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Government power and the value of political connections: Evidence from Covid-19 economic lockdowns

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\begin{abstract}

The value of political connection is driven by economic power, rather than the political power of the government per se. We examine this with Malaysia’s Covid-19 economic lockdowns where the government gained unprecedented economic power. Changes of 3 governments over 2020-2021 allow us to verify whether changes in political power per se creates value. Our event study shows politically connected (PCON) firms outperform non-PCON firms during total economic lockdowns. However, after the easing of restrictions, investors reallocate their investments to non-PCON firms. Lastly, changes in government do not affect the value of PCON firms because there is no election mandate.

\end{abstract}

1. Introduction

Unlike previous pandemics (e.g. SARS), the impact of Covid-19 pandemic on the global economy is profound. In order to contain the rapid spread of Covid-19 infections, governments around the world are forced to impose stringent economic lockdowns and home quarantines. These drastic measures curtail economic activities, which resulted in liquidity crunch (De Vito and Gomez, 2020), massive business failures (Park and Shin, forthcoming), rising unemployment (Hasan et al., forthcoming) and decline in consumer spending (Heyden and Heyden, 2021). Therefore, corporate valuation experiences sudden decline, due to falling sales, profitability and cash flows. As a result, global stock markets recorded steep price declines between the end of March to the middle of April 2020 (Heyden and Heyden, 2021; Scherf et al., forthcoming).

At the same time, governments around the world amass huge economic powers to determine which business sectors are allowed to operate during total lockdowns (Walt, 2020); business recovery phases for different locations (Gehrke and Hernandez-Morales, 2020; Gehrke and Hernandez-Morales, 2021); and the allocation of financial assistance to businesses (Augustin et al., forthcoming; Bernanke, 2020). On one hand, increasing economic power of the government has elevated the value of political connections during Covid-19 induced economic lockdowns. For example, many countries around the world have introduced emergency economic measures to alleviate the adverse effect of Covid-19 induced economic lockdowns (Onyeaka et al., forthcoming). Further, recent anecdotal evidence suggests that the application of economic power is arbitrary around the world. Firms connected to the ruling elites are reported to be exempted from economic lockdown measures (Gehrke and Hernandez-Morales, 2020; Wong, 2020; Walt, 2020).

Cronyism theories argue that politicians seek public office to gain economic power, which in turn, is used to distribute economic...
resources to their business cronies and political voters (Gourevitch and Shinn, 2007; Shleifer and Vishny, 1993, Shleifer and Vishny, 1994). Therefore, it is not surprising that politically connected (PCON) firms exist in both advanced and emerging economies (The Economist, 2016). Prior literature shows that connected firms are associated with: higher stock returns (Cooper et al., 2010); a lower cost of equity (Boubakri et al., 2012); and a lower cost of debt (Houston et al., 2014; Tee, 2018). Additionally, the government’s ability to exert its political power is more pronounced, if political power is concentrated in the hands of the government (Mills, 2000). This forces businesses to rely heavily on government policies and financial assistance (Acemoglu et al., 2016; Duchin and Sosyura, 2012).

We conduct an event study to obtain new insights on the relationship between the government power across different phases of economic lockdowns and the value of political connection. Malaysia is suitable for this study as the Malaysian government not only poses high economic power by implementing different phases of economic lockdowns but also announced the state of emergency during the second round of total lockdown in June 2021, which is considered as the highest level of power concentration as it granted the government unfettered economic powers. More importantly, along this period there are three political events happened in Malaysia which culminated in three different governments and prime ministers in less than 2 years. These developments allow us to differentiate the value of political connections from concentration of government’s economic power during total lockdown and the value of political connections from an unelected government, plagued by political uncertainty.

Our findings contribute to the extant literature in three ways. Firstly, we find that the value of political connection is enhanced through the concentration of government powers during periods of severe economic uncertainties. Our evidence suggests that during periods of induced Covid-19 total lockowns, PCON firms are perceived by investors to be the biggest beneficiary from any total through the concentration of government powers during periods of severe economic downturns. Particularly, during periods of severe economic downturns and uncertainties, these privileges will be crucial. During these pandemic crisis. From the perspective of government power, our evidence suggests that political connection is another firm characteristic which can reduces the impact of extreme market movements. This insight is important particularly in countries where crony capitalism is embedded in the economic system and capital markets.

Secondly, we show that investing in PCON firms can be detrimental to investors, after the easing of economic lockdown restrictions. The ending of financial assistance from the government and gradual removal of economic restrictions reduces the economic power of the government. Thus, the benefits of investing in PCON firms dissipate, and lose its appeal as a safe-haven investment. Accordingly, investors reduce their risk-aversion during periods of economic normalization by investing in non-PCON firms. Thirdly, the value of political connection is only elevated if emergency measures are designed to increase the government’s economic power during total economic lockdowns. In contrast, there is no significant increase in the value of political connections, when emergency measures are perceived by the market as trying to prop up a failing government. Further, our results also suggest that without an election mandate, a change in government do not add value to political connections. Therefore, our findings differ from prior studies on the impact of elections (Yessy et al., 2021; Wagner et al., 2018) and political turmoil (Acemoglu et al., 2018; Dang et al., 2018) on firms connected to the winning and losing parties or politicians.

The remainder of the paper is structured as follows. Section 2 reviews literature and develops research hypotheses. Section 3 details research data and methods. Section 4 reports and discusses the findings. Finally, section 5 concludes.

