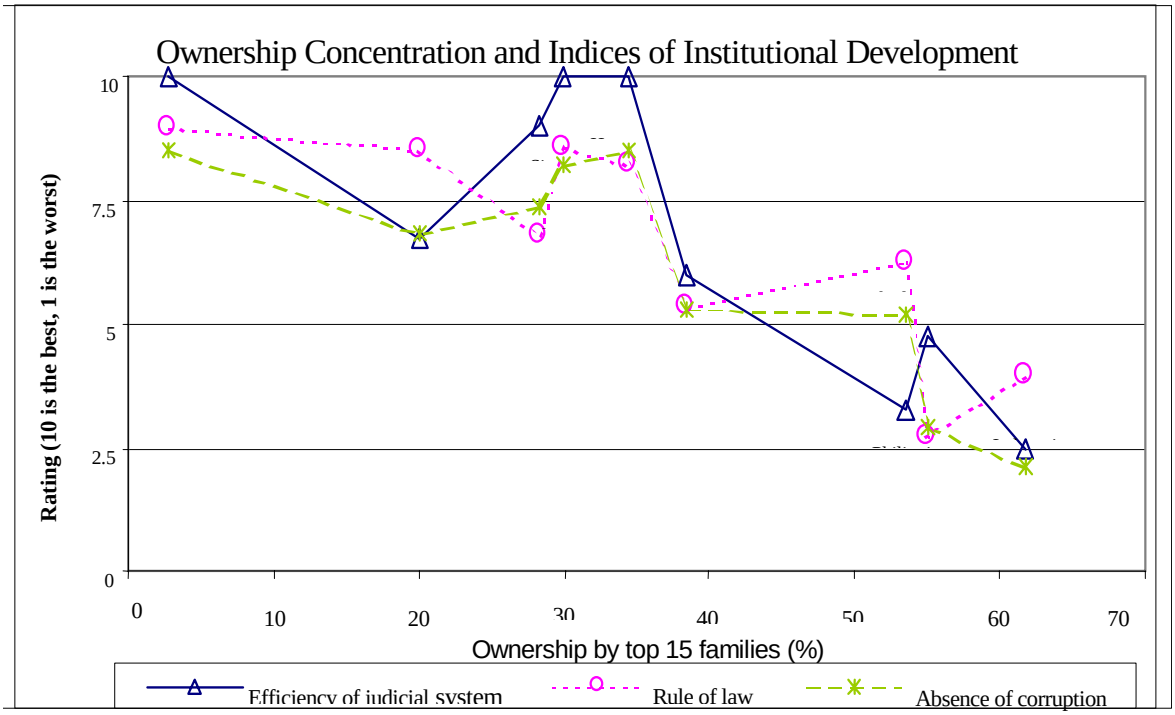


Source: Claessens, et al. (2000a).

Thus, most East Asian economies are dominated by a small number of families. What is their impact on economic policy? The most obvious mechanism is preferential treatment of family businesses. This is most likely where the family is that of a senior government official. A case in point is the business empire of the Suharto family, which controlled over 400 listed and unlisted companies in Indonesia through business groups headed by Suharto children, relatives, and business partners, many of whom served in the Suharto government.

More subtle is the impact of concentrated control on the development of the legal system. If a small number of families dominate the corporate sector and the government is heavily involved in and influenced by business, then the legal system might not protect minority shareholders or support open competition. In Figure 5, we measure the concentration of corporate control by the share of total market capitalization controlled by the top 15 families in each economy and show how this correlates with indices of the efficiency of the judicial system, the rule of law and the degree of corruption. These indices run from 1 to 10, with 10 being the highest standard. The correlations suggest that concentration of corporate control has had a major negative impact on the evolution of the legal system.

Figure 5



Source: Stijn Claessens, Simeon Djankov and Larry Lang

An important implication of the family domination of East Asian economies is the ability of the controlling shareholder of a large corporate group to expropriate - in effect, to steal from - minority shareholders. Indeed, the exploitation of minority shareholders can drive its business activities. This could have played a key role in precipitating the Asian financial crisis. Andrei Shleifer named this behavior as "tunneling" in his 2001 *American Economic Review* paper.

Author Michael Backman in his 1999 book *Asian Eclipse: Exposing the Dark Side of Business in Asia* explains the process "[East] Asian conglomerates generally opt for the squat pyramidal structure. A private holding company sits at the apex, a second tier holds the most prized assets that are usually privately held, and a third tier comprises the group's publicly listed companies....The publicly traded companies at the base of the pyramid serve as stalking horses for cash. They sell their shares to the public and then pass the proceeds up the pyramid via myriads of internal transactions. In return, other assets – less profitable and therefore less desired by the controlling family – are passed down the pyramid."

