

Financial Globalization, Local Debt Markets and New State Financial Activism in Middle-income Countries

Louis O'Sullivan and Lena Rethel

ABSTRACT

Since the global financial crisis of 2008–09, there has been a renewed interest in the role of the state in processes of financial development and globalization. This article explores new forms of state economic activity via the development of debt capital markets in Southeast Asia, specifically Indonesia and Malaysia. It suggests that the expanding profile of various state-controlled entities in local capital markets constitutes a new form of state financial activism responsive to (upper) middle-class consumption preferences such as modern infrastructure, urban housing and low-risk investments. This activism highlights state agency and complicates the propositions of the emergent literature on state capitalism and financial de-risking that focuses on increasingly close alignment of the interests of states and international portfolio investors. Accordingly, the authors caution against unilinear conceptions of the state in which activism is primarily geared towards accommodating the preferences of international investors. The article posits that states are actively trying to establish new market logics for the benefit of their domestic middle classes via the development of domestic capital markets, and that the emergent role of middle-income country (upper) middle classes as financial consumers reconfigures processes of state-managed financialization.

INTRODUCTION

Since the global financial crisis (GFC) of 2008–09, there has been a renewed interest in the role of the state in processes of financial development and globalization. Much of this work has focused on the rise of state investment within a newly invigorated framework of state capitalism. By contrast, this article examines a new form of state financial activism, in which state-owned and state-linked borrowers raise funds in corporate debt capital markets, focusing on two middle-income Southeast Asian countries, Indonesia

We thank Florence Dafe, Adam Dixon, Moch Faisal Karim and the three anonymous reviewers for their excellent feedback and insightful comments on earlier versions of this article. Funding from the Leverhulme Trust (RF-2018-452) is gratefully acknowledged.

Development and Change 54(2): 304–330. DOI: 10.1111/dech.12757

© 2023 The Authors. *Development and Change* published by John Wiley & Sons Ltd on behalf of International Institute of Social Studies.

This is an open access article under the terms of the Creative Commons Attribution-NonCommercial-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited, the use is non-commercial and no modifications or adaptations are made.

and Malaysia. In focusing on the intersection between the proliferation of these new borrowers and (upper) middle-class demands for transport infrastructure, urban housing and low-risk investments, we also heed the call of Alami et al. (2022) to return class analysis to the study of state capitalism.

In the aftermath of the Asian financial crisis (AFC) of 1997–98, regional policy makers and market actors undertook deliberate efforts to develop domestic currency debt markets to diversify financial systems, reduce exposure to international currency fluctuations and retain savings in the region (Katada, 2009). These efforts were accelerated in the wake of the GFC. As a consequence, the logic of capital market development has become firmly entrenched within state institutions (Rethel and Sinclair, 2014). In this article, we illustrate how this has served as a pathway to deepening and widening financialization.

In both Indonesia and Malaysia, the state remains an important economic actor, and shapes market outcomes in various capacities that go beyond a primarily regulatory function. In Indonesia, this includes the significant presence of state-owned enterprises (SOEs), typically differentiated by whether they have a for-profit or not-for-profit motive. However, under the presidency of Joko ‘Jokowi’ Widodo, state-owned entities have been assigned an increasingly influential role in financing national development (Kim, 2018, 2020). In Malaysia, government-linked companies (GLCs) — many of them majority-owned or otherwise linked to the Ministry of Finance via its corporate identity, Ministry of Finance Inc. — also play a dominant role in the economy (Gomez et al., 2017). This is compounded by the position of so-called government-linked investment companies, or GLICs, including pension funds and other institutional investors, as significant shareholders in the economy.

We suggest that the prominence of state-owned and state-linked borrowers in domestic currency bond markets represents a new form of state financial activism, inflected by domestic class relations, that has to date received little attention. To explore the state’s role in Indonesian and Malaysian capital market development we adopt a working definition of state financial activism as the direct participation of the state in financial markets through corporate activity. In domestic capital markets this takes the form of the domination of corporate bond markets by state-owned and state-linked firms. This new state financial activism is pervasive and dynamic, is responsive to social forces, and has increasingly become a core feature of state agency. It is pervasive in that it is being executed by multiple agencies and ministries through various organizational forms, including state-owned and state-linked non-deposit-taking financial institutions, which sets it apart from developmental state-type practices of channelling funds to preferred sectors via the banking system. It is dynamic in that it is responsive to overlapping class relations and antagonisms at both the national and international levels. Thus, in our cases the state is developing capital markets to serve the interests both of accumulation in general (by guarding

macroeconomic stability and promoting long-term investment), and of domestic middle-class constituencies, by investing the funds raised in infrastructure and housing projects biased towards the consumer preferences of (upper) middle classes and their appetite for low-risk investments.

We argue that this is an example of how states have come to seek to advance their agency through state-managed processes of deepening and widening financialization. This dynamic complicates the propositions of the emergent literatures on state capitalism and financial de-risking that envisage a narrowing of developmental space through increasingly close alignment between the interests of states and those of international portfolio investors (see, for example, Gabor, 2021). Instead, the new form of state financial activism that we examine appears to be responding to domestic middle-class interests in financial profits and the mobilization of national resources for projects that favour their consumption preferences.

The argument of the article proceeds in three steps. The next section reviews existing literature on the role of the state in economic and financial development. It focuses on three bodies of work, namely literature on the developmental state, the (new) state capitalism and the 'de-risking' state. It traces the historical context of these literatures and, building upon them, pinpoints a new form of state financial activism interrogated in the remainder of the article by examining the development of domestic bond markets. More specifically, we focus here on state financial activism as the direct participation of the state in debt capital markets through corporate activity. The section thereafter presents aggregate findings from our analysis of the composition of corporate bond and *sukuk*¹ issuances in Malaysia and Indonesia. In particular, we explore the dominant role of state-linked and state-owned companies in issuing corporate bonds and, within that category, the pre-eminence of state-owned and -linked infrastructure and housing financiers. Beyond aggregate data, the subsequent section presents illustrative case studies of these sectors and how they have shaped the overall development of bond markets in these two Southeast Asian middle-income countries. We show how this distinct form of state activism has reinforced deepening and widening financialization, favouring (upper) middle-class interests.

STATE ACTIVISM BETWEEN DEVELOPMENTALISM AND FINANCIALIZATION

Many discussions of post-war state activism in middle-income countries, especially in Northeast Asia, highlight the central role of the so-called capitalist developmental state. This work builds on Chalmers Johnson's (1982) seminal examination of the Japanese economic miracle. Johnson posited

1. Sukuk are bond-like financial instruments structured in such a way that they comply with Islamic financial principles.

that the Japanese ruling class had been unusually committed to state involvement in capitalist development. This project was facilitated by a coherent, elite state bureaucracy which was insulated from the demands of popular classes and led by a competent pilot agency, the Ministry of International Trade and Industry. Policies ranged from allocating cheap credit to firms that met well-enforced production targets, to labour repression, exchange rate controls and trade protections (Johnson, 1982). The developmental state was thus able to direct Japanese development from the top down through close coordination with private conglomerates, labour repression and the suppression of domestic purchasing power in favour of an increase of exports.

The developmental state concept was particularly utilized to examine the 1950s–1980s rise of the Northeast Asian newly industrializing economies (NIEs) — Korea, Singapore, Taiwan and Hong Kong (Amsden, 1989; Wade, 2004). Scholars also adopted the concept to interrogate development experiences in other regions, including Brazil and India (see, e.g., Evans, 1995). Nonetheless, the degree to which the concept was applicable in Southeast Asia, including in Indonesia and Malaysia, has been debated (see, for instance, contributions in Jomo, 2001). Ironically, the framework's growing popularity coincided with global transformations which seemed to undermine both existing and future developmental states as debt crises swept much of the global South. In particular, the AFC spotlighted a new feature of the global economy: financial globalization. The resulting interventions by international financial institutions (IFIs) and national governments in the region featured financial liberalization which was said to preclude or dismantle the developmental state (Doraisami, 2014; Rethel, 2010). The opening up of capital accounts and banking sectors, and further liberalization of interest and foreign exchange rates, seemingly put significant constraints on states' ability to 'manipulate their financial systems to effect rapid industrialization' (Thurbon, 2016: 47). Globally, including in many Southern middle-income countries, financialization was on the rise.²

Nevertheless, several currents of development studies maintained an interest in state intervention, linking their work with the developmental state tradition (for example, Kohli, 2004; Nem Singh and Chen, 2018). Scholarship in the early 2000s also pointed to the piecemeal and fragmented nature of liberalization programmes in the region, variously emphasizing the retention of developmental capabilities or the protection of 'crony capitalism' (Wong, 2004), even as the region's integration into global financial markets gained pace. One notable advancement in the developmental state framework has been Thurbon's (2016) work on the 'developmental mindset'. She defines this as a coherent set of beliefs among national policy makers (across multiple state agencies and ministries) that the state ought to intervene

2. See Storm (2018) and the Debate on 'Financialization and Economic Development' in *Development and Change* 49(2). Region-specifically, see Carroll and Jarvis (2014).

in economic sectors strategically to maximize *long-term development* rather than just *short-term growth*. Notwithstanding its conceptual advance, Thurbon's recent work is illustrative of a shift in much of the more recent developmental state literature away from a focus on rapid catch-up development towards competition between rich nations in global supply chains, especially emergent high-tech sectors (Thurbon and Weiss, 2021).