2. Literature review and hypotheses development

2.1. Political connections and cumulative abnormal returns during the events of Covid-19 induced total lockdowns

Elite power (Mills, 2000) and crony capitalism (Gourevitch and Shinn, 2005; Shleifer and Vishny, 1993, 1994) theories posit that the higher the concentration of economic and political power in the hands of the government, the more valuable is the political connection. Particularly, during periods of severe economic downturns and uncertainties, these privileges will be crucial. During these periods, business survival is largely dependent on the government’s economic policies and economic power (i.e., channelling economic resources) (Acemoglu et al., 2016; Duchin and Sosyura, 2012; Johnson and Mitton, 2003).

In order to stem the spread of Covid-19 virus, Malaysia experienced two nationwide total lockdowns. The first was from the 18th of March till the 3rd of May 2020; while the second was from the 1st of June till the 28th of June 2021. Under both total lockdowns, the Malaysian government was given absolute power to implement stringent lockdown measures which required most businesses to limit its existing economic activities and imposed strict home quarantine regulations (Lee, 2021). Subsequently, the Malaysian government was given emergency powers which further consolidated their economic power to a higher level. This grants the government unfettered economic power to determine which business activities are allowed to operate, and the distribution of economic stimulus packages to the corporate sector (Lee, 2021).

Unfortunately, these extreme measures have taken a heavy toll on Malaysian businesses, as it represents a major shock to its economic growth. This resulted in massive revenue and job losses to big corporations and small and medium-sized industries. Further, growing unemployment, consumer sentiments and anxieties are hurt by prolonged economic and health uncertainty. Consequently, the Malaysian GDP plummeted, and precipitated a severe economic recession in 2020 (Lee, 2021). In order to alleviate the adverse impact of Covid-19 induced total lockdowns; the Malaysian government swiftly introduced a RM100 billion and RM40 billion economic stimulus packages to assist its ailing business sector, during the first and second nationwide lockdown (Aziz, 2021; Ministry of
2.2. Political connections and cumulative abnormal returns during the easing of lockdown restrictions

According to elite power theory, the value of political connection declines, as the government’s economic power is progressively reduced (Mills, 2000). When businesses are given more economic freedom, they rely less on government patronage (Gourevitch and Shinn, 2005). Moreover, government’s intervention in the economy is expected to decrease when the economy normalizes, after unexpected shocks and extreme market events (Huber et al., 2021). The reduction in the government’s economic power affects investors’ risk-taking behavior. Consistent with countercyclical risk aversion hypothesis, investors are emboldened to increase their risk appetite, as economic condition normalizes (Alempaki et al., 2019; Cohn et al., 2017). Using Covid-19 induced total economic lockdowns, and subsequent global stock market crash as an experimental study; findings suggest that investor’s exposure to risky assets is lower during the initial stage of Covid-19 pandemic. However, investors’ elevated levels of risk aversion are significantly attenuated with the gradual opening of the economy (Bu et al., 2020; Huber et al., 2021).

Similarly, this risk-taking behavior is observed in Malaysia during Covid-19 pandemic lockdown periods. The first nationwide lockdown managed to contain the spread of Covid-19 pandemic to single digit cases and fatalities. Therefore, as of 3rd. of May 2020, restrictions were eased to open up the economy in two phases, namely: conditional movement control order (CMCO) (1st of May till 9th of June 2020), and recovery movement control order (RMCO) (10th. of June till 31st. of December 2020). Under both phases of economic recovery, most economic activities are allowed to operate normally (Lee, 2021). The resumption of normal economic activities is expected to reduce business sector’s liquidity and default risks. Due to expected surge in consumer spending, businesses are now able to generate cash flows. Therefore, the Malaysian government discontinued its financial assistance (Lee, 2021). As the government reduces its economic power to regulate and channel economic resources during phases of economic recovery, PCON firms lose their appeal as a safe haven asset. Thus, we predict that investors would be less risk-averse by re-allocating their capital to non-PCON firms. Consistent with our argument, the second hypothesis is proposed as follows:

**H2**: The cumulative abnormal returns (CAR) for non-PCON firms are higher than non-PCON firms upon the announcement of Covid-19 induced total lockdowns, ceteris paribus.

2.3. Cumulative abnormal returns for PCON firms during the events of political instability

Social network theories posit that the value of informal networks (i.e., political ties and political power) varies in accordance with the current environmental conditions. Future business prospects are adversely affected by environmental conditions that tend to create more political uncertainties and turmoil (Gulati and Higgins, 2003; Labianca and Brass, 2006). Several studies have shown that political ties with the incumbent government may not be beneficial, if the ongoing political crisis suggests that it can be replaced at any time, and without an election mandate. Under such circumstances, the incumbent government’s political power is weak and fragmented (Acemoglu et al., 2018; Cumming et al., 2016; Dang et al., 2018).

On the contrary, political ties can be a political liability, when the incumbent government is toppled. For example, Siegel (2007) finds that firms connected to the incumbent government face economic retribution in terms of re-allocation of economic resources. More importantly, when incumbent governments do not obtain decisive election mandates, their tenure is perceived to be unstable and short-lived by the market. Therefore, its political power is weak, and changes in government do not have any positive impact on the valuation of PCON firms (Acemoglu et al., 2018; Cumming et al., 2016; Dang et al., 2018).