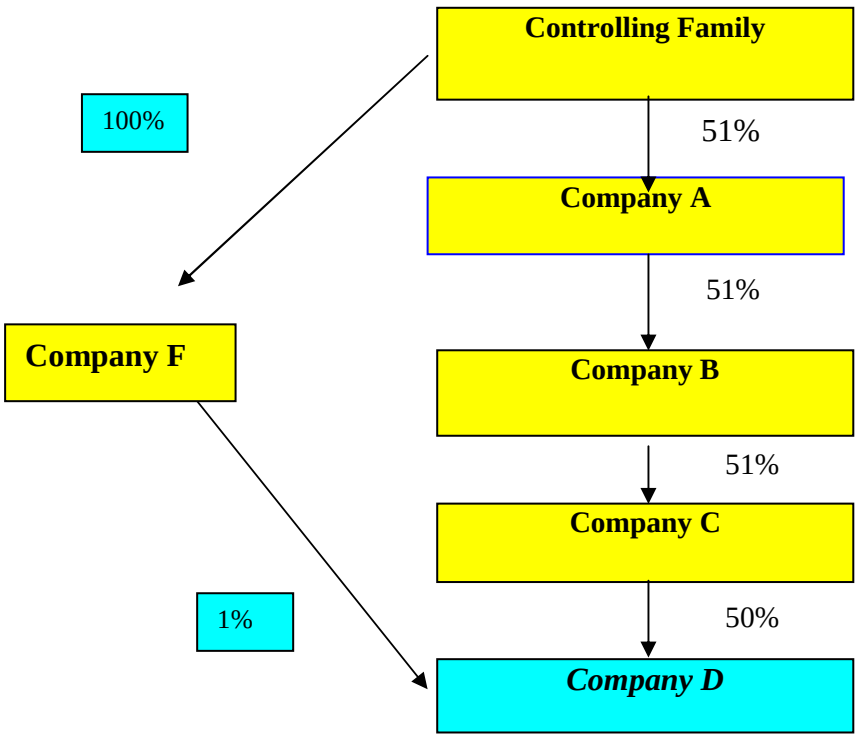
Pyramiding magnifies the control that is possible despite low ownership, providing both the ability and the incentive for controlling shareholders to exploit minority shareholders. Figure 6 shows how this works. A family owns 51 per cent of company A, which owns 51 per cent of company B, which owns 51 per cent of company C, which owns 50 per cent of company D. The family also owns 1 per cent of company D through a separate, wholly-owned vehicle, company F.

The family therefore controls 51 per cent of the shares of D (50 per cent through C and 1 per cent through F). However, its ownership stake is only 7 per cent. This is because of the pyramiding. The family controls 50 per cent of D via the A-B-C chain but its ownership stake is only 7 per cent: 51 per cent of 51 per cent of 51 per cent of 50 per cent plus 1 percent.

The family can expropriate minority shareholders by paying low dividends to D's shareholders, selling assets from D to F at low prices or purchasing goods and services from F at high prices. Such transactions benefit the family because of its low ownership of D and high ownership of F. For example, if an asset sold from D to F were underpriced by $100

million, then the loss to the family through its ownership of D would be $7 million, but its gain through company F would be $100 million, leaving a profit of $93 million: the fruit of expropriation of D's minority shareholders.

Figure 6



In the above case, the controlling family's ratio of ownership to control rights in company D is 7 to 50, or 14 per cent. In general, a company where the controlling shareholder has a low ratio of ownership to control rights is near the base of a corporate pyramid; its minority shareholders are thus more exposed to expropriation.

Research by Larry Lang with Stijn Claessens and Simeon Djankov of the World Bank and Joseph Fan in Hong Kong in a paper 'Disentangling Incentive and Entrenchment Effects of Large Shareholdings in East Asia,' in *Journal of Finance* 2002 found that such companies tend to have a significantly lower market valuation per dollar of asset compared to their industry peers, indicating that shareholders downgrade such companies as being more exposed to expropriation. This pattern is found in every East Asian economy in our sample, except Singapore and Malaysia. Singaporean regulation of corporations appears to be especially stringent for the region. For example, any loan to a related party of more that S$5,000 must be secured, a rule absent in other East Asian economies.

What Can We Learn from Western Europe?

Although "crony capitalism" has been identified with East Asia because of the recent

financial crisis, its basic features, if not its effects, are actually more pronounced in Western Europe. This was demonstrated by the author Larry Lang in collaboration with Professor Mara Faccio of the University of Notre Dame in a study "Ultimate Ownership of Western European Firms" published in 2002 *Journal of Financial Economics* which traced the ultimate owners of all listed corporations in 13 West European economies. Contrary to our expectations, families and business groups play just as great a role in Europe as in Asia. For example, 46 per cent of European corporations are affiliated with groups, compared with 48 per cent in Asia; 43 per cent of European corporations are controlled by families, compared with 38 per cent in Asia. Most importantly, 68 per cent of European corporations have top managers from the controlling family, compared with 57 per cent in Asia. Thus, the prevalence of expropriation is as high in Western Europe as in East Asia. Yet, Western Europe appears to have avoided the problems of expropriation highlighted by the Asian financial crisis.