Despite the widely acknowledged importance of the suppression of domestic consumption to Northeast Asian strategies of export-led growth, there has been surprisingly little interest in how emergent middle classes would reconfigure basic premises of the developmental state. This is despite one strand of the literature on Asian developmentalism specifically interrogating its role in the formation of and import for the region's rapidly emerging middle classes and their various entanglements with state capitalist projects (Robison and Goodman, 1996). Furthermore, as developmental state analyses have become more sector-specific, attention to the class dimension of the developmental state (repression of labour and suppression of its consumption) has been replaced by a focus on sectoral production networks and states' interventions in them. As a result, we know little about how the transformation of domestic class structures engendered by catch-up development — in addition to global factors such as financial globalization — may be undermining the developmental state. And yet, the two phenomena are closely intertwined. Work on the region has traced the cultural significance of changing consumption patterns such as growing demand for car and (urban) home ownership (see the contributions in Chua, 2000). This then also points to new financial entanglements that require scrutiny as middle-class *financial consumers* seek to obtain car finance and mortgages.

Another strand of literature that foregrounds the role of the state in the (domestic and global) economy is the rapidly expanding body of work on state capitalism, in particular new configurations of *state portfolio investment*. This renewed interest in the role of the state in capitalist development is grounded in contemporary material conditions. Unlike the coordinative and collaborative mechanisms in traditional developmental states, today's interventionism sees a stronger *direct* role of the state in production and investment. A significant driver of this more recent pattern is the commodity supercycle of 2001–14 which provided many middle-income countries, including commodity-rich Indonesia and Malaysia, with the revenues to invest in production and accumulate reserves.³ Moreover, rising commodity prices incentivized states in the global South to attempt to climb global value

3. Fossil fuel (oil, gas, coal) revenue used to be a significant source of development funding in Indonesia and Malaysia, especially in the 1980s (high share of over 30 per cent of GDP). Current World Bank estimates put their combined rents at 1.8 per cent (Indonesia) and 3.5 per cent (Malaysia) of GDP (see World Bank data series: <https://data.worldbank.org/indicator/NY.GDP.COAL.RT.ZS>; <https://data.worldbank.org/indicator/NY.GDP.ENGAS.RT.ZS>; <https://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS>). Whilst commodity rents

chains by expanding SOEs in upstream activities. The macroeconomic instability threatened by rising resource rents also led many middle-income countries to form or expand sovereign wealth funds (SWFs), another key feature (and focus) of the new state capitalism (Alami and Dixon, 2020). However, as we highlight in the next section, state economic activity also created new funding needs reflected in changing borrowing practices, including through the establishment of new state-controlled borrowers in capital markets.

Alami and Dixon (2020) suggest that the forces driving state capitalism go beyond these conjunctural material factors and are located in an overall process of global capitalist restructuring. They argue that the rise of the East Asian economies, especially but not only China, has shifted the locus of global production, consumption, trade and finance from the Atlantic to the Pacific Ocean. In their view, this shift has necessitated extensive investment in infrastructure and financial stability, and the state has been the actor that has been able to do this directly — from the top down — through SOEs, SWFs, development banks and macroeconomic interventions. Alami and Dixon are careful to not dismiss national conditions or agency and acknowledge that this global transformation only *structures* middle-income country actions. This points to the need to better understand how these dynamics unfold in specific countries and regions, including in terms of domestic class dynamics (Alami et al., 2022).

Literature that examines the role of the state in advancing middle-class financialization, for example via capital market investment or pension savings, has to date mainly focused on high-income countries, in particular the UK and the USA (Aitken, 2005; Langley, 2008). Accounts of state-led financialization in middle-income countries have largely confined their analysis of class dynamics to the antagonisms between finance capital and the popular or working classes, as wage earners. Thus Marois's (2012) analysis of Mexico and Turkey centres on how state-led neoliberal financial restructuring enriches ascendant finance capital (both foreign and domestic) while providing little benefit to society and the 'popular classes' at large. Meanwhile, Alami's (2019) study of the regulation of foreign exchange derivatives in Brazil argues that state intervention has been used to maintain the social contract of a finance-led regime of accumulation by regulating financial inflows to benefit various social groups, including the middle class. His analysis of Brazil's middle class emphasizes them as wage earners, noting how the PT government of 2003–10 enabled wage rises for formal workers (i.e., lower middle class) and a unionized labour aristocracy.

By contrast, we highlight how (upper) middle classes' emergent role as financial consumers in middle-income countries reconfigures processes of

have contributed to the build-up of domestic pools of capital, they are increasingly out-matched by funds held in social security (especially pensions) systems.

state-managed financialization. In an important intervention, Chwieroth and Walter (2019) draw attention to how middle-class expectations around stability and the preservation of wealth have fundamentally altered responses to financial (in their case, specifically banking) crises. However, we argue that middle-class expectations are consequential with regard to policies not only to preserve but indeed to accumulate wealth. Closely related is the expansion of domestic pools of capital. For example, in Malaysia, the government-controlled mandatory private sector pension fund EPF alone has assets under management in excess of MYR 1 trillion (approximately US\$ 230 billion), nearly three times Malaysia's GDP (EPF, 2021: 1). In Indonesia, assets held by domestic pension funds doubled between 2012 and 2020 (OJK, 2016, 2020). In this context, we illustrate how state financial activism in local bond markets aims to develop financial markets to mobilize middle-class savings and deepen macroeconomic resilience against external shocks. In our cases it is not vast international inflows that are being regulated for the benefit of particular groups but rather the use of state-owned and state-linked companies in nurturing domestic pools of capital for financial development. Thus, state financial activism in Malaysia and Indonesia is benefiting domestic middle classes not through income transfers from regulated inflows but through middle-class profits as (state-backed) asset holders and as direct beneficiaries of the exclusive infrastructure and housing developments that are being financialized. This points to a more substantive and durable alignment of interests of the domestic (upper) middle class with state-led financial development than is accounted for by Marois and Alami.

A third emergent framework examining the role of the state in development has been proposed by Gabor (2021) in her concepts of the 'de-risking state' and the 'Wall Street Consensus'. Gabor argues that, in the context of environmental crises and rising infrastructure spending, international institutional investors are attempting to take the leading role in development programmes in order to secure access to steady, profitable revenue streams from development infrastructure as an asset class. This process requires the recasting of the state's role as the 'de-risking state'. The assumption is that the state will guarantee investor profits regardless of the performance of the asset. The envisaged directional role of global portfolio investment in development programmes could, Gabor warns, undermine the developmental agency of states to decarbonize successfully and/or justly. Furthermore, such arrangements could dramatically compound risks to public finance in the event that exogenous shocks interrupt the performance of the asset.

Although Gabor's account allows for unevenness in this process and the influence of domestic political conditions, in keeping with her macroeconomic focus it primarily emphasizes demand by international institutional investors for profitable asset classes as driving the turn towards new forms of state intervention (Gabor, 2021). Yet, Schindler et al. (2022) draw attention to how the de-risking state also serves to shore up state-capitalist projects, in particular with regard to the prominence that large infrastructure

Table 1. Comparison of Developmental State and State Capitalism Frameworks

	Developmental State (DS)	State Capitalism (SC)
Investment policies	<ul style="list-style-type: none"> ● State controls credit allocation; channels funds to private manufacturing firms through (state-owned) bank loans ● Preferential rates for large firms based on strict export/production targets ● Suppression of capital market development, tightly controlled foreign investment 	<ul style="list-style-type: none"> ● State establishes investment vehicles, e.g. SWFs, to deploy windfalls and surpluses ● Co-funding of infrastructure projects, creation of new asset classes ('de-risking' of international private and donor finance)
Macroeconomic policies	<ul style="list-style-type: none"> ● Pegged/managed exchange rates ● Closed capital accounts 	<ul style="list-style-type: none"> ● Floating/managed exchange rates ● Variation in control of foreign exchange
Objectives	<ul style="list-style-type: none"> ● Shift production structure/export sector to conform with state development plans ● Repress imports and therefore middle class consumption, boost exports; avoid capital misallocation 	<ul style="list-style-type: none"> ● Protect macroeconomic stability and diversify funding sources in the context of financial globalization ● Develop transition infrastructure (rise of East Asia, climate)

Source: authors' design

projects have received in the spatialized industrial strategies they examine. Likewise, the process we observe in our cases are state-led attempts to establish demand for assets denominated in local currency rather than a response to international demands to privatize the profits and nationalize the costs of infrastructure spending. This distinction is reflected in the different policy tools used; rather than establishing new developmental asset classes whose returns are directly guaranteed by the central bank, the Malaysian and Indonesian governments are engaging in corporate activity in local bond markets. However, our examination of key borrowers below indicates that — notwithstanding spatialized industrial strategies — their practices mobilize domestic savings for infrastructure and urban housing development which favour middle-class consumption preferences rather than direct investment in productive capacity. Table 1 summarizes the (macro-)financial policies of these frameworks.

