

NATION-STATES, CAPITAL MARKET MANAGERS, AND SOVEREIGNTY: AN
ETHNOGRAPHIC CASE STUDY IN MALAYSIA

by

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Abstract

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This dissertation is an ethnographic investigation of the restructuring of the Malaysian capital market in the aftermath of the Asian financial crisis of 1997-98, showing how the calculative practices of financial experts intersect with the global financial regime, reformatting relations between subjects so as to create a forceful, indeed compelling scale of value. The ability to determine a forceful scale of value relates directly to how sovereignty, the ability to determine the state of exception, is held only by those networks with strong connections to “core states” which wield power as part of the regime-making “club” in global markets. I argue that an emergent “proto global state” plays an increasingly important role in structuring global financial markets. As developing states seek to engage this order, fund managers – key agents in developmental projects who are enmeshed in local and global racialized regimes – arbitrage between local capital regimes and global regimes and are able to mine value. In the case of Malaysia, their work reinforces and extends stratification in global markets. This is demonstrated by tracing the way that the success of the Malaysian state in promulgating growth has come through participation in the ongoing escalation of primitive accumulation and at the price of reinforcing an ongoing racial project of elites in the nation-state. Ethnographic investigation in Malaysia shows that the subjectivity and market making praxis of

financial elites in this developing country mimic core country norms and expectations and, further, that the ability to present evidence of conspicuous cosmopolitanism in training, outlook and knowledge is a pre-requisite for success in fund management. The *habitus* of fund managers and the cycles of arbitraging opportunities engendered by elite networks in Malaysia support the conclusion that as financialization continues to reinforce difference and marginality, even while engaging networks across racial formations, racism will increase in importance among elites in emerging nation states.

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Acronyms

ABIM	Angkatan Belia Islam Malaysia (Islamic Youth Force of Malaysia)
BA	Barisan Alternatif (Alternative Front of Malaysia)
BN	Barisan Nasional (National Front of Malaysia of which the constituent parties are the Malaysian Chinese Association, United Malays National Organization, and the Malaysian Indian Congress)
BIS	Bank of International Settlements
BNM	Bank Negara Malaysia
CMMP	Capital Market Master Plan (Malaysia)
CFTC	Commodities and Futures Trading Commission (U.S.)
DAP	Democratic Action Party (Malaysia)
EIC	East India Company
EMT	Efficient Market Hypothesis
EPF	Employee Provident Fund
ISA	Internal Security Act (Malaysia)
ITC	International Tin Council
KLCI	Kuala Lumpur Composite Index
KLSE	Kuala Lumpur Stock Exchange
LME	London Metals Exchange
LTCM	Long Term Capital Management (U.S.)
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MAS	Malaysian Airlines
TM	Telekom Malaysia
MCP	Malayan Communist Party
MPAJA	Malayan People's Anti-Japanese Army
MSC	Multimedia Supercorridor (Malaysia)
MITI	Ministry of Trade and Information (Japan)
MSCI	Morgan Stanley Capital Index
NEP	New Economic Policy (Malaysia)
NDP	New Development Policy (Malaysia)
LEAP	Look East Policy (Malaysia)
NYSE	New York Stock Exchange
OIC	Organization of Islamic Countries
OPIC	Overseas Private Investment Corporation
PAS	Parti Islam Semalaysia (Islamic Party of Malaysia)
Pernas	Permodalan Nasional Berhad (National Equity Corporation of Malaysia)
Petronas	Petroleum Nasional (Malaysia)
RM	Official abbreviation for the legal currency of Malaysia, the ringgit.
SEC	Securities and Exchange Commission (U.S.)
SC	Securities Commission (Malaysia)
TMT	Tenaga-Maybank-Telekom triumvirate of dominate corps on the KLCI
TRI	Technology Resources Industries (Malaysia)
USD	United States Dollar
UMNO	United Malays National Organization

VOC	Vereenigde Oost-indische Compagnie (the Dutch East India Company)
WTO	World Trade Organization

Glossary

Alpha	Alpha is a risk-adjusted measure of the so-called "excess return" on an investment. It is a common measure of assessing a fund manager's performance.
Arbitrage	The simultaneous purchase and sale of an asset in order to profit from a differential in the price. Arbitrage usually takes place on different exchanges or marketplaces.
Bond market	A market for the trading of debt securities. Bond markets are usually primarily composed of government-issued securities and corporate debt securities.
Capital account	The net result of public and private international investment flowing in and out of a country including foreign direct investment, plus changes in holdings of stocks, bonds, loans, bank accounts, and currencies but not off-balance sheet items.
Carry trade	Any trade involving borrowing (and paying interest) in order to buy something else that yields higher interest. In currency markets, carry trades involve borrowing in a foreign country with lower interest rates than in the investor's home country and investing the funds borrowed in the domestic market.
Convertibles	Securities, usually bonds or preferred shares that can be converted into common stock.
Current account	The difference between a nation's total exports of goods, services, and transfers, and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities.
Currency swap	A contract for the exchange of principal and interest in one currency for the same in another currency.
Custodian bank	In international equities markets a bank or other financial institution that holds custody of stock certificates and other assets for an institutional investor, individual, or corporate client.
Derivatives	Derivatives are a category of financial tools that allow traders to take positions based on their predictions about time and volatility (rate of change). Traders using derivatives profit from change itself rather than from change in the value of an underlying asset,