We developed more detailed evidence of expropriation by examining dividends in collaboration with Professor Mara Faccio of the University of Notre Dame in a study 'Exprpriation and Dividends'. This article was published in *American Economic Review* in 2001. Dividends remove corporate resources from the control of insiders and distribute them pro-rata to all owners, so an examination of dividend behaviour across all corporations in our sample can yield evidence of expropriation within the sample. Of course, such an examination provides no evidence on what any particular corporation is doing.

In studying dividend behavior, we focused on the strength of the chain of control. A corporation was defined as "tightly controlled" if all links in the chain exceeded 20 per cent; it was defined as "loosely controlled" if all links were between 10 per cent and 20 per cent. Overall, investors appeared alert to the greater exposure to expropriation within tightly-controlled groups; to offset their concerns, higher dividends were paid by corporations affiliated to such groups, especially those lower in the corporate pyramid, in that the controlling shareholder had a lower ratio of ownership to control rights. This indicates that capital markets are generally capable of policing expropriation within tightly-controlled groups, although we identified failures in Thailand and Indonesia.

By contrast, investors seem less alert to expropriation within corporations that are loosely-affiliated to a group, that is, all links were between 10 per cent and 20 per cent. Such

corporations pay lower dividends if they are lower in the corporate pyramid, in that the controlling shareholder has a lower ratio of ownership to control rights.

Our interpretation is that such weak control links are not visible to minority shareholders. Therefore, controlling shareholders face minimal surveillance from capital markets and take the opportunity to retain resources within the company by paying lower dividends. These resources can then be expropriated by unfairly-priced transactions with other companies in the group.

Such failures of capital market policing are of little consequence in Europe, where loosely-affiliated corporations comprise only 2.94 per cent of listed corporations. In Asia, however, they comprise a significant 15.44 per cent. Our interpretation of the regional difference is that minority shareholders have fewer rights in Asia and regulators are less effective in enforcing those rights, so that control of a corporation is possible with a smaller proportion of its shares. The resulting low visibility facilitates expropriation.

The size and complexity of Asia's dominant corporate groups poses an additional impediment to shareholder control of such abuses. We considered the sizes of groups when control is defined at the 10 per cent level – that is, the ultimate owners controls at least 10 per cent of all companies in the chain. The six largest groups in Asia were found to control 23.23 per cent of all Asian corporations and 77.86 per cent of those that are loosely-affiliated; the 22 largest groups were found to control 32.19 per cent of all Asian corporations and 83.33 per cent of those that are loosely-affiliated.

The low transparency of such sprawling, loosely-affiliated groups makes it difficult for minority shareholders and analysts to discover where control resides, let alone identify and challenge unfair intra-group transactions. The apparently weak formal group linkages may be reinforced by non-transparent linkages through nominee accounts (common in Asian markets) and through collusion with other large shareholders. Dividend behaviour provides evidence of such collusion: we found that the presence of another large shareholder (holding more than 10 per cent of a corporation) tends to raise dividend rates in Europe but to lower them in Asia.

In summary, dividend behaviour suggests that European markets are much more

effective at containing the expropriation of minority shareholders which led up to the Asian financial crisis. Expropriation by controlling families is not simply a matter of unfair redistribution of wealth: controlling families can choose to invest in projects with low or negative returns because they create opportunities for expropriation. This can pile up so much unrepayable debt as to precipitate macroeconomic problems, as the Asian financial crisis has shown. Widening our focus from dividend to debt behaviour confirms that the experience of West European economies could be more relevant to regulatory reforms in East Asia.

The gap between the US and Asian corporate arenas can be seen in the contrasting roles of debt in relation to managerial behaviour. In the US, managerial expropriation is constrained by higher leverage (the ratio of debt to equity). This because dividends are discretionary for managers, whereas debt interest and repayments are legal obligations. If a company sits astride a cash cow (for example, a cigarette company that can charge its addicts pretty much what it likes) then its managers can pay low dividends, while wasting the cash flow in corporate games that enhance their egos and empires (such as acquiring unrelated businesses) but offer poor returns to shareholders.

Takeover battles force managers to disgorge this cash flow to shareholders and to replace equity with debt. Thenceforth, the debt constrains managerial expropriation, since a single disgruntled creditor can force the management into bankruptcy proceedings, whereas the only real recourse of a disgruntled shareholder is a corporate takeover, which is much more difficult to engineer. Empirical evidence from the US confirms this: share value tends to rise when the company substitutes debt for equity.