The growth of corporate bond markets, and the preponderance of state-owned and state-linked companies in these markets, constitutes a new form of state financial activism. It reflects distinct state–society relations which in both countries have featured a strong though shifting presence of the state in the economy. In Malaysia, since the introduction of the New Economic Policy (NEP) in the early 1970s, state intervention has been seen as a legitimate means to address poverty and ethnic inequality. Whilst the NEP has gone through several transformations in the context of successive economic crises and political conflicts, its impact has been long lasting (Khuo, 2018). Over time, the initial prevalence of state-owned non-financial institutions

(NFIs) under the diffuse control of UMNO (the United Malays National Organization, Malaysia's Malay-based dominant ruling party) was centralized under the control of Ministry of Finance Inc. (Gomez et al., 2017). Ownership became progressively concentrated within the portfolios of the increasingly powerful and professionalized GLICs. Thus, the domination of GLCs and GLICs in the corporate bond sector reflects the long-term transformations of these institutions into the apex of the Malaysian corporate sector.

By contrast, in Indonesia many of the state-owned financial institutions that have come to dominate corporate bond issuance were newly created during the 2000s. Under Suharto most of the state-owned financial institutions, rife with corruption, had been devastated by the AFC. Meanwhile, the more competitive business groups had remained privately owned by ethnic Chinese families whose status precluded their wielding of economic power politically and allowed Suharto to extract economic rents (Hadiz and Robison, 2004). Thus, following the AFC there were no analogous, solvent state-owned financial institutions that could play a developmental role. It was only following the major banking and corporate restructuring of the early 2000s, and the windfalls of the global resource boom, that Indonesia could establish the institutions capable of engaging in similar state financial activism. These institutions have gained a particular prominence under Jokowi's signature drive for infrastructure development (Kim, 2020).

In this context, the development of domestic currency corporate bond markets does play a significant role in 'de-risking' domestic assets but with domestic actors as a target audience, facilitating domestic accumulation strategies. Hence, a focus on local currency bond markets emphasizes domestic, state-controlled capital rather than private, international capital. We would like to point to two important aspects in particular. First, in Indonesia and Malaysia the state is not only responding to, or possibly even resisting, the external pressures of financialization, but explicitly seeking to promote financialization by establishing new (capital) market logics. Second, while these strategies are conditioned by global patterns of accumulation, in Malaysia and Indonesia they are also significantly driven by the national experiences of financial crises and the emergence of middle classes (in particular the upper stratum with investible savings), and their appetites for low-risk investments. Indicative of this has been the significant expansion of so-called retail investment, typically via unit trusts. Thus, in Malaysia, the number of unit trust accounts grew from just below 15.5 million in 2008 to over 20 million in 2020 (Rethel, 2021: 76). Similarly, in Indonesia, the number of unit trust investors grew from 622,545 in 2017 to 6.84 million in 2021 (PEFINDO, 2022).⁴

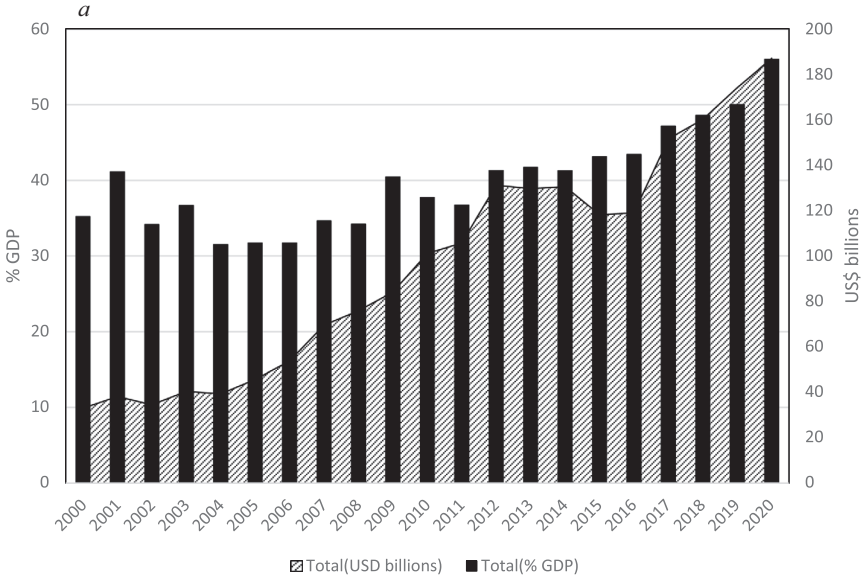
4. To put these figures into context, Malaysia has a population of over 30 million and Indonesia over 270 million.

This responsiveness to various class interests distinguishes state financial activism via corporate bond markets from the developmental state model in which policies are supposedly insulated from the demands of the working class, middle classes, and even international capital. At the same time, this responsiveness also allows for significant state agency. Indonesia and Malaysia are not merely responding to global financialization but are choosing to advance domestic financialization through the mobilization of state resources. The next section presents our analysis of the aggregate data that we collected on the growth and composition of the Indonesian and Malaysian corporate bond markets, before discussing the patterns of issuers and their implications.

STATE ACTIVISM IN LOCAL BOND MARKETS: DEEPENING FINANCIALIZATION

The changes in the size of local currency bond markets relative to GDP in Malaysia and Indonesia have followed significantly different patterns during the last two decades. In Malaysia, the local currency bond market grew steadily from an already relatively high 73.25 per cent of GDP in 2000 to 119.55 per cent in 2020, with slight declines registered in the years of the GFC and the 2013 Taper Tantrum. Meanwhile, Indonesia registered the highest volume of bonds outstanding to GDP as 36.75% in 2000 before dropping precipitously for several years. This reflects the debt overhang from Indonesia's catastrophic GDP collapse during the AFC and a temporary boost from the issuance of (non-tradable) recapitalization bonds to support ailing banks (Djiwandono, 2004). By 2008 Indonesia registered bonds outstanding at below 15 per cent of GDP; it hovered around that figure until 2015. From 1999 to around 2010 Bank Indonesia (BI) also played a significant role in bond issuances, first due to bank restructuring in the early 2000s and later in responding to the GFC. From 2015 onwards, Indonesian bonds outstanding grew steadily from 15.10 per cent to 25.39 per cent of GDP in 2020. Despite these differing patterns, during this period both Indonesia and Malaysia have experienced significant growth in corporate bond markets in absolute (US\$) and relative (as a percentage of GDP) terms, although Indonesia's growth started from a very low base line. As illustrated in Figure 1a, Malaysia's share of corporate bonds outstanding relative to GDP has grown remarkably from 35.21 per cent in 2000 to 56.02 per cent in 2020. The absolute value of these corporate bonds outstanding rose from the equivalent of US\$ 33.02 billion to US\$ 187.01 billion in this period. Meanwhile, in Figure 1b Indonesian corporate bonds outstanding relative to GDP more than doubled from 1.36 per cent in 2000 to 2.84 per cent in 2020; in absolute terms the growth is even more noteworthy, rising from the equivalent of a mere US\$ 1.95 billion in 2000 to US\$ 30.3 billion in 2020.