In Malaysia, the various periods of total economic lockdowns, and easing of lockdown restrictions coincides with several changes in government. Following political manoeuvring activities which started on the 21st. of February 2020, the incumbent government was toppled, and replaced by a new government on the 1st. of March 2020. Unlike the previous government which received a decisive election mandate in 2018, the new government has never proven its legitimacy to govern through election mandate (Ratcliffe, 2020). This only creates more political uncertainties in the Malaysian political environment. Furthermore, the new government became unpopular in subsequent months, as its strategies failed to contain the spread of Covid-19 pandemic, and stimulate the ailing economy. As a result, it had to proclaim an emergency ordinance on the 12th. of January 2021 to stabilize its position (Ratcliffe, 2021). However, that too failed, and the government collapsed on the 16th. of August 2021. A new government was subsequently formed on the 21st. of August 2021 (Idris, 2021). Therefore, in the span of 2 years, there are three different governments and the timeline coincides with the Covid-19 pandemic (refer to Fig. 1). Without a decisive election mandate, changes in government only resulted in more political
uncertainties in the future. This weakens the political power of the incumbent government in Malaysia, thus disincentivizes businessmen to establish close ties with top politicians. PCON firms’ inability to extract business concessions from an unstable government is likely to be perceived by the market. On the basis of prior theory and evidence, the final hypothesis is proposed as follows:

H3: When the incumbent government does not receive election mandate during periods of political instability, the cumulative abnormal returns (CAR) for PCON firms are not significantly different from non-PCON firms, ceteris paribus.

3. Data and methodology

3.1. Data

Stock price and accounting data are obtained from Thompson Reuters Datastream for the period from 1 January 2019 to 29 August 2021. A total of 655 firms are included in our analysis. The list of PCON firms is obtained from Wong and Hooy (2018). We study five events surrounding the lockdown and re-opening of lockdowns in Malaysia and four events related to political instability. The timeline of events and dates are illustrated in Fig. 1 and Table 1.

3.2. Event study

To compute the abnormal returns of firms, we conducted the event study methodology. Estimation window of 250 days was used. We study three post-event windows of [0,10], [0,20] and [0,30]. Abnormal return is computed using \( \alpha_i + \beta_{P\CON} R_{it} + \beta_2 \{ \text{Control variables} \} + \epsilon \), where \( \alpha_i \) is the return on firm \( i \) on day \( t \), \( R_{it} \) is return on the FBMKLCI on day \( t \) and \( \beta_{P\CON} \) is the beta of the market. We then compute the cumulative abnormal return (CAR) for each firm using \( CAR_{i,t} = \sum_{t=1}^{t_2} AR_t \). In the robustness test, we re-estimate using estimation windows of 200 days and 150 days. We find the results to be robust. To alleviate the concern of contaminated data prior to the event window, we follow Sun et al. (2021) and Buigut and Kapar (2020) and re-estimate our results by putting a 20-day gap between the event date and estimation window. The results are also robust. Appendix C provides a graphical view of the CAR of PCON and non-PCON for the five events using event window [0,30].

3.3. Regression model

The CARs generated from the previous section becomes the dependent variable in the regression analysis. PCON is the dummy variable used to compare the market response towards politically connected firms and non-PCON. The control variables used are firm size, leverage, return on equity, liquidity, and profit margin. The variables for the panel regression are winsorized at 1 percent level to exclude outliers. We have added industry cluster as recommended by Bunkanwanicha et al. (2013) and Goldman et al. (2009) and industry fixed-effect. Equation (1) is used to investigate the relationship between CAR and the PCON firms.

\[
CAR_i = \alpha_i + \beta_{P\CON} R_{it} + \beta_2 \{ \text{Control variables} \} + \epsilon,
\]

4. Results and discussion

Table 2 reports the descriptive statistics. Panel A shows the five events of lockdowns and reopening of lockdowns. We analyze using three time frames, i.e ten, twenty, and thirty days after the event date. The market is generally pessimistic due to the negative mean and median CAR during the major lockdowns. On the other hand, the events of partial lockdown and reopening generally show a more optimistic sentiment. Panel B shows the four events of political instability. The standard deviation is consistent throughout all the events. Panel C reports the politically connected firms while Panel D reports the five control variables in this study. Table 3 reports the result of the lockdowns and reopening. It shows that PCON firms performs better than non-PCON firms during major lockdowns, where the association between CAR and PCON is positive and significant in the majority of the event windows. However, we do not find similar results during partial lockdown. This suggests the market perceives high economic power concentration by the government during major lockdowns, whereas partial lockdown do not indicate that kind of power. The former will induce the market to value PCON firms more as this is one of the ways to hedge their risk. During the two reopening phases, the result shows that the initial reopening of lockdown, which is a softer reopening, does not cause investors to move their assets away from PCON firms. However, a wider easing of lockdown restriction during the second reopening causes investors to move their asset back to non-PCON as they expect businesses to pick up again. Our results concur with Johnson and Mitton (2003) and Mitchell and Joseph, (2010) who showed that PCON firms in Malaysia have higher value during the times of uncertainty. Similarly, our result also supports
the findings of Bu et al. (2020) and Huber et al. (2021) who suggested investors’ risk aversion is significantly reduced with the opening of the economy.

Table 4 reports the result on the events of political instability. Our results suggest that all four events of political instability do not cause the market valuation to shift from PCON to non-PCON or vice versa, due to the insignificant results. As mentioned by Gulati and Higgins (2003) and Labianca and Brass (2006), an ongoing political crisis, which is what is experienced by Malaysia during the pandemic is a liability because PCON firms may face retributions in the situation where the incumbent government is toppled (Acemoglu et al., 2018). Hence, even when the incumbent government falls, a new Prime Minister is announced, or when an emergency ordinance is proclaimed, the market does not foresee this as a sustainable change. The ongoing political instability since 2018 also provided investors with the perception that there is a lack of concentrated power in the government.

Table 4 provides us with a meaningful backdrop to Table 3 as it implies that the market has a positive valuation on the perceived concentrated economic power by the government during lockdowns while no such influence during political instabilities. Therefore, taking into account both results in Tables 3 and 4, it validates our conjecture that economic power is the underlying value that the market is looking for, and much less emphasis on political power.