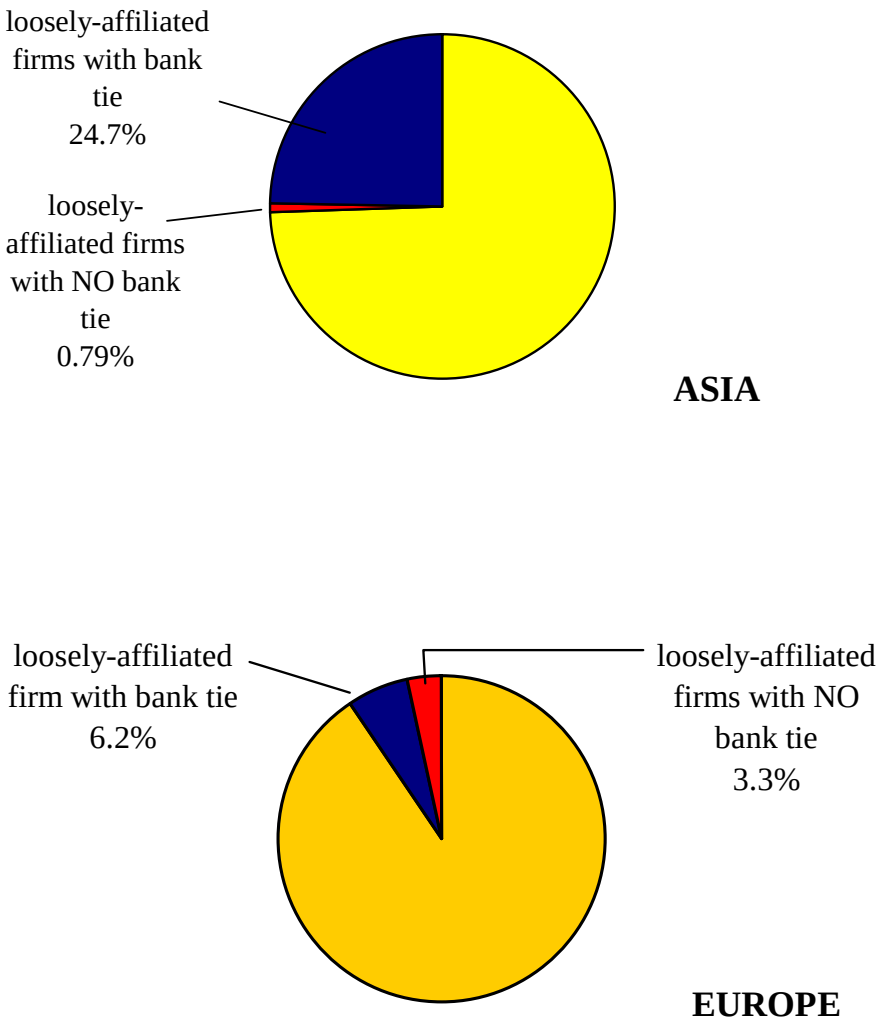
Debt constrains managers only if upheld by the legal system and corporate accounting is transparent, so that creditors can monitor corporate behaviour and enforce bond covenants. Given weak institutions, debt might serve to facilitate, rather than to constrain, managerial expropriation by permitting the controlling shareholder to expand its control of resources, which can then be expropriated via unfair transactions with related parties. Those expropriated can include not only minority shareholders, but also creditors left holding worthless debt and the taxpayers forced to bail them out to prevent systemic collapse.

With Professor Mara Faccio of the University of Notre Dame, we documented in a working paper ‘Debt and Expropriation’ that for East Asian firms leverage tends to be higher

for firms where the controlling shareholder has a low ratio of ownership to control rights. The opposite is true for West European firms. Our interpretation is that European lenders are alert to the increased vulnerability to expropriation further down a pyramid and restrict leverage accordingly. This points up the greater autonomy of lenders in Europe and their access to better information from corporate disclosure.

The pie diagrams in Figure 7 show that effectively all (96.91% = 24.7%/(24.70%+0.79%)) loosely-affiliated firms in Asia have access to related-party loans, from a bank controlled by their group. We also found that 22.18 per cent of all Asian corporations and 87.01 per cent of such loosely-affiliated corporations were controlled by just six groups comprising more that 50 firms plus a bank.