Figure 1a. Corporate Bonds Outstanding: Malaysia (% of GDP and US\$ billions equivalent)

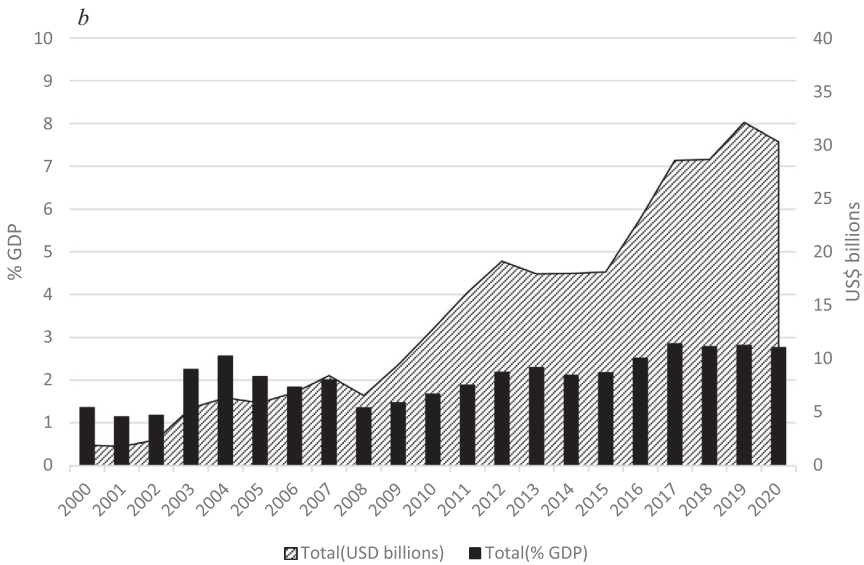


Notes: LHS: as a percentage of GDP; RHS: as US\$ billions equivalent (end of period exchange rates). Source: authors’ graph based on AsianBondsOnline ‘Data Portal’: <http://www.asianbondsonline.adb.org/data-portal/>

Next we focus on the composition of domestic state-owned and state-linked issuers in the corporate bond market.⁵ We also distinguish between financial and non-financial institutions, the former disaggregated further into deposit-taking financial institutions (DFIs, i.e. banks) and non-deposit-taking financial institutions (NDFIs). Our analysis of state financial activism in corporate bond markets takes a broad remit. For example, Cagamas, the Malaysian national mortgage corporation which we discuss in more detail below, would typically not be included in analyses of Malaysian GLCs, despite part-ownership by the Malaysian central bank. In Indonesia, we have

5. Issuance data were collected from the monthly capital market report (‘Statistik Pasar Modal’) of the Indonesian Financial Services Authority (OJK), and from the Bondinfo website of the Central Bank of Malaysia (BNM). The corporate profile of the Indonesian issuers was determined using the annual bond book of the Indonesian Stock Exchange (IDX). For the corporate profiles of Malaysian issuers in 2019 and 2020, we used the annual Bond & Sukuk Almanac of the Bond Pricing Agency Malaysia (BPAM), in print since 2014. Corporate profiles of Malaysian issuers in 2008-09 were determined through corporate annual statements, which include shareholder breakdowns, and corporate profiles and submissions on the Bursa Malaysia website. In some cases, business media were also consulted, especially FT, Bloomberg and Edgemarkets.

Figure 1b. Corporate Bonds Outstanding: Indonesia (% of GDP and US\$ billions equivalent)

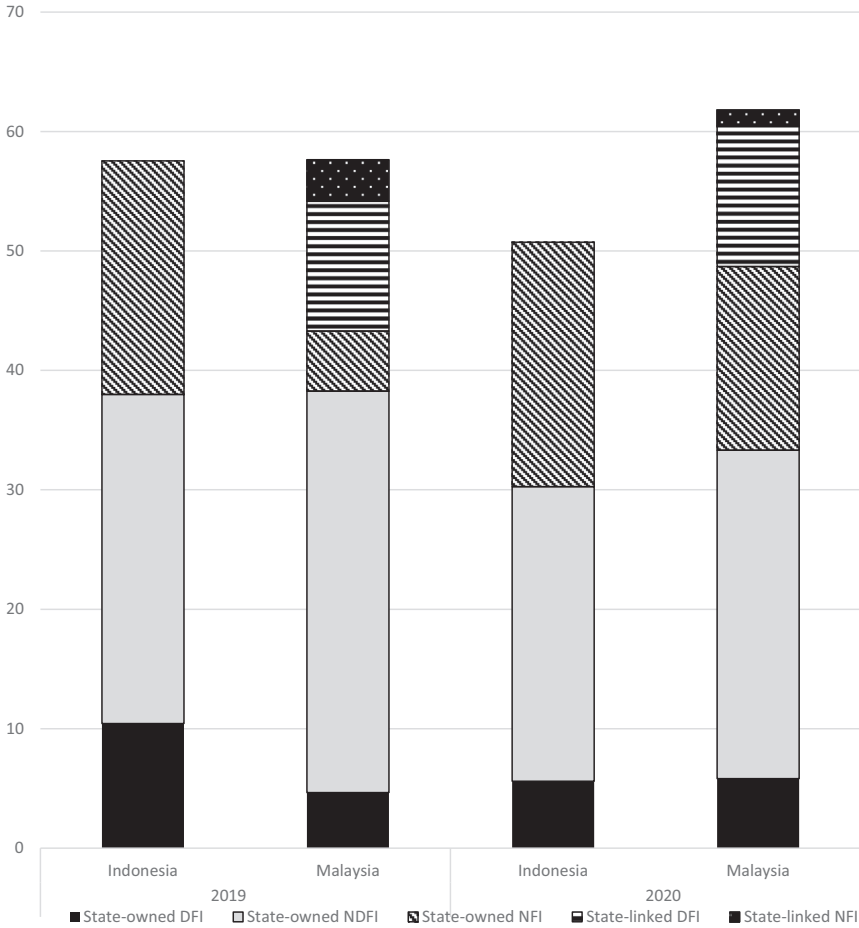


Notes: LHS: as a percentage of GDP; RHS: as US\$ billions equivalent (end of period exchange rates).
 Source: authors' graph based on AsianBondsOnline 'Data Portal': <http://www.asianbondsonline.adb.org/data-portal/>

not used the category of 'state-linked', because state-owned enterprises have generally only been partially privatized, with the state maintaining majority ownership and control, as established in their articles of incorporation.

As illustrated in Figure 2, in both Indonesia and Malaysia state-owned and -linked companies made up more than half the volume of annual corporate issuance in 2019 and 2020. Within that group, NDFIs held the largest share of issuances in both countries. To better understand who precisely the significant borrowers in these domestic corporate bond markets are, we take a more granular look at the top five issuers in both countries. Table 2 shows the top five Malaysian corporate issuers by volume for each of the two years. These are the NFI Sunway Berhad, a construction company originally established in the 1980s to develop the Bandar Sunway township in the greater Kuala Lumpur area, and one DFI, Maybank, the country's largest commercial bank in which the Malaysian state is the majority shareholder via the pension funds and unit trust schemes that it controls. The remaining issuers are NDFIs. They include de facto GLIC Urusharta Jamaah, established as a special purpose vehicle (SPV) to deal with underperforming assets previously owned by Tabung Haji (the Pilgrimage Fund), and Khazanah, Malaysia's sovereign wealth fund. And importantly, they also include

Figure 2. Domestic State-owned and State-linked Corporate Bond/Sukuk Issuance as Percentage of Total



Notes: ‘State-owned’ = a state entity owns 50% (or retains control through special shares), or several state entities own a combined 51% stake; ‘State-linked’ = state entity owns non-controlling stake of 15%+ in company or its parent, or several state entities own a combined non-controlling stake of 20%+. NFI = non-financial institution; DFI = deposit-taking financial institution; NDFI = non-deposit-taking financial institutions.

Source: authors’ calculations based on Bursa Malaysia and Indonesia Stock Exchange listings.

Cagamas, the national mortgage company established in 1986, and DanaInfra, an infrastructure financier established in 2010.

Table 3 presents the top five Indonesian corporate issuers by volume, for 2019 and 2020. Once again, NDFIs, especially in the housing and infrastructure finance sectors, are among the largest issuers. In the early 2000s, the largest issuances were dominated by private firms or foreign state-linked firms, such as Sinar Mas, the privately held conglomerate, and Astra

Table 2. Biggest Corporate Bond/Sukuk Issuers in Malaysia (in MYR billion)

2019			2020		
Issuer (Type)	Value issued (MYR billion)	Role	Issuer (Type)	Value issued (MYR billion)	Role
Sunway Bhd (NFI)	29.58	Construction conglomerate	Sunway Bhd (NFI)	9.80	Construction conglomerate
Urusharta Jamaah Sdn Bhd (NDFI)	27.55	SPV established to deal with underperforming assets previously owned by Tabung Haji (the Malaysian Pilgrimage Fund)	Maybank (DFI)	8.36	Commercial banking group majority owned by PNB(-schemes) and EPF
Maybank (DFI)	22.35	Commercial banking group majority owned by PNB(-schemes) and EPF	Cagamas Bhd (NDFI)	8.18	National Mortgage Corporation
DanaInfra (NDFI)	13.25	National Infrastructure Financier	DanaInfra (NDFI)	8.00	National Infrastructure Financier
Cagamas Bhd (NDFI)	9.54	National Mortgage Corporation	Khazanah (NDFI)	7.45	Sovereign wealth fund

Notes: NFI = non-financial institution; DFI = deposit-taking financial institution; NDFI = non-deposit-taking financial institutions.

Source: authors' calculations based on Bursa Malaysia and Indonesia Stock Exchange listings, respectively.