e.g. change in a stock index rather than in the value of stocks themselves. Managers build derivative packages that allow them to maneuver through changes in different asset classes in different countries and in different time frames. The terminology “derivative” springs from both the mathematical terminology for measuring the instantaneous rate of change of a function in relation to another variable, and from the way that derivatives as a class of financial tools arise from (derive from) but are not coextensive with an underlying class of assets or risks.

EMT	The controversial hypothesis that the stock market is a highly efficient pricing mechanism; efficiency here refers not to the efficient allocation of resources within the economy but to the capacity of the market to convert information into shares prices.
ETF	An Exchange Traded Fund is an open-ended investment trust that is traded on a stock exchange. Retail investors can only trade units on the exchange they cannot create or redeem units from the fund while institutional investors can trade and also create and redeem with the fund through contracts.
Fixed income	Fixed income markets trade in debt instruments, such as bonds and loans, which pay interest. The rate of income is often fixed, hence the term fixed income. The money markets trade in short-term debt instruments with maturities of 12 months or less while the fixed income markets trade in longer-term instruments.
Hedging	Making an investment to reduce the risk of price movements in an asset, e.g. taking an offsetting position in a related security, such as a futures contract.
Institutional investor	Any organization that invests on behalf of clients including insurance companies, depository institutions, pension funds, investment companies, mutual funds, endowment funds and hedge funds.
Leverage	Borrowing capital, shares or contracts in order to ratchet up the potential earnings of any investment.
Leveraged buy-out	Buying a public corporation and taking it private. An LBO is financed through debt such as bank loans and bonds. Because of the large amount of debt relative to equity in the new corporation, the bonds are typically rated below investment-grade. Investors can participate in an LBO through either the purchase of the debt or the purchase of equity.

Long	Purchasing contracts to establish a market position consistent with an assumption of an increase in the value of an asset or derivative without purchasing contracts to offset any associated risks.
Market capitalization	The overall value of a company's stock, i.e. the number of shares of the company multiplied by the current market price of those shares. The total market capitalization for a stock exchange is the current market capitalization of all listed stocks. While market cap is a crucial measure of a company's stock, it does not measure the value of the company.
Off-balance sheet	Assets or liabilities or other contractual obligations that are not entered on a company's accounting records.
Over-the-counter	A decentralized market (as opposed to an exchange market) where geographically dispersed dealers are linked on-line. An OTC market is for securities not listed on a stock or bond exchange, e.g. the NASDAQ market is an OTC market for U.S. stocks.
Repo	A contract with a commitment by the seller to buy a security back from the purchaser at a specified price at a designated future date. Also called a repurchase agreement, a repo represents a collateralized short-term loan where the collateral may be a treasury security, money market instrument, federal agency security, or mortgage-backed security.
Risk	Credit risk is the possibility of incurring loss due to a contracting party's failure to meet debt obligations. Market risk is the day-to-day potential for an investor to experience losses from fluctuations in securities prices. Liquidity risk is the risk created through lack of marketability of an investment or an investment that cannot be bought or sold quick enough to prevent or minimize a loss.
Securities	Contracts in the form of paper certificates or electronic records pertaining to ownership of equity (stocks) or debt obligations (bonds).
Securitization	The process of creating a financial instrument by combining an array of financial assets and then marketing them to investors.
Short	Purchasing contracts to establish a market position consistent with an assumption of a decrease in the value of an asset or derivative without purchasing contracts to offset any associated risks.

Short selling	The selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short.
Stock market	A market in which shares are issued and traded either through exchanges or over-the-counter markets - also known as the equity market.
Unwind	To undertake the series of transactions necessary for closing out any given position or contract.
Volatility	A statistical measure of the tendency of a market or security to rise or fall sharply within a period of time. A highly volatile market will have large price swings in very short periods of time.
Warrants	A derivative security that gives the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame. Warrants are often included in a new debt issue as a "sweetener" to entice investors.

Chapter One

Approaching Malaysia: fieldwork in nation-state and market building

Crisis as an entry point

When I originally framed my project I conceived of the imposition of capital controls in 1998 by the Malaysian government, discussed below, as a unique opportunity to look at the engagements of a developing country with the global financial regime. I conjectured that the rapid closure of the Malaysian capital market would provide a petrie dish from which to look at disarticulation and then rearticulation of capital markets. On arriving in Malaysia, two things became immediately apparent. The closing and opening of the capital market in Malaysia was an ongoing and continuous process, recognized by participants as a moneymaking device. And, secondly, it became clear that my idea of economic regimes needed to be rethought. Though this is not solely an analysis of crisis, I have framed my study in terms of the policy actions and decisions of the Malaysian and other governments in relation to a financial crisis. The disintegration of previous entanglements and their rearticulation into another set of entanglements represents an opportunity for accumulation of power and profit.