Figure 7


loosely-affiliated firms with bank tie 24.7%
loosely-affiliated firms with NO bank tie 0.79%
ASIA
loosely-affiliated firm with bank tie 6.2%
loosely-affiliated firms with NO bank tie 3.3%
EUROPE

Within such sprawling groups, the outside shareholders and creditors of both borrower and lender would have difficulty learning of their exposure to expropriation, let alone containing it**.** By contrast, the pie diagrams show that in Europe, 34.73 per cent (3.3%/(3.3%+6.2%)) of loosely-affiliated corporations cannot access related-party loans from banks. We also found that only 2.15 per cent of all companies and 22.63 per cent of those which are loosely affiliated belong to groups which comprise more than 50 non-financial companies plus a bank. Thus, both the possibility of related party lending and its economic importance seem much less than in Asia.

In East Asia, expropriation of group-affiliated banks at the bottom of a control chain is also popular. With underdeveloped bond markets, bank loans are still the most popular form of debt financing. Families control a significantly higher portion of publicly-listed banks in East Asia than in Europe. Figure 8 and 9 shows that families control 20.5% of publicly-listed banks in Western Europe, but 50.5% in East Asia. Their shares are especially high in Malaysia (72.73%), Hong Kong (73.33%), Indonesia (82.35%), and Thailand (87.50%). The dominance of family-controlled banks further exacerbates the possibility of expropriation of banks in East Asia than in Western Europe.

Figure 8: Percentage of Listed Banks Controlled by Families in East Asia

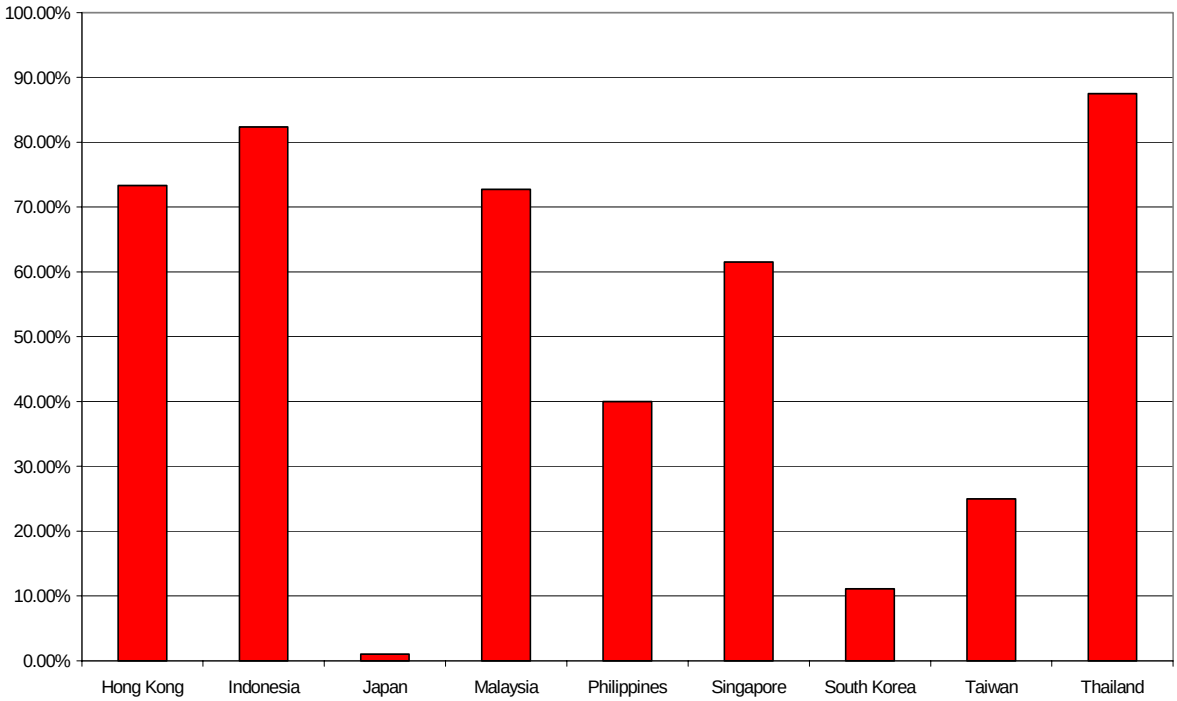
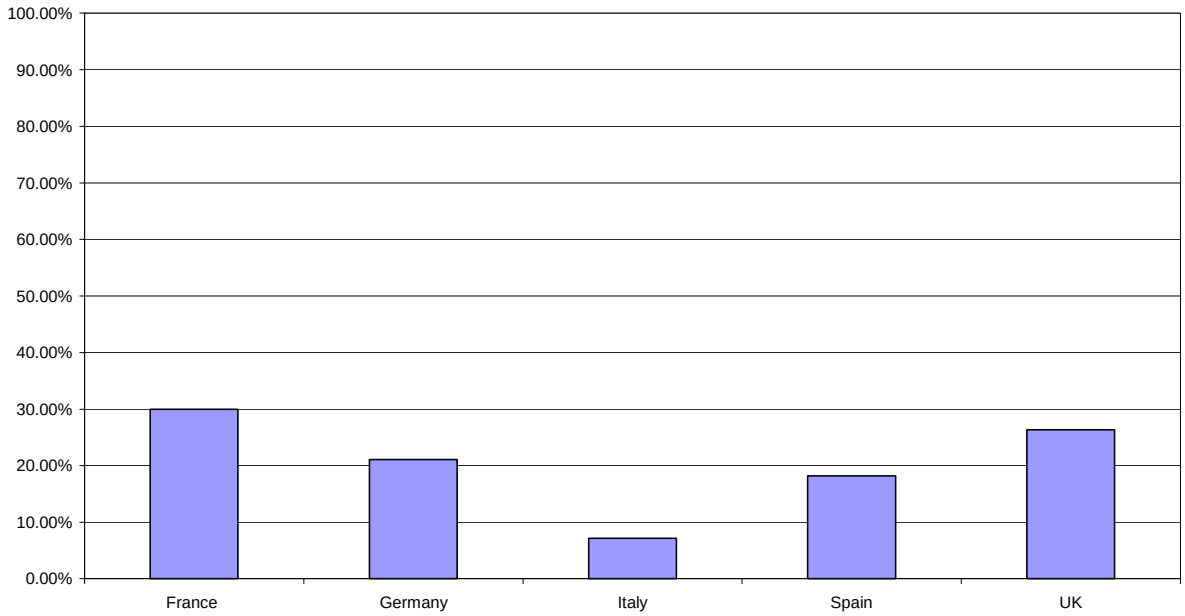