Table 3. Biggest Corporate Bond/Sukuk Issuers in Indonesia (in IDR billion)

2019			2020		
Issuer (Type)	Value issued (IDR billion)	Role	Issuer (Type)	Value issued (IDR billion)	Role
SMI (NDFI)	12504.3	Infrastructure financier	Sinar Mas (NFI)	11205.2	Diversified conglomerate
LPEI (NDFI)	10185.5	Export financier	PLN (NFI)	8541.6	Electricity company
PLN (NFI)	10170.0	Electricity company	SMF (NDFI)	6918.0	Housing and mortgage financier
Astra International (NFI)	10160.3	Automotive conglomerate	SMI (NDFI)	6367.3	Infrastructure financier
SMF (NDFI)	8961.5	Housing and mortgage financier	Astra International (NFI)	5928.1	Automotive conglomerate

Notes: NFI = non-financial institution; DFI = deposit-taking financial institution; NDFI = non-deposit-taking financial institutions.

Source: authors' calculations based on Bursa Malaysia and Indonesia Stock Exchange listings, respectively.

International, the Indonesian conglomerate controlled by Hong Kong-based Jardine Matheson. However, following the GFC, domestic state-owned companies were increasingly responsible for the biggest issuances, and from 2016 onwards were responsible for the overwhelming majority of the largest 15 issuances every year. Within this group, it is also easy to see the increasing prevalence of NDFIs as issuers of the largest bonds, particularly Lembaga Pembiayaan Ekspor Indonesia (LPEI or Indonesia Eximbank), PT Sarana Multi Infrastruktur (SMI) and PT Sarana Multigriya Finansial (Persero) (SMF). LPEI, set up in 2009, provides credit to firms for international trade. SMI, set up in the same year, is an investment company, financing public infrastructure development ranging from roads to hospitals and energy projects. Finally, SMF was established in 2005 to develop the secondary mortgage market, including through securitization. Besides these NDFIs, other significant state-owned issuers include utility and construction companies such as Perusahaan Listrik Negara (PLN — the national electricity company) and various DFIs.

The data presented in this section show that in both Malaysia and Indonesia the state has been key to the development of *corporate* bond markets, given the dominance of state-owned and -linked borrowers. However, what is new is the central role of NDFIs, often taking the legal form of an SPV, specifically established with the purpose of raising funds in the capital market. How can we make sense of these new forms of state activism in which the state assumes the identity of a corporate borrower for financial means, and what light does it shed on the state's role in the deepening and widening of financialization in these countries? The dominance of state-controlled and domestic capital in these bond markets suggests states are not simply responding to overwhelming private demand or international pressure. Rather, these states have determined that their adaptation to and management of financial globalization can be strengthened by the development of corporate bond markets as a novel form of state financial activism. In these cases, the state is thus simultaneously adapting to and advancing domestic and international financialization.

Moreover, this state financial activism via corporate bond markets is inflected with the imperatives of serving domestic constituencies. As we have shown, state-linked and state-owned NDFIs have become the key issuers in both countries; this has been a recent trend with a growing number of NDFIs having been established since the GFC with the specific purpose of raising funds in domestic capital markets. The direction of funds clearly caters towards middle-class aspirations. Funds raised in these biggest issuances are channelled into financing infrastructure projects and mortgage liquidity which are biased towards the (upper) middle classes. In these examples we have a clear convergence of several political economic processes, namely middle-class wealth accumulation and domestic/household financialization at the national scale, and financial globalization and the rise of development financiers at the international scale. Additionally, the preponderance of

NDFIs in these corporate bond markets is suggestive of a rhetorical shift by national leaders towards ‘clean government’, that is, away from the old state-owned banks towards technocratic financiers. To illuminate this in more detail, the next section traces how state-linked and state-owned housing and infrastructure financiers came to play such a significant role.

STATE ACTIVISM IN LOCAL BOND MARKETS: WIDENING FINANCIALIZATION

The significant role of state-owned and state-linked NDFIs — in particular Cagamas, SMF, SMI and DanaInfra — in the corporate bond markets also reflects how the conjunctural desires of Malaysia and Indonesia to serve both their domestic middle-class constituencies and the widening of financialization have become closely intertwined. Thus, these corporate issuers have emerged as important vehicles for a novel — and we would argue rather distinctive — type of state activism, in support of middle-class aspirations for urban housing and modern infrastructure that the national plans of both countries increasingly identify as important markers of development. In this section, we examine the pivotal role of these NDFIs in the development of markets for housing and infrastructure finance, over and above that in domestic corporate bond markets.

Cagamas, SMF and the Development of Markets for Housing Finance

Cagamas Berhad, the National Mortgage Corporation of Malaysia, was established in 1986 with the dual mandate of promoting home ownership and developing a corporate bond market (Cagamas, 2006: v). Its major shareholders are the central bank — Bank Negara Malaysia or BNM (20 per cent) — and commercial banks. Given significant state shareholding in the country’s commercial banks, Cagamas itself puts the percentage of ‘close’ government links at 59.3 per cent (Cagamas, 2020: 7). Cagamas started out issuing bonds to purchase mortgages extended to civil servants by the Treasury’s Housing Loan Division, at the time the largest single provider of housing finance in Malaysia (Cagamas, 2006: 11). Over the years, Cagamas has broadened its portfolio, acquiring housing loans from commercial banks and select corporates, loans to small and medium enterprises, hire-purchase debt and credit card receivables, among others. Whilst the early loans were purchased with recourse to the primary lender, in 1999–2004 Cagamas moved to purchasing housing loans without recourse, akin to the securitization models of its US counterparts Fannie Mae and Freddie Mac that gained notoriety during the GFC. Since its incorporation, Cagamas has

issued bonds and sukuk worth a total of more than MYR 340 billion.⁶ Even though its share of corporate bonds outstanding has declined over the years, from 13.4 per cent in 2001 to 9.5 per cent in 2010 and to 6 per cent in 2020, cumulatively Cagamas remains the largest issuer in the history of the Malaysian corporate bond market.⁷

Cagamas has thus had a historically dominant role as a corporate issuer, playing an important part in establishing the Malaysian corporate bond market from scratch, despite its de facto quasi-government status, in particular in the early years.⁸ In addition to having BNM as its largest single shareholder, until 2004 Cagamas bonds were treated as class 1 liquid assets, allowing financial institutions to hold them in fulfilment of their regulatory liquidity requirements (Cagamas. 2006: 34). Cagamas' approach to developing markets for housing finance has been acclaimed by the World Bank (Chiquier and Lea, 2009). Indeed, since the early 1990s, Cagamas' experience has repeatedly served as an important case study in reports and workshops (co-)organized by the World Bank (see, for example, Dalla, 1995: 17). This has to be read in the context of greater World Bank support for the development of mortgage markets in its approach to housing finance (Clegg, 2017).

Cagamas' Indonesian counterpart, SMF, was established in 2005 with a remit to improve the availability of mortgages by developing the secondary mortgage market through securitization and by providing long-term credit facilities to state banks for mortgage lending. Before the AFC, the government sought to raise formal home ownership through the direct provision of affordable credit. Through the programmes of KLBI (BI Liquidity Credit) and RDI (Investment Fund Account), BI provided liquidity credit facilities to state-owned commercial banks for the home financing of lower-income groups. Following the AFC restructuring, BI was forbidden from this practice of essentially directly financing homes through the KLBI and the RDI (UN, 2008: 49). Although state-owned banks continued to provide mortgages, there was a shift in emphasis from the direct provision of home financing to improving the depth and efficiency of the mortgage markets to increase mortgage liquidity.

Given the lack of a sizeable mortgage market and very high returns on government bonds, it was difficult to attract institutional investors into the mortgage market (Hoek-Smit, 2005: 45). SMF was created in an attempt to overcome this by issuing bonds and channelling the proceeds to the

6. Cagamas, 'About Us': www.cagamas.com.my/about/about-us

7. See Cagamas, 'About Us': www.cagamas.com.my/about/about-us; Cagamas (2002: 64; 2011: 71; 2021: 93).

8. In 1988 and 1989, Cagamas dominated the market, with shares of 57.12 per cent and 60.55 per cent, respectively (BNM, 1999: 634). Since 1999, its market share of corporate bonds outstanding has been below 50 per cent. By contrast, East Asian NIEs such as Japan and South Korea only established sizeable corporate bond markets once they had achieved high-income status.

securitization of mortgages or by providing liquidity facilities for mortgage lenders. It sought to mobilize new funds for lending so banks would not have to rely on short-term deposits to fund long-term mortgages, whilst also improving the efficiency of the mortgage market. According to this rationale, SMF would lower the costs and thus the price of mortgages. This strategy was partly influenced by the observation of Malaysia's relative success in increasing mortgage liquidity through the development of a secondary mortgage market via Cagamas (Government of Indonesia and World Bank Group, 2007: 213). Secondary benefits were identified as including the boosting of competition in the primary market (as SMF credit facilities made smaller lenders more viable) and the improvement of the credit information environment (Government of Indonesia and World Bank Group, 2007: 125–26). From 2005 to 2018, SMF disbursed IDR 47.5 trillion (approximately US\$ 150 billion) with IDR 30.1 trillion raised through bond issuances; IDR 37.3 trillion was channelled to mortgage lenders and IDR 10.2 trillion used for securitization transactions (*Jakarta Post*, 2019).