Here, I argue that an emergent “proto global state” plays an increasingly important role in structuring global financial markets. As developing states seek to engage this order, fund managers – key agents in developmental projects who are enmeshed in local and global racialized regimes – arbitrage between local capital regimes and global regimes and are able to mine value. In the case of Malaysia, their work reinforces and extends stratification in global markets. This is demonstrated by tracing

the way that the success of the Malaysian state in promulgating growth has come through participation in the ongoing escalation of primitive accumulation and at the price of reinforcing an ongoing racial project of elites in the nation-state.

The onset of the Asian financial crisis is usually dated to the March 1997 run on Thai banks after the government publicly announced the potential failure of ten finance companies. Initially, coverage of the event in the financial press led to a net upswing of 25% in the Bangkok stock market as foreign investors rushed to snap up cheap bargains. However, the Thai central bank was forced to abandon its exchange rate, which had been “pegged” to the U.S. dollar, on July 2, 1997 (Landers 1997:69; Liu 1997:52-54; McBeth 1997:21-24; Mcbeth & Lioe 1997:90-92; Meece 1998:c7, McGee 1998:C1-2; Sender 1997:42-52). The baht had been under sustained attack since March and it is estimated that the Thai central bank spent upwards of \$15 billion USD defending the exchange rate (Montes 1998:xxxix). When the Thais announced the devaluation, the local equities market and the exchange rate dropped precipitously by almost 30%. The Malaysian ringgit, the Philippine peso and the Indonesian rupiah also came under attack as the exchange rates of all these currencies were also pegged to the U.S. dollar. As investors retreated from the region, the adjustment of currency values turned into a full fledged crisis with currencies losing up to half of their value. The International Monetary Fund was called in by the Thai, the Indonesian and the Philippine governments for aid in the form of capital and restructuring. The Malaysian government, led by Prime Minister Dr. Mahathir Mohamad, refused this course and decided to close the country’s capital account through the imposition of currency controls in an attempt to stem the outflow of

capital and restrain the devaluation of the ringgit. The crisis and its aftermath provide a window into the region, but as I will show, the actions of governments as well as speculators and supra-national bodies were in no way radical or unprecedented. In fact, the crisis enabled a consolidation of power by proponents of neoliberal policies in the region even while the regimes of all the affected countries were replaced. Except in Malaysia, where Dr. Mahathir's policies have continued, even though he is no longer Prime Minister. In other words, although the crisis of 1997-98 provides the frame for this study, it did not mark a dramatic rupture in the economic field. Rather, as I shall argue, it marked the ascendance of particular elite networks.

During the currency crisis in Malaysia of 1997-1998, local politicians placed blame for the upheavals in capital markets on the arbitrage practices, particularly the currency attack strategies, of international hedge fund operators. PM Dr. Mahathir Mohamed railed against "racists who are not happy to see us prosper" and cited a Jewish conspiracy led by macro-hedge fund operator George Soros (Economist 1997:69). By blaming the crisis on an international Jewish conspiracy Dr. Mahathir strategically placed responsibility outside the country, while simultaneously playing up to popular anti-Semitism among the local Malay-Muslim majority. Moreover, seizing the opportunity presented by the crisis, the prime minister consolidated his power base within the ruling coalition government by imposing a capital regime that, as suggest above, raised Malaysia's profile on the world stage. The regime, dominated by one political party, the United Malays National Organization (UMNO), further created a windfall profit for technocrats who were most likely warned beforehand of the imposition of capital controls

(Jomo 1998a:718). At the same time, Dr. Mahathir removed his potential political rival and anointed successor Anwar Ibrahim from the position of finance minister. Anwar was charged with corruption and sodomy and has only recently been released from jail and re-elected to parliament. Robert Hefner argues that Dr. Mahathir was looking to remove Anwar from his circle even prior to the crisis (Hefner 2001). Additional evidence for his argument was provided by a U.S. journalist's investigation of Anwar's cultivation of lobbyists and insider contacts in Washington D.C. Flow of funds evidence shows that Anwar was attempting to create his own circuits of influence in international politics evading UMNO's control but using UMNO coffers to pay for services (Marshall 2002:5). The incarceration of Anwar marked the downfall of his cronies but he has recently re-entered politics and is attempting to weld a parliamentary coalition to unseat the current Prime Minister Abdullah Ahmad Badawi (Mydans 2008:A10; Sanger 1998:5).

Sources

In making the arguments that follow, I am relying on the literature of a number of fields. In particular, I rely