Figure 9: Percentage of Listed Banks Controlled By Families in Western Europe

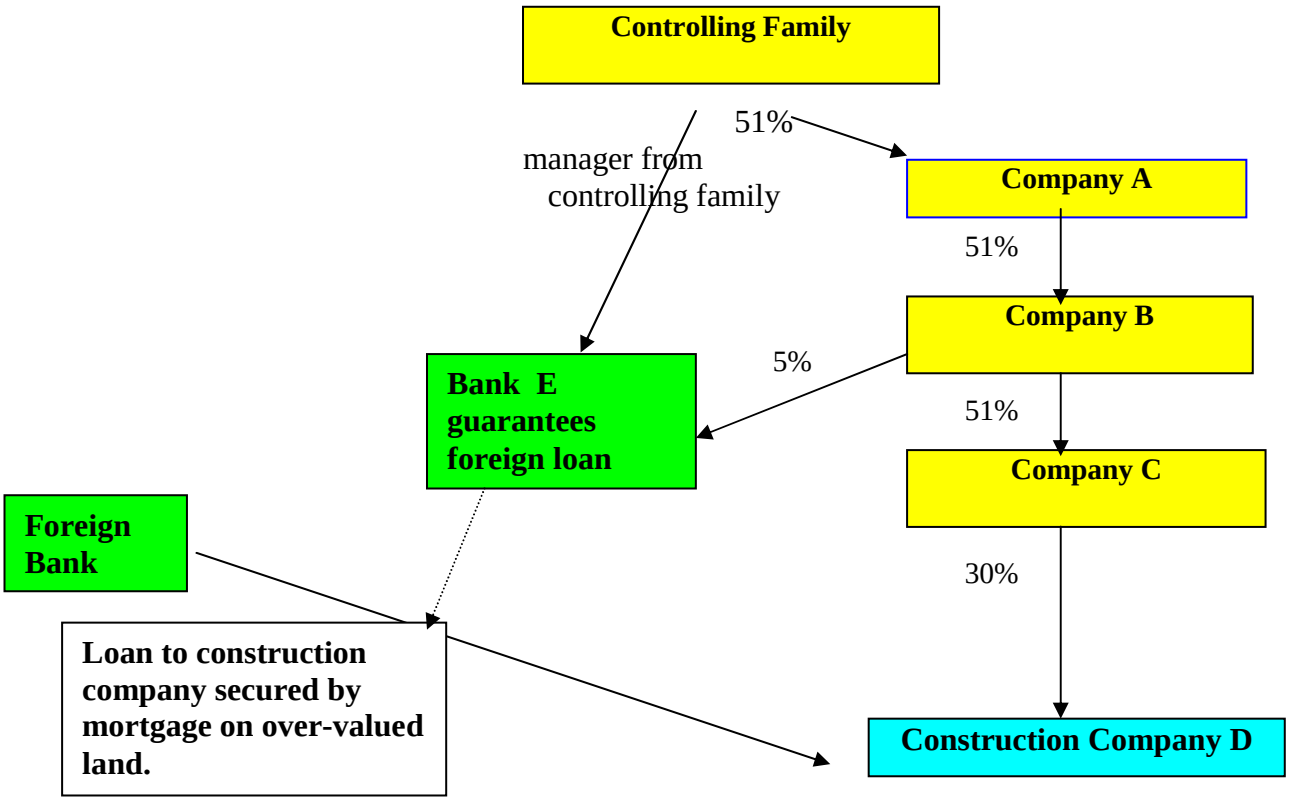


The pride and confidence which led Asian leaders like Lee Kuan Yew and Mahathir Mohamad to enunciate "Asian values" as an alternative to the institutions of liberal democracy were based on the "East Asian miracle": the post-war surge of growth which occurred despite the absence of the Western institutions of the rule of law and democracy. This was possible because East Asia had substitutes: business networks based on family and long-term associates that permitted complex transactions without a law of contract; and autocratic governments and effective civil services committed to improving national welfare. Problems arose only when growth proceeded to the point where companies had to seek outside sources of finance to continue their growth.

Without institutions to ensure shareholder protection, managers could not be disciplined by the takeover market, as in the US. The East Asian alternative was the formation of extensive corporate pyramids. These permitted successful business families to reach out for external capital, while retaining control of management. Similarly, weak creditor protection prevented arms-length loans. Banks were therefore integrated into the corporate pyramids: related parties could at least be relied upon to repay their loans.

These creative ways of tapping wider pools of capital, despite weak capital market institutions, opened the door to the expropriation of minority shareholders by the controlling shareholder/manager. Controlling families seized the opportunity. A case in point as shown in Figure 10 is the swathe of empty, half-finished apartments littering Bangkok — evidence, not of too little business acumen, but of too much.

Figure 10: Expropriation in Thailand



Apartments were built by a construction company D low down a corporate pyramid. The land and concrete for the apartments were bought at exorbitant prices from companies A and B higher up the pyramid. Loans and loan guarantees to foreign banks were provided by a bank E low in the pyramid, with top managers from the controlling family, despite its low equity stake. Since the family had small equity stakes and limited liability in company D and bank E, their collapse during the Asian financial crisis would have left intact the family's prior gains from expropriation.

Asia can indeed take pride in values that underpinned a growth miracle. Asian values facilitated business amongst long-term acquaintances, but countenanced the exploitation of

strangers, such as minority shareholders, bank depositors, domestic taxpayers and foreign banks. Western-style institutions of accountancy and law protecting the latter became important to ensure constructive business relationships when wider pools of capital had to be tapped. The absence of these institutions permitted the business leaders who had spearheaded the creation of wealth to expropriate much of it from minority shareholders, creditors and taxpayers. In so doing, they precipitated the Asian financial crisis and earned the sobriquet "crony capitalists".