Housing finance is relatively abundant in the Malaysian financial system. Lending to households for the purpose of purchasing residential property is by far the biggest single share of the lending activities of commercial banks, constituting more than a third of total loans in 2020 (BNM, 2021). To some extent, this has also been facilitated through the liquidity provided by Cagamas. Nevertheless, in the context of deepening domestic and international financialization, this further exacerbates inequalities of opportunity and wealth. Levels of household debt had soared to more than 90 per cent relative to GDP at the end of 2020, a strong indicator of the growing reach of financialization. At the same time, the Malaysian housing market had become increasingly unaffordable with properties in the major urban centres, including Kuala Lumpur, out of the reach of median earners (BNM, 2017: 90–98).

In Indonesia, likewise, the benefits of improving mortgage markets are heavily skewed towards the wealthiest citizens. Approximately one third of the adult population is unbanked, and 60 per cent of the labour force is not in formal employment. As a result, and in the absence of mechanisms to calculate the creditworthiness of informal workers that exist, for example, in Mexico and India, a substantial portion of the population lacks the ability to access financial services like mortgage lending. Moreover, the majority of Indonesians would be unable to afford a mortgage even if they had access to financial services. According to the World Bank, only the top 40 per cent of earners could afford a basic housing unit. The rest of the population could only afford such units if extensive subsidies were provided. However, on this front Indonesia is lacking as state spending on housing is far below its regional peers; in 2013 it represented 0.06 per cent of GDP compared to 0.3 per cent in the Philippines and 2.15 per cent in Thailand (Samad, 2016).

The inaccessibility of home ownership/financing for poorer Indonesians is further compounded by problems of land titles, as significant portions

of both the urban and rural populations live in informal housing without land rights (Leitner and Sheppard, 2018). Indeed, home ownership has been declining steadily in Indonesia since 1999, with the sharpest declines registered in urban areas and Jakarta (Rahman, 2021). Thus, large portions of the population are excluded from benefiting from the development of markets for housing finance that state financial activism through SMF purports to achieve. In both Malaysia and Indonesia, the benefits overwhelmingly accrue to middle-class populations seeking mortgages to buy properties as a strategy of wealth accumulation, and property owners/developers who enjoy increased demand for their (high-end) properties. In Malaysia, this means properties in the range of MYR 500,000 and above. This dynamic is somewhat captured in BNM's Financial Stability and Payment System Reports which distinguish between 'loans for wealth accumulation', with a growth rate of 6.9 per cent in 2018, and 'loans for consumption purposes' at a much lower growth rate of 0.8 per cent (BNM, 2019: 14).

Both Cagamas and SMF have evolved into important issuers in their respective domestic corporate bond markets. In so doing, their borrowing underpins a novel form of state financial activism geared not only towards the deepening of capital markets (a popular tenet of neoliberal financialization) but also their widening by creating new asset classes backed by housing (and other) loans, managed by these state-linked actors.

SMI, DanaInfra and the Development of Infrastructure Finance Markets

In both Indonesia and Malaysia, various actors raise funds in the corporate bond market to build and operate infrastructure projects. However, in the last decade two NDFIs have become central in the raising of infrastructure funds in corporate bond markets — SMI in Indonesia and DanaInfra in Malaysia.

SMI is a state-owned NDFI established in 2009 to encourage infrastructure investment, which has since grown to become one of the largest providers of infrastructure financing in Indonesia. The Indonesian government had long identified infrastructure development as a key priority of national development, as evidenced in successive medium- and long-term national development plans. Former president Yudhoyono (2004–14) thus established SMI as a vehicle to catalyse private and donor investment in infrastructure by partnering with IFIs to provide flexible financing schemes and advisory services to companies willing to engage in public–private partnerships (SMI, 2010: 9).

However, both infrastructure investment and the private sector's share of investment continued to stagnate under Yudhoyono following its post-AFC collapse (Kim, 2020: 649). There were two key factors in the failure of this strategy. The first was the underdevelopment of the Indonesian banking sector; as of 2017, 85 per cent of deposits had maturities of a month or less, making DFIs highly reluctant to channel savings towards illiquid, long-term

projects (GIH, 2021: 79). The second, more important factor lay in the hesitancy of institutional investors to finance long-term projects in an environment of policy and regulatory uncertainty, especially when highly profitable investments were available in government securities and the natural resource sector (*ibid.*).

A major innovation in infrastructure development by the Jokowi administration has been to use SMI and state-owned banks as major, direct project financiers. At the same time, construction SOEs were cultivated to be major players in project delivery (Kim, 2020: 650). Initially funded solely through international donor finance and state allocations, SMI started to raise funds in the corporate bond market in 2014 with an issuance of IDR 1 trillion, and accelerated rapidly in the period 2015–19, issuing almost IDR 12 trillion of bonds in 2019.⁹ SMI issues benchmark-sized¹⁰ bonds to obtain funds from investors reluctant to invest directly in infrastructure, then injects the funds into infrastructure development. Between 2014 and 2017, SMI's assets grew from IDR 5.8 trillion to IDR 44.54 trillion, while loan receivables rose from IDR 4.26 trillion to IDR 32.59 trillion (SMI, 2018: 12).

By taking a more direct role in project development, the government also allayed some of the private sector's fears about regulatory and policy uncertainty. This strategy yielded significant results: 441 km of railway, five airports, and 410 new ports were built during Jokowi's first term (Agustina, 2019). Between 2015 and 2018, 718 km of toll roads were built and the flagship Trans-Java Toll Road, conceived under Suharto, opened at the beginning of 2019. Whilst SMI continues to raise funds from bilateral and multilateral donors and saw a boost in its state allocation during the COVID-19 pandemic, the growing volume of funds raised in the corporate bond market points to an important feature of the new state financial activism: mobilizing and de-risking domestic capital. Thus in 2014, 2015 and 2018, 0 per cent of bonds issued by SMI were purchased by overseas institutions, while in 2017 and 2019 the figures were only 28 per cent and 20 per cent, respectively (SMI, 2020: 32–43).

In Malaysia, DanaInfra Nasional Berhad was established in 2011 as a dedicated infrastructure financing entity, initially to provide funding for the expansion of Kuala Lumpur's public transport network, the mass rapid transit (MRT) system. One of its key objectives is to '[s]eparate fund raising activity from infrastructure construction'. Its roles include to '[d]evelop best structures for long-term funding' and to '[i]dentify strategic investors'.¹¹ DanaInfra is 100 per cent government-owned through Ministry of Finance Inc. In addition to raising funds for the MRT project, DanaInfra

9. Authors' calculations based on OJK data.

10. Large volume, investment-grade bonds, which are more easily traded, and against which other issuers can benchmark themselves.

11. See DanaInfra website, 'About Us': www.danainfra.com.my/index.php?option=com_content&view=article&id=233&Itemid=304

has also been mandated to raise funds for the Pan Borneo Sarawak Highway. According to PEMANDU (formerly the government's Performance Management and Delivery Unit), the MRT project 'was meant to propel the Greater Kuala Lumpur metropolitan area to be on par with that of developed cities around the world' (PEMANDU, n.d.). Indeed, its importance for the country's middle-class aspirations are clearly articulated; whilst historically public transport 'functioned largely as part of the social safety net' for lower-income households, now it is portrayed as 'an alternative choice of commute'. But its development has also to be seen in the context of significant allegations of corruption surrounding the mega-infrastructure projects launched during the Najib administration (2009–18) (see also Khoo, 2018).

In the cases of both SMI and DanaInfra, instead of pursuing politically challenging reforms to improve the investment climate, the state simply internalized the transaction costs associated with bureaucratic inefficiencies while leaving the patronage structures and social conflicts that give rise to them largely intact. Further, not only are domestic middle-class savings being mobilized, but the projects for which they are being used also privilege (upper) middle-class consumer preferences above the needs of the general population, both directly and indirectly.

Firstly, the costs and risks of infrastructure development are socialized whilst concentrating (financial) returns within the upper income and wealth strata. Domestic institutional investors, including social security organizations and pension schemes, constitute the single largest group of investors, yet their coverage in terms of beneficiaries remains partial. For example, BJPS Ketenagakerjaan, the Indonesian social security organization, holds 20 per cent of SMI bonds, but has a membership of just 11.5 million workers. Similarly, KWAP, the Malaysian pension scheme for public servants, which held MYR 1.5 billion in DanaInfra bonds in 2015, had just over 177,000 contributing members.¹² DanaInfra has also been actively pursuing retail investors, being the first entity in Malaysia to issue retail corporate sukuk (ADB, 2015: 10).