4.1. Endogeneity

To address the concern of endogeneity, we follow Boubakri et al. (2012) and Sun and Zou, (2021) which closely resembles our paper in adopting the nearest-neighborhood technique by Rosenbaum and Rubin (1983). According to Boubakri et al. (2012), this method could address the potential selection bias (endogeneity) as it controls for the difference in characteristics between politically connected and non-connected firms. To compute the propensity-score, we use a set of firm characteristics from prior studies which measures the likelihood of a firm establishing political connections. The variables are institutional investors’ ownership, big four auditor, firm size, leverage, and return-on-equity (Faccio et al., 2006; Leuz & Oberholzer-Gee, 2006; Bliss & Gul 2012; Fung et al., 2015; Tee et al., 2018). The results are presented in Tables 5 and 6 and they are generally consistent with the main result.

In another additional test, Fan et al. (2007) investigate potential endogeneity issues by identifying confounding factors which may affect the relations between political connections and CAR. In order to verify whether the subsample regression results are similar to baseline results, we follow Fan et al. (2007), and re-run the CAR regressions on PCON subsamples. The subsamples are stratified by firm-level factor market-to-book ratio (MTB). The sample is partitioned by the sample median value of MTB. According to Fan et al. (2007), endogeneity would be a concern, if both subsample results significantly differ from baseline results in Tables 3 and 4. Our untabulated results of the subsample regressions document similar significant results and pattern with baseline and propensity-score matching results. The sub-sample regression results corroborate the results in Tables 6 and 4, providing support for the argument that the positive relations between PCON and CAR during major lockdown; and negative relations between PCON and CAR during reopening periods are robust to potential endogeneity problem.

5. Conclusion

This paper examines the conventional understanding that the underlying value of political connection is based on political power per se. In contrast, our findings suggest the government’s economic power is the key factor which influenced the value of political connections. Conventionally, prior studies focus on elections to examine the government’s transition towards economic power, who will in turn, decide on allocation of resources. However, in an election setting the new government will possess both political and economic powers, which cannot be distinguished. In this study, we differentiate the value of political connections from concentration of government’s economic power during total lockdown and the value of political connections from an unelected government, plagued by political uncertainty.

Based on our event study, our results show that the centralization of economic power in the government during lockdowns (i.e., financial assistance and regulation) elevate the value of political connections. This is followed by a non-favourable reaction towards PCON firms after the easing of restrictions on economic activities. The reason being, when the economic situation normalizes, the government reduces its economic emergency powers, thus PCON firms lose their appeal as a safe-haven asset. Further, changes in government during periods of economic lockdowns do not increase the value of political connections. Due to the positive market valuation towards PCON during lockdown and not during government changes, therefore, we deduce that market values economic power higher than political power without election mandate. We also argue that a government that does not receive an election mandate is poised for more political instability and hence less attractive for investors.

Our findings can be generalized to many countries, as the issue of crony capitalism and political patronage is prevalent in many countries.
advanced and emerging countries (The Economist, 2016). Moreover, the spread of Covid-19 pandemic shows no sign of abating. As global economies begin to deteriorate due to the adverse effect of economic lockdowns (Bernanke, 2020; Onyeaka et al., forthcoming), one can expect more social unrest and political instability around the world (Haddad, 2020). Citizens believe that the government is taking advantage of Covid-19 induced economic lockdown to regulate people’s life and business (BBC, 2021). Therefore, future studies can look into whether changes in government, with or without election mandate, during pandemic era affect the value of political connections.

Table 2
Descriptive statistics of CARs and list of variables used in this study.

| Variable                  | N   | Mean  | Median | Std. Dev | 25%  | 75%  |
|---------------------------|-----|-------|--------|----------|------|------|
| **Panel A: Events of lockdown and reopening** |     |       |        |          |      |      |
| **Major lockdown 1**      |     |       |        |          |      |      |
| CAR [0,10]                | 655 | -13.52| -12.74 | 16.91    | -22.35| -3.31|
| CAR [0,20]                | 655 | -3.24 | -4.09  | 17.10    | -12.16| 4.55 |
| CAR [0,30]                | 655 | 2.85  | 1.09   | 19.61    | -8.61 | 12.37|
| **Reopening 1**           |     |       |        |          |      |      |
| CAR [0,10]                | 655 | 4.29  | 1.46   | 13.13    | -2.03 | 8.27 |
| CAR [0,20]                | 655 | 9.27  | 5.84   | 16.20    | 0.38  | 15.12|
| CAR [0,30]                | 655 | 11.09 | 7.70   | 19.60    | 0.78  | 17.11|
| **Reopening 2**           |     |       |        |          |      |      |
| CAR [0,10]                | 655 | 1.15  | -0.24  | 12.12    | -4.48 | 4.06 |
| CAR [0,20]                | 655 | 5.07  | 2.40   | 16.36    | -2.52 | 9.06 |
| CAR [0,30]                | 655 | 6.39  | 2.38   | 19.57    | -3.39 | 11.22|
| **Partial lockdown**      |     |       |        |          |      |      |
| CAR [0,10]                | 655 | 1.16  | -0.05  | 10.37    | -4.02 | 3.85 |
| CAR [0,20]                | 655 | 4.31  | 1.55   | 16.74    | -3.98 | 9.57 |
| CAR [0,30]                | 655 | 7.81  | 5.60   | 20.73    | -1.84 | 14.83|
| **Major lockdown 2**      |     |       |        |          |      |      |
| CAR [0,10]                | 655 | -7.20 | -5.93  | 9.98     | -11.40| -2.11|
| CAR [0,20]                | 655 | -8.12 | -6.96  | 12.98    | -13.85| -1.44|
| CAR [0,30]                | 655 | -9.44 | -7.22  | 17.36    | -17.74| -9.7 |
| **Panel B: Events of political instability** |     |       |        |          |      |      |
| **Fall of government**    |     |       |        |          |      |      |
| CAR [0,10]                | 655 | -16.35| -12.12 | 18.17    | -23.43| -4.71|
| CAR [0,20]                | 655 | -45.32| -40.80 | 33.64    | -64.52| -21.75|
| CAR [0,30]                | 655 | -33.60| -31.93 | 24.74    | -47.14| -16.55|
| **New PM elected 1**      |     |       |        |          |      |      |
| CAR [0,10]                | 655 | -21.12| -17.63 | 19.48    | -29.81| -8.6 |
| CAR [0,20]                | 655 | -33.79| -32.14 | 26.10    | -48.76| -16.34|
| CAR [0,30]                | 655 | -24.26| 21.77  | -22.89   | -36.52| -10.89|
| **Emergency**             |     |       |        |          |      |      |
| CAR [0,10]                | 655 | 1.96  | 0.25   | 11.57    | -3.71 | 4.6 |
| CAR [0,20]                | 655 | 4.43  | 2.04   | 16.56    | -3.60 | 9.66 |
| CAR [0,30]                | 655 | 8.56  | 6.29   | 20.78    | -1.57 | 15.59|
| **New PM elected 2**      |     |       |        |          |      |      |
| CAR [0,10]                | 655 | 0.12  | 0.10   | 0.85     | -0.23 | 0.49 |
| CAR [0,20]                | 655 | 0.03  | 0.02   | 0.57     | -0.23 | 0.28 |
| CAR [0,30]                | 655 | -0.08 | -0.06  | 0.50     | -0.30 | 0.15 |
| **Panel C: Political connection variables** |     |       |        |          |      |      |
| Politically connected firms | 655 | 0.39  | 0.00   | 0.49     | 0.00  | 1.00 |
| **Panel D: Control variables** |     |       |        |          |      |      |
| ln(total assets) (SIZE)   | 632 | 13.50 | 13.27  | 1.76     | 12.32 | 14.42|
| Total debt/total asset (LEV) | 620 | 0.22  | 0.18   | 0.19     | 0.06  | 0.33 |
| Net income/equity (ROE)   | 484 | -1.79 | 2.43   | 31.01    | -5.59 | 7.97 |
| Current asset/total asset (LIQ) | 521 | 3.71  | 0.43   | 48.28    | 0.16  | 0.80 |
| Net income/net sales (PROFM) | 613 | 0.97  | 0.01   | 16.08    | -0.02 | -0.02|
| Institutional investor ownership | 483 | 12.74 | 3.33   | 19.99    | 0.00  | 17.30|
| Big four auditor          | 483 | 0.55  | 1.00   | 0.51     | 0.00  | 1.00 |
### Table 3
Regression results of lockdown events.

Events of lockdown and reopening in chronological order

| Events of lockdown and reopening in chronological order | Major lockdown 1 | Reopening 1 | Reopening 2 | Partial Lockdown | Major lockdown 2 |
|--------------------------------------------------------|------------------|------------|------------|------------------|------------------|
|                                                        | [0,10]           | [0,20]     | [0,30]     | [0,10]           | [0,20]           |
| PCON                                                   | 0.04             | -0.51      | -3.34**    | 0.70             | 0.20*            |
|                                                        | (0.98)           | (0.05)     | (0.14)     | (0.01)           | (0.09)           |
| SIZE                                                   | 0.64             | 0.50       | -0.06      | -0.97            | -0.02            |
|                                                        | (0.06)           | (0.21)     | (0.00)     | (0.41)           | (0.15)           |
|                                                        | 1.20             | 1.20       | 0.15       | 1.12             | -0.15*           |
|                                                        | (0.06)           | (0.11)     | (0.01)     | (0.08)           | (0.56)           |
|                                                        | (0.06)           | (0.11)     | (0.01)     | (0.08)           | (0.56)           |
| LEV                                                    | -18.15**         | -0.08      | -2.55      | 4.64             | -1.35            |
|                                                        | (0.01)           | (0.87)     | (0.55)     | (0.55)           | (0.51)           |
|                                                        | (0.56)           | (0.28)     | (0.04)     | (0.40)           | (0.50)           |
|                                                        | (0.98)           | (0.17)     | (0.17)     | (0.66)           | (0.46)           |
|                                                        | (0.26)           | (0.80)     | (0.04)     | (0.66)           | (0.27)           |
|                                                        | (0.71)           | (0.17)     | (0.17)     | (0.66)           | (0.27)           |
|                                                        | (0.78)           | (0.17)     | (0.17)     | (0.66)           | (0.27)           |
| LIQ                                                    | 0.14             | -0.02      | 0.11       | -0.01            | 0.14             |
|                                                        | (0.56)           | (0.13)     | (0.22)     | (0.15)           | (0.16)           |
|                                                        | (0.09)           | (0.09)     | (0.05)     | (0.05)           | (0.05)           |
|                                                        | (0.76)           | (0.55)     | (0.40)     | (0.55)           | (0.40)           |
|                                                        | (0.76)           | (0.55)     | (0.55)     | (0.40)           | (0.55)           |
|                                                        | (0.90)           | (0.05)     | (0.05)     | (0.55)           | (0.55)           |
|                                                        | (0.90)           | (0.05)     | (0.05)     | (0.55)           | (0.55)           |
|                                                        | (0.90)           | (0.05)     | (0.05)     | (0.55)           | (0.55)           |
| PROFITM                                                | 0.48             | -0.11      | -0.09      | 0.20             | 0.25             |
|                                                        | (0.32)           | (0.51)     | (0.51)     | (0.51)           | (0.51)           |
|                                                        | -1.05***         | -0.40      | -0.14      | -0.04            | 0.31             |
|                                                        | (0.01)           | (0.22)     | (0.16)     | (0.16)           | (0.16)           |
|                                                        | (0.05)           | (0.22)     | (0.16)     | (0.16)           | (0.16)           |
|                                                        | -0.94**          | -0.53      | -0.13      | -0.31            | 0.55             |
| Constant                                               | -17.74           | -4.01      | 5.92       | 11.02            | -3.18            |
|                                                        | (0.17)           | (0.16)     | (0.71)     | (0.79)           | -3.18            |
|                                                        | -10.04           | -0.35      | 10.18      | 10.60            | -2.84            |
|                                                        | (0.30)           | (0.86)     | (10.18)    | (10.60)          | (10.60)          |
|                                                        | (0.37)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.35)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
|                                                        | (0.97)           | (0.45)     | (10.17)    | (0.94)           | (0.94)           |
| N                                                      | 417              | 417        | 417        | 417              | 417              |
| Ind. cluster                                           | Yes              | Yes        | Yes        | Yes              | Yes              |
| Adj. $R^2$                                             | 0.08             | 0.04       | 0.03       | 0.02             | 0.02             |
|                                                        | 0.01             | 0.01       | 0.01       | 0.02             | 0.02             |
|                                                        | 0.01             | 0.01       | 0.01       | 0.02             | 0.02             |
|                                                        | 0.01             | 0.01       | 0.01       | 0.02             | 0.02             |
|                                                        | 0.01             | 0.01       | 0.01       | 0.02             | 0.02             |
|                                                        | 0.01             | 0.01       | 0.01       | 0.02             | 0.02             |

Notes: Table 3 provides the result of cross-sectional regression result of three different event windows for the five lockdown events using the equation: $\text{CAR}_i = \alpha_i + \beta_1 \text{PCON}_i + \beta_2 \text{(Control variables)} + \epsilon_i$

- The control variables are firm size (SIZE), leverage (LEV), return on equity (ROE), liquidity (LIQ), and profit margin (PROFM).
- **Ind. cluster denotes industry cluster.
- ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.
Table 4
Regression results of political instability events.

| Events of political instability in chronological order | Fall of government | New PM elected 1 | Emergency proclamation | New PM elected 2 |
|------------------------------------------------------|-------------------|-----------------|------------------------|-----------------|
|                                                      | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] |
| PCON                                                 | 0.06   | 3.01   | 0.83   | -0.99  | 2.29   | -0.61  | -2.45  | -1.61  | -2.82  | -0.51  | -0.18  | -0.18  |
|                                                      | (0.99) | (0.40) | (0.76) | (0.75) | (0.44) | (0.81) | (0.59) | (0.49) | (0.35) | (0.40) | (0.24) | (0.21)  |
| SIZE                                                 | 1.33   | 1.85   | 2.05** | 0.94   | 1.80   | 1.99   | 0.08   | -1.50  | 0.26   | 0.07*  | 0.08*  | 0.07*  |
|                                                      | (0.23) | (0.14) | (0.03) | (0.36) | (0.07) | (0.25) | (0.97) | (0.18) | (0.87) | (0.10) | (0.06) | (0.08)  |
| LEV                                                  | -24.49*** | -28.25*** | -21.04** | -16.61* | -21.88** | -9.85  | 3.27   | 2.37   | 8.22   | 0.48   | 0.37   | 0.17   |
|                                                      | (0.00) | (0.01) | (0.01) | (0.06) | (0.01) | (0.22) | (0.79) | (0.73) | (0.32) | (0.47) | (0.38) | (0.63)  |
| ROE                                                  | 0.06   | -0.01  | 0.03   | 0.08   | 0.03   | 0.08   | -0.05  | 0.01   | -0.02  | 0.00   | 0.00   | 0.00   |
|                                                      | (0.50) | (0.94) | (0.71) | (0.33) | (0.67) | (0.25) | (0.69) | (0.87) | (0.76) | (0.88) | (0.57) | (0.49)  |
| LIQ                                                  | 0.23   | 0.11   | 0.24   | 0.46   | 0.17   | 0.24   | 0.49   | 2.67   | 2.45   | -0.02  | 0.18   | 0.13   |
|                                                      | (0.59) | (0.78) | (0.42) | (0.28) | (0.57) | (0.40) | (0.97) | (0.44) | (0.47) | (0.94) | (0.22) | (0.37)  |
| PROFITM                                              | 0.30   | 1.11   | -0.02  | 0.15   | 0.70   | -0.25  | 2.65   | 0.06*  | 0.06*  | -0.12  | 0.30*  | 0.17   |
|                                                      | (0.45) | (0.11) | (0.94) | (0.70) | (0.19) | (0.35) | (0.67) | (0.07) | (0.07) | (0.58) | (0.08) | (0.32)  |
| Constant                                              | -47.86*** | -62.95*** | -54.16*** | -38.01** | -52.43*** | -35.00*** | 16.69 | 25.24 | 10.90 | -0.77 | -1.24** | -1.07* |
|                                                      | (0.00) | (0.00) | (0.00) | (0.01) | (0.00) | (0.01) | (0.56) | (0.10) | (0.63) | (0.48) | (0.03) | (0.07)  |
| N                                                     | 417    | 417    | 417    | 417    | 417    | 417    | 77     | 77     | 77     | 77    | 77     | 77     |
| Ind. cluster                                           | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    | Yes    |
| Adj. R²                                                | 0.05   | 0.05   | 0.02   | 0.06   | 0.04   | 0.01   | 0.18   | 0.01   | 0.04   | 0.09   | 0.06   | 0.05   |

Notes: Table 4 provides the cross-sectional regression result of three different event windows for the four political instability events using the equation: \( CAR_i = \alpha_i + \beta_1 PCON_i + \beta_2 \{ \text{Control variables} \} + \epsilon_i \)

** The control variables are firm size (SIZE), leverage (LEV), return on equity (ROE), liquidity (LIQ), and profit margin (PROFM)

*** Ind. cluster denotes industry cluster

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.
Table 5
Regression results of lockdown events using propensity score matching.

| Events of lockdown and reopening in chronological order | Major lockdown 1 | Reopening 1 | Reopening 2 | Partial Lockdown | Major lockdown 2 |
|--------------------------------------------------------|-----------------|------------|-------------|------------------|------------------|
|                                                        | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] | [0,10] | [0,20] | [0,30] |
| PCON                                                   | 2.66    | 0.43    | 2.01*   | -2.44  | -2.57  | -1.87  | -4.94*** | -4.85**  | -4.25**  | -0.70  | -2.19  | -1.26  | 8.48*** | 10.36*  | 5.55   |
| (0.30)                                                 | (0.30)  | (0.06)  | (0.01)  | (0.10) | (0.21) | (0.37) | (0.00)  | (0.03)  | (0.01)  | (0.87) | (0.69) | (0.45) | (0.00) | (0.08) | (0.33) |
| SIZE                                                   | 0.74    | -0.31   | 0.25    | -0.81  | 0.26   | -0.25  | 1.70     | 1.39     | 0.43     | 0.37   | 0.16   | -0.63  | -1.71   | -3.21  | -2.02  |
| (0.36)                                                 | (0.36)  | (0.06)  | (0.01)  | (0.13) | (0.68) | (0.73) | (0.25)  | (0.18)  | (0.51)  | (0.78) | (0.91) | (0.70) | (0.33) | (0.34) | (0.58) |
| LEV                                                    | -15.11**| -1.56   | -3.58   | -5.96  | -8.26  | -4.31  | -2.22    | 0.81     | 5.32     | 1.79   | -9.76  | -20.37 | -10.78  | -11.72 | -23.78**|
| (0.01)                                                 | (0.01)  | (0.01)  | (0.01)  | (0.15) | (0.15) | (0.50) | (0.75)  | (0.89)  | (0.52)  | (0.80) | (0.35) | (0.10) | (0.48) | (0.39) | (0.02) |
| ROE                                                    | 0.02    | 0.09    | 0.04    | 0.02   | 0.00   | 0.01   | -0.02    | 0.02     | 0.00     | -0.16  | -0.20  | -0.14  | 0.02    | 0.12    | 0.20   |
| (0.86)                                                 | (0.86)  | (0.65)  | (0.85)  | (0.57) | (0.98) | (0.85) | (0.22)  | (0.66)  | (0.58)  | (0.14) | (0.14) | (0.28) | (0.83)  | (0.46)  | (0.35) |
| LIQ                                                    | -0.06   | 0.18    | 0.06    | 0.43   | 0.69   | 0.61   | -0.18    | -0.21    | -0.12    | 2.07   | 2.51   | 1.19   | -0.22   | -1.06   | -0.51  |
| (0.89)                                                 | (0.89)  | (0.83)  | (0.43)  | (0.42) | (0.35) | (0.43) | (0.52)  | (0.58)  | (0.70)  | (0.23) | (0.42) | (0.47) | (0.83)  | (0.68)  | (0.83) |
| PROFITM                                               | -0.02   | -0.03   | -0.06   | -0.04**| -0.06* | -0.03  | -0.13    | -0.12    | -0.15    | -1.95  | -2.73**| -5.36**| 1.23**  | 1.39    | -0.25  |
| (0.47)                                                 | (0.47)  | (0.34)  | (0.03)  | (0.02) | (0.08) | (0.45) | (0.14)  | (0.28)  | (0.27)  | (0.24) | (0.04) | (0.04) | (0.04)  | (0.66)  | (0.95) |
| Constant                                               | -19.38  | 3.25    | 1.05    | 20.66**| 13.80  | 18.26  | -13.79   | -8.47    | 9.82     | -4.07  | 8.05   | 25.49  | 11.43   | 32.31   | 26.43  |
| (0.11)                                                 | (0.11)  | (0.93)  | (0.12)  | (0.02) | (0.16) | (0.12) | (0.48)  | (0.52)  | (0.26)  | (0.77) | (0.53) | (0.27) | (0.64)  | (0.41)  | (0.57) |
| N                                                      | 256     | 256     | 256     | 256    | 256    | 256    | 256      | 256      | 256      | 50    | 50     | 50     | 50      | 50      | 50     |
| Ind. FE                                                | Yes     | Yes     | Yes     | Yes    | Yes    | Yes    | Yes      | Yes      | Yes      | Yes    | Yes    | Yes    | Yes     | Yes     | Yes     |
| Ind. cluster                                           | Yes     | Yes     | Yes     | Yes    | Yes    | Yes    | Yes      | Yes      | Yes      | Yes    | Yes    | Yes    | Yes     | Yes     | Yes     |
| Adj. R²                                                | 0.01    | 0.03    | 0.03    | 0.09   | 0.06   | 0.04   | 0.08     | 0.04     | 0.02     | 0.34   | 0.37   | 0.50   | 0.06    | 0.07    | 0.08   |

Notes: Table 5 provides the result of cross-sectional regression result of three different event windows for the five lockdown events using the equation: $\text{CAR}_i = \alpha_i + \beta_1 \text{PCON}_i + \beta_2 (\text{Control variables}) + \epsilon_i$

* The control variables are firm size (SIZE), leverage (LEV), return on equity (ROE), liquidity (LIQ), and profit margin (PROFM)
** Ind. cluster denotes industry cluster. Ind. FE denotes industry fixed effect
***, ***, and * indicate significance at the 1%, 5%, and 10% levels, respectively
Table 6
Regression results of political instability events using propensity score matching.

| Events of political instability in chronological order | Fall of government | New PM elected 1 | Emergency proclamation | New PM elected 2 |
|------------------------------------------------------|-------------------|-----------------|------------------------|-----------------|
|                                                      | [0,10]            | [0,20]          | [0,30]                 | [0,10]          | [0,20]          | [0,30]                 | [0,10]          | [0,20]          | [0,30]                 |
| PCON                                                 | 0.99             | 4.76            | 0.40                   | -0.52           | 3.57            | 0.00                   | -5.03           | -4.97           | -3.26                   | 0.03             | -0.06            | 0.06                   |
|                                                      | (0.27)            | (0.21)          | (0.93)                 | (0.74)          | (0.24)          | (1.00)                 | (0.42)          | (0.44)          | (0.23)                 | (0.81)          | (0.70)           | (0.58)                 |
| SIZE                                                 | 1.68***           | 2.73***         | 2.56***                | 1.78**          | 2.57**          | 1.52**                | -0.71           | -1.56           | -3.91**                | 0.15             | 0.05             | 0.09                   |
|                                                      | (0.01)            | (0.00)          | (0.00)                 | (0.03)          | (0.00)          | (0.01)                 | (0.70)          | (0.25)          | (0.02)                 | (0.56)          | (0.61)           | (0.23)                 |
| LEV                                                  | -11.64           | -28.85*         | -25.08*                | -10.04          | -23.55**        | -14.67                 | 5.65            | 3.97            | -6.18                   | 1.33             | 1.53             | 0.92                   |
|                                                      | (0.18)            | (0.08)          | (0.07)                 | (0.46)          | (0.05)          | (0.23)                 | (0.65)          | (0.80)          | (0.74)                 | (0.43)          | (0.12)           | (0.28)                 |
| ROE                                                  | 0.14             | 0.14            | 0.161*                 | 0.17**          | 0.16**          | 0.25**                | -0.17           | -0.11           | 0.03                    | 0.01             | 0.00             | -0.01                  |
|                                                      | (0.06)            | (0.25)          | (0.05)                 | (0.03)          | (0.08)          | (0.00)                 | (0.16)          | (0.33)          | (0.76)                 | (0.29)          | (0.48)           | (0.08)                 |
| LIQ                                                  | -0.02            | -0.41           | -0.12                  | -0.19           | -0.14           | 0.02                   | 3.16            | 2.55            | 0.82                    | -0.16*           | -0.07           | -0.05                  |
|                                                      | (0.93)            | (0.31)          | (0.72)                 | (0.37)          | (0.72)          | (0.95)                 | (0.27)          | (0.45)          | (0.71)                 | (0.06)          | (0.13)           | (0.12)                 |
| PROFITM                                              | -0.03            | -0.02           | -0.09                  | -0.04           | -0.07           | -0.07**                | -1.19           | -2.57**         | -5.28**                 | -0.44           | -0.19           | -0.10                  |
|                                                      | (0.69)            | (0.85)          | (0.10)                 | (0.46)          | (0.28)          | (0.02)                 | (0.15)          | (0.02)          | (0.03)                 | (0.27)          | (0.17)           | (0.39)                 |
| Constant                                             | -39.55***         | -84.39***       | -65.62***              | -47.77**        | -69.54***       | -44.36***              | 21.77           | 36.24**         | 77.05***                 | -2.87           | -1.21           | -1.76                  |
|                                                      | (0.00)            | (0.00)          | (0.00)                 | (0.00)          | (0.00)          | (0.00)                 | (0.24)          | (0.01)          | (0.00)                 | (0.46)          | (0.41)           | (0.12)                 |
| N                                                    | 256              | 256             | 256                    | 256             | 256             | 256                    | 50              | 50              | 50                     | 50              | 50              | 50                     |
| Ind. FE                                              | Yes              | Yes             | Yes                    | Yes             | Yes             | Yes                    | Yes             | Yes             | Yes                     | Yes             | Yes             | Yes                     |
| Ind. cluster                                         | Yes              | Yes             | Yes                    | Yes             | Yes             | Yes                    | Yes             | Yes             | Yes                     | Yes             | Yes             | Yes                     |
| Adj. R²                                              | 0.06             | 0.05            | 0.05                   | 0.05            | 0.04            | 0.04                   | 0.36            | 0.33            | 0.37                    | 0.41            | 0.39            | 0.22                    |

Notes: Table 6 provides the cross-sectional regression result of three different event windows for the four political instability events using the equation: \( CAR_i = \alpha_i + \beta_1 PCON_i + \beta_2 (Control variables) + \epsilon_i \)

* The control variables are firm size (SIZE), leverage (LEV), return on equity (ROE), liquidity (LIQ), and profit margin (PROFM)

** Indcluster denotes industry cluster. Ind. FE denotes industry fixed effect

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively
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CRediT authorship contribution statement

Chwee-Ming Tee: Project administration, Conceptualization, Validation, Investigation, Methodology, Writing – original draft.
Wai-Yan Wong: Software, Methodology, Validation, Investigation, Formal analysis, Conceptualization, Writing – original draft. Chee-Wooi Hooy: Conceptualization, Supervision, Validation, Methodology, Project administration.

Declaration of Competing Interest

None.

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Appendix. Cumulative abnormal returns graphs

Remark: The following graphs show the CARs of PCON and non-PCON during the five events. The vertical axis shows the cumulative abnormal return (CAR) and the horizontal axis shows the days after the event day \( t=0 \).
Panel A: Events of lockdown and reopening

- Major lockdown 1
- Reopening 1
- Reopening 2
- Partial lockdown
- Major lockdown 2
Panel B: Events of political instability

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