Asia still has much to learn, especially from Western Europe, in how to reconcile family ownership and control of corporations with the protection of shareholders and creditors. These lessons were hard-learnt in Europe, starting from its own "European financial crisis" nearly three centuries ago, comprising the Mississippi Bubble of France and the South Sea Bubble of England, episodes which foreshadowed the Asian financial crisis. The speedy recovery of Asia from its crisis is due more to the determination and sacrifices of the population at large than to any reforms of accounting disclosure, corporate governance and banking by their governments. Until such reforms have taken place, further expropriation episodes are inevitable; indeed, another has already occurred, as investors were seduced aboard the dotcom bandwagon, then abandoned. But that is another story.

Suggestions for Legal Reform to Protect Dissenters Right

The above example shows how the concept of a limited liability corporation can be abused. This concept provides a legal and accounting vehicle for financial transactions and ownership of property, while limiting the exposure of the beneficiaries. Emerging economies have taken over this concept from mature economies — without their supporting institutions of law and accounting. Although the formal concept can be adopted easily, the supporting institutions take much longer to develop. Laws and regulations need to reflect this reality, so that minority shareholders and creditors can forestall and punish expropriation and value-destroying investment. Some suggestions follow.

(1) Controlling shareholders who are also managers have a duty to act in the interests of all shareholders. The law should acknowledge their conflict of interest, exacerbated by the stronger family obligations and weaker sense of fiduciary duty in Asia. In any dispute with minority shareholders, fraudulent intent should be presumed if there are violations of covenants, laws and regulations on disclosure of balance sheets, use of funds, related-party

transactions and insider trading. In that event, the burden of proof should be on the controlling shareholders to demonstrate that their actions were in the interests of minority shareholders. Failure to do so should be taken as proof of fraud.

(2) Because of the weak sense of fiduciary duty in Asia, the leveraging of voting power by managers/controlling shareholders via the pyramiding of company holdings is particularly open to abuse. Therefore, proven fraudulent intent by the controlling shareholders should lead to dissolution of the corporation as a unitary legal entity, in that it could no longer vote as a bloc in the decisions of corporations which it owns. Thus, if corporation A holds shares in corporation B, then in voting on B, shareholders in A must vote as individuals, although proxies could be solicited. This would force controlling shareholders with fraudulent intent to own more shares in B to be sure of retaining control, reducing the discrepancy between the control and cash flow rights which creates the incentive to expropriate value from B.