Secondly, the projects themselves are skewed towards middle-class consumer preferences. SMI's emphasis on toll roads is the best example of this. Between 2009 and 2017, 43.6 per cent of SMI's financing was allocated to fund toll road projects, compared to just 8.84 per cent for all other transport projects (including public roads) (SMI, 2018: 12). The direct beneficiaries of these projects are almost exclusively (upper) middle-class Indonesians. The fees to travel via the toll roads from Surabaya to Solo would amount to several hundreds of thousands of rupiah (Guild, 2021) — a significant portion of the mean daily wage. Beyond car-owning upper middle-class Indonesians, the main beneficiaries of these roads are Indonesia's primary commodity industries. Ordinary Indonesians could indirectly benefit from

12. Unlike SMI, DanaInfra does not publish its Annual Reports. The information on KWAP's investment is from *Malay Mail* (2015).

boosts to industrial growth, but as the industries most served by these new roads are capital intensive, employment gains are unlikely to go beyond a narrow population. The picture is similar for railway development: the benefits accrue primarily to industries using freight and to mobile middle classes. Ticket prices are too expensive for the general population, a vast number of whom live rurally with little need to travel great distances by train. Similar dynamics apply in Malaysia, with regard to the construction of the MRT system and the Pan-Borneo highway.

ANALYSIS AND CONCLUSION

There have been celebratory accounts of corporate bond market deepening in Southeast Asia as countries sought to develop buffers to the kind of macroeconomic instability experienced during successive crises. Their experience is held up as an example of domestic debt capital market development stabilizing and diversifying financial systems previously dominated by banks and state influence. However, in Malaysia and Indonesia the state continues to play a dominant role as we have shown with a focus on a new group of state-owned and state-linked borrowers that rapidly rose to prominence in these emerging markets for long-term finance. While it may be tempting to ascribe this to the retention of features of the developmental state in Southeast Asia, there are significant differences that distinguish this new state financial activism (see Table 4). State financial activism in our cases does not neatly correspond to the traditional developmental state's efforts to boost exports, develop national champions in strategic sectors or suppress domestic consumption. Rather, this state financial activism aims to manage macroeconomic volatility resulting from financial globalization, deepen capital markets and boost middle-class consumption.

Our case studies find some resonance with Gabor's (2021) account of the state taking on a new role in development by 'de-risking' bond finance. However, in contrast to Gabor's analysis, while these strategies are conditioned by global processes of accumulation and financialization, in Malaysia and Indonesia they are also significantly driven by domestic strategies of accumulation and middle-class preferences rather than international (private and donor) investor demand. Thus, state financial activism has been inflected with domestic political imperatives.

Our cases also highlight financialization dynamics that have received little attention in the accounts of state capitalism outlined earlier. Although domestic bond market development is not primarily aimed at industrial upgrading, it does seek to invest in achieving financial stability and upskilling and is part of broader processes of capitalist restructuring. Importantly, state financial activism incorporates the long-term interests of domestic middle classes rather than only managing the contradictions of capitalism in ways that contingently benefit society through stability and income transfers. This

Table 4. *New Financial State Activism (NFSA) vis-à-vis Developmental State/State Capitalism (DC/SC)*

	Developmental State	State Capitalism
Investment policies DS/SC	<ul style="list-style-type: none"> State controls credit allocation; channels funds to private manufacturing firms through (state-owned) bank loans Preferential rates for large firms based on strict export/production targets Suppression of capital market development, tightly controlled foreign investment Develop domestic pools of capital (institutional investors and boost in retail savings); attract and satisfy portfolio investor demand for safe returns Institutional development of capital markets, including establishment of new financiers/borrowers that raise funds by issuing bonds on the domestic corporate bond market (typically at a mark-up on sovereign issuances but lower than bank interest rates) Pegged/managed exchange rates Closed capital accounts Forex and capital account liberalization to attract investment in domestic capital market Promotional activities (e.g. forex swaps, roadshows) Shift production structure/export sector to conform with state development plans Repress imports and therefore middle-class consumption; boost exports; avoid capital misallocation Financial sector development geared towards financial <i>industry</i>, e.g. upskilling and professionalization Develop housing and infrastructure finance markets to boost middle-class consumption; asset price inflation 	<ul style="list-style-type: none"> State establishes investment vehicles, e.g. SWFs, to deploy windfalls and surpluses Co-funding of infrastructure projects, creation of new asset classes ('de-risking' to attract international private and donor finance)
Investment practices NFSA		
Macroeconomic policies DS/SC		
Macroeconomic practices NFSA		
Objectives DS/SC		
Objectives NFSA		

Source: authors' design

catering to middle-class preferences tempers the *developmental* potential of the increasing state activism by exacerbating financialization dynamics.

In pursuing corporate bond market development, Indonesia and Malaysia have favoured channelling funds towards projects that support the demands of domestic middle-class constituencies over the general population. Rather than bowing to the pressure of international portfolio investors, the process has been state-driven at the national level. International investors do not (yet) play a significant role in domestic corporate bond markets. Among the entities discussed in our case studies, only Cagamas has attracted sustained attention from international portfolio investors. However, this interest has been fickle, with the share of holdings of non-resident investors dropping from 20.36 per cent in 2016 to 2.49 per cent in 2020 (Cagamas, 2021: 93).

In this case, too, state activism is advancing financialization and capital market development while also serving the preferences of select domestic constituencies; private housing and infrastructure development favours the consumption patterns of mobile (upper) middle classes, rather than ordinary people, while also providing middle-class constituencies with low-risk investments. We would argue that this is also reflective of an increasingly expansive notion of development(alism) — it is not just manufacturing capacity and industrial upgrading, but also services economy/professional jobs, urbanization/housing, top-quality infrastructure etc., that require further scrutiny. In this way, state financial activism in corporate bond markets further entrenches a middle-class-centred model of ‘development without the poor’, as Ballard (2012) so poignantly put it a decade ago. Increasingly, it seems, this model has become a key mode of both deepening and widening domestic financialization.

REFERENCES

- ADB (2015) *Local Currency Bonds and Infrastructure Finance in ASEAN+3*. Manila: Asian Development Bank.
- Agustina, D. (2019) ‘Achievement of Jokowi’s during 4 Years Governance’. CIDISS 4 January. Jakarta: Institute of National Capability and Development. <https://cidiss.co/uncategorized-2/achievement-of-jokowis-during-4-years-governance/>
- Aitken, R. (2005) ‘“A Direct Personal Stake”: Cultural Economy, Mass Investment and the New York Stock Exchange’, *Review of International Political Economy* 12(2): 334–63.
- Alami, I. (2019) ‘Taming Foreign Exchange Derivatives Markets? Speculative Finance and Class Relations in Brazil’, *Development and Change* 50(5): 1310–41.
- Alami, I. and A.D. Dixon (2020) ‘State Capitalism(s) Redux? Theories, Tensions, Controversies’, *Competition & Change* 24(1): 70–94.
- Alami, I., M. Babic, A.D. Dixon and I.T. Liu (2022) ‘Special Issue Introduction: What Is the New State Capitalism?’, *Contemporary Politics* 28(3): 245–63.
- Amsden, A. (1989) *Asia’s Next Giant. South Korea and Late Industrialization*. New York: Oxford University Press.
- Ballard, R. (2012) ‘Geographies of Development: Without the Poor’, *Progress in Human Geography* 36(5): 563–72.

- BNM (1999) *The Central Bank and the Financial System in Malaysia. A Decade of Change 1989–1999*. Bank Negara Malaysia.
- BNM (2017) 'Annual Report 2016'. Kuala Lumpur: Bank Negara Malaysia.
- BNM (2019) 'Financial Stability and Payment System Report 2018'. Kuala Lumpur: Bank Negara Malaysia.
- BNM (2021) 'Series 1.19 Banking System: Classification of Loans by Purpose'. Monthly Highlights and Statistics. Kuala Lumpur: Bank Negara Malaysia. www.bnm.gov.my/-/monthly-highlights-and-statistics-in-june-2021
- Cagamas (2002) 'Annual Report 2021'. Kuala Lumpur: Cagamas Berhad.
- Cagamas (2006) 'A Study of Mortgage-backed Securities Markets in Malaysia: Cagamas' Experience in Developing Mortgage-backed Securities' (pp. i–48), in I. Dalla (ed.) *East Asian Finance: Selected Issues*, pp. 151–206. Washington, DC: World Bank.
- Cagamas (2012) 'Annual Report 2011'. Kuala Lumpur: Cagamas Holdings.
- Cagamas (2020) 'Investor Presentation'. HSBC 4th Annual Asia Credit Conference, Investor Issuer Meeting (16 June).
- Cagamas (2021) 'Annual Report 2020'. Kuala Lumpur: Cagamas Holding.
- Carroll, T. and D.L. Jarvis (2014) 'Introduction: Financialisation and Development in Asia under Late Capitalism', *Asian Studies Review* 38(4): 533–43.
- Chiquier, L. and M. Lea (2009) *Housing Finance Policy in Emerging Markets*. Washington, DC: World Bank. www.openknowledge.worldbank.org/handle/10986/2641
- Chua, B.H. (2000) (ed.) *Consumption in Asia. Lifestyle and Identities*. Abingdon: Routledge.
- Chwieroth, J.M. and A. Walter (2019) *The Wealth Effect: How the Great Expectations of the Middle Class Have Changed the Politics of Banking Crises*. Cambridge: Cambridge University Press.
- Clegg, L. (2017) *The World Bank and the Globalisation of Housing Finance: Mortgaging Development*. Cheltenham: Edward Elgar.
- Dalla, I. (1995) *The Emerging Asian Bond Market*. Washington, DC: World Bank.
- Djiwandono, J.S. (2004) 'Liquidity Support to Banks during Indonesia's Financial Crisis', *Bulletin of Indonesian Economic Studies* 40(1): 59–75.
- Doraisami, A. (2014) 'Macro-economic Policy Responses to Financial Crises in Malaysia, Indonesia and Thailand', *Journal of Contemporary Asia* 44(4): 581–98.
- EPF (2021) 'Employees Provident Fund Annual Report 2020'. Kuala Lumpur: KWSP.
- Evans, P. (1995) *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press.
- Gabor, D. (2021) 'The Wall Street Consensus', *Development and Change* 52(3): 429–59.
- GIH (2021) 'Annex G: Indonesia — PT Sarana Multi Infrastruktur (PT SMI)', in Global Infrastructure Hub Guidance Note on National Infrastructure Banks and Similar Financing Facilities, pp. 79–86. Sydney and Toronto: Global Infrastructure Hub. www.cdn.gihub.org/umbraco/media/2621/gih-national_infrastructure_banks_-full_report-web.pdf
- Gomez, E.T., T. Padmanabhan, N. Kamaruddin, S. Bhalla and F. Faisal (2017) *Ministry of Finance Incorporated. Ownership and Control of Corporate Malaysia*. Petaling Jaya: Strategic Information and Research Development Centre/Palgrave Macmillan.
- Government of Indonesia and World Bank Group (2007) 'The Development of Strong and Sustainable Housing Finance to Empower Real Sector'. *Indonesian Housing Finance Senior Official Meeting and Seminar*, Jakarta (29–30 October).
- Guild, J. (2021) 'How Jokowi Solved Indonesia's Toll Road Dilemma. Sort Of', *The Diplomat* 11 May.
- Hadiz, V. and R. Robison (2004) *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets*. Abingdon: Routledge.
- Hoek-Smit, M. (2005) *The Housing Finance Sector in Indonesia*. Washington, DC: World Bank, Housing Finance Business Group.
- Jakarta Post (2019) 'State-owned Mortgage Firm SMF Targets Rp 10tn Disbursement in 2019', *Jakarta Post* 4 February.

- Johnson, C. (1982) *MITI and the Japanese Miracle*. Stanford, CA: Stanford University Press.
- Jomo, K.S. (ed.) (2001) *Southeast Asia's Industrialization. Industrial Policy, Capabilities and Sustainability*. London: Palgrave Macmillan.
- Katada, S.N. (2009) 'Political Economy of East Asian Integration and Cooperation'. *ADB Working Paper 170*. Tokyo: Asian Development Bank Institute.
- Khoo, B. T. (2018) 'Political Turbulence and Stalemate in Contemporary Malaysia: Oligarchic Reconstitutions and Insecurities', *TRaNS: Trans-Regional and -National Studies of South-east Asia* 6(2): 227–51.
- Kim, K. (2018) 'Matchmaking: Establishment of State-owned Holding Companies in Indonesia', *Asia Pacific Policy Studies* 5: 313–30
- Kim, K. (2020) 'The State as a Patient Capitalist: Growth and Transformation of Indonesia's Development Financiers', *The Pacific Review* 33(3–4): 635–68.
- Kohli, A. (2004) *State-directed Development: Political Power and Industrialization in the Global Periphery*. Cambridge: Cambridge University Press.
- Langley, P. (2008) *The Everyday Life of Global Finance: Saving and Borrowing in Anglo-America*. Oxford: Oxford University Press
- Leitner, H. and E. Sheppard (2018) 'From Kampung to Condos? Contested Accumulations through Displacement in Jakarta', *Environment and Planning A: Economy and Space* 50(2): 437–56.
- Malay Mail (2015) 'KWAP to Liquidate Properties Abroad', *Malay Mail* 15 September. www.malaymail.com/news/malaysia/2015/09/15/kwap-to-liquidate-properties-abroad/970491
- Marois, T. (2012) *States, Banks and Crisis: Emerging Finance Capitalism in Mexico and Turkey*. Cheltenham and Northampton, MA: Edward Elgar.
- Nem Singh, J. and G.C. Chen (2018) 'State-owned Enterprises and the Political Economy of State-State Relations in the Developing World', *Third World Quarterly* 39(6): 1077–97.
- OJK (2016) 'Buku Statistik Dana Pensiun 2016' ['Book of Pension Fund Statistics 2016']. www.ojk.go.id/id/kanal/iknb/data-dan-statistik/dana-pensiun/Pages/Buku-Statistik-Dana-Pensiun-2016.aspx
- OJK (2020) 'Buku Statistik Dana Pensiun 2020' ['Book of Pension Fund Statistics 2020']. www.ojk.go.id/id/kanal/iknb/data-dan-statistik/dana-pensiun/Pages/Buku-Statistik-Dana-Pensiun-2020.aspx
- PEFINDO (2022) 'Presentation at LPPI Virtual Seminar #70: Mendorong Investor Ritel Berorientasi Jangka Panjang di Pasar Modal Indonesia [Encouraging Long-Term Orientation in Retail Investors in the Indonesian Capital Market]' (17 March). www.youtube.com/watch?v=3NGervhHC6Q.
- PEMANDU (n.d.) 'Transformation on the Street: Delivering Transformation to Malaysia's Public Transport System'. www.pemandu.org/transformation-on-the-street-delivering-transformation-to-malaysias-public-transport-system/
- Rahman, D.F. (2021) 'Indonesian Homeownership Slides as Affordability Issues Arise', *Jakarta Post* 28 June.
- Rethel, L. (2010) 'The New Financial Development Paradigm and Asian Bond Markets', *New Political Economy* 15(4): 493–517.
- Rethel, L. (2021) *The Political Economy of Financial Development in Malaysia. From Asian Crisis to IMDB*. Abingdon: Routledge.
- Rethel, L. and T.J. Sinclair (2014) 'Innovation and the Entrepreneurial State in Asia: Mechanisms of Bond Market Development', *Asian Studies Review* 38(4): 564–81.
- Robison, R. and D.S.G. Goodman (eds) (1996) *The New Rich in Asia. Mobile Phones, McDonald's and Middle-class Revolution*. Abingdon: Routledge
- Samad, T. (2016) 'Project Information Document (Appraisal Stage) – National Affordable Housing Program, P154948'. Washington, DC: World Bank Group. www.documents.worldbank.org/curated/en/429341480676961713/Project-Information-Documents/Document-Appraisal-Stage-National-Affordable-Housing-Program-P154948

- Schindler, S., I. Alami and N. Jepson (2022) 'Goodbye Washington Confusion, Hello Wall Street Consensus: Contemporary State Capitalism and the Spatialisation of Industrial Strategy', *New Political Economy*. DOI: 10.1080/13563467.2022.2091534
- SMI (2010) 'Annual Report: Catalyst in Accelerating Indonesia Infrastructure Development'. Jakarta: PT Sarana Multigriya Infrastruktur.
- SMI (2018) 'Sewindu PT SMI: Bakti Untuk Negeri' ['Sewindu PT SMI: Devotion to the Country']. Jakarta: PT Sarana Multigriya Infrastruktur.
- SMI (2020) 'Rising to the Challenge: Supporting National Economic Recovery through Sustainable Development'. Jakarta: PT Sarana Multigriya Infrastruktur.
- Storm, S. (2018) 'Financialization and Economic Development: A Debate on the Social Efficiency of Modern Finance', *Development and Change* 49(2): 302–29.
- Thurbon, E. (2016) *Developmental Mindset: The Revival of Financial Activism in South Korea*. Ithaca, NY: Cornell University Press.
- Thurbon, E. and L. Weiss (2021) 'Economic Statecraft at the Frontier: Korea's Drive for Intelligent Robotics', *Review of International Political Economy* 28(1): 103–27.
- UN (2008) *Housing Finance Mechanisms in Indonesia*. Nairobi: UN-Habitat.
- Wade, R.H. (2004) *Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization* (2nd edn). Princeton, NJ: Princeton University Press.
- Wong, J. (2004) 'The Adaptive Developmental State in East Asia', *Journal of East Asian Studies* 4(3): 345–62.

Louis O'Sullivan (corresponding author; bnlos@leeds.ac.uk) is a PhD candidate in the Economics Department, University of Leeds, UK.

Lena Rethel (L.Rethel@warwick.ac.uk) is Professor of International Political Economy, University of Warwick, UK.