(3) Limited liability is for the protection of minority shareholders from management decisions. Controlling shareholders who are also managers do not need that protection, so it should be withdrawn immediately upon proof of fraudulent intent. Creditors and outside shareholders should be able to cut through immediately to the personal assets of the manager/controlling shareholder, as well as all trusts of which they are the beneficiary or settlor. Transfer of property to settle a judgement should be immediate, even if the judgement were being appealed.

(4) The difficulties of organizing dispersed minority shareholders and creditors can be reduced by adopting the following features of the USA legal system:

(i) The no-way fault rule, whereby each party pays its own legal costs.

(ii) Lawyers should be permitted to bring commercial cases on the basis of contingency fees.

(iii)Impediments to class action suits should be removed.

(5) Since developing an effective, independent legal system will take some time in many Asian countries, a more active role needs to be played immediately by the professional civil service to limit expropriation of minority shareholders and creditors. The Hong Kong Independent Commission Against Corruption (ICAC) provides a useful model here. It not only responds to tipoffs from the public, but also initiates investigations on the basis of

objective evidence, such as the assets and lifestyles of officials which seem incompatible with their official income. The ICAC has a clear mandate, strong investigative powers and strong internal controls against corruption amongst its own personnel. It has earned the respect and confidence of the Hong Kong public by its effectiveness in cleaning up corruption. Developing an analogous Independent Commission Against Corporate Corruption to spearhead investigations by regulatory bodies might be an effective way of quickly addressing the problems of corporate governance in Asia. Like the Hong Kong ICAC, such a Commission should be pro-active. For example, it should not wait for abuses to emerge in another financial collapse, but should target for random independent audit those firms whose objective profile makes them likely tools for expropriation, for example, firms in which the controlling shareholder has a low ratio of cash to control rights.

Biography of Dr. Larry H.P. Lang

Dr. Larry H.P. Lang earned his PhD in Finance at the Wharton School, University of Pennsylvania in 1986. Dr. Lang has taught at several prestigious Business Schools including the Wharton School, Michigan State University, Ohio State University, New York University, and the University of Chicago. He is currently the Chair Professor of Finance at the Chinese University of Hong Kong. He has served as a consultant on corporate governance to the World Bank and Asian Development Bank Institute. In collaboration with colleagues at the World Bank, Dr. Lang pioneered a corporate governance study on expropriation and protection of minority shareholders in East Asia. This study was published as the World Bank discussion paper, was catalogued in the US Library of Congress and has been widely cited by academics, practitioners and several popular media such as the *Economist*. Dr. Lang's expertise is in the fields of corporate governance, project financing, direct investments, corporate restructurings, mergers & acquisitions, and bankruptcy. He has published numerous academic papers in the world's leading Economics and Finance journals. Dr. Lang's expertise and major findings are widely recognized by world leading Business School professionals as evidenced by the high number of citations his work has received. Dr. Lang's business view has also been publicized by the popular media including the *Economist, Wall Street Journal, New York Times, Business Week, Investor Dealers' Digest, Cincinnati Enquirer, Philadelphia Inquirer, Investor's Business Daily, Journal of High Yield Bond* Research by Merrill Lynch, and CNBC TV Station, TVBS, etc.

Biography of Dr. Leslie Young

Leslie Young was born in China and holds the B. Sc. and M. Sc. degrees from New Zealand and the D. Phil. in Mathematics from Oxford University. This was completed at age twenty and won the Senior Mathematics Prize for the best dissertation of his year. He taught economics at Oxford and in New Zealand before serving as V.F. Neuhaus Professor of Finance and Professor of Economics at the University of Texas at Austin. At the Chinese University of Hong Kong in 1992, he is Chair Professor of Finance and Executive Director of the Asia-Pacific Institute of Business which organizes research and executive education for the Business Faculty. He has also held Visiting Professorships at the Australian National University, M.I.T. and the University of California at Berkeley. Professor Young's fields are International Trade and Finance, Financial Economics and Political Economy. His book *Black Hole Tariffs and Endogenous Redistribution Theory* was published by Cambridge University Press with commendations by two Nobel Prizewinners and by the Chairman of the Nobel

Committee. He has also published over forty academic articles in the leading international professional journals in international trade, international finance and investment, the political economy of trade, the economics of corruption, asset pricing and futures markets. On the Editorial Board of the *American Economic Review*, the leading scholarly journal in economics, he completed an unprecedented four terms. His current research is on international financial economics, the economic foundations of law and international corporate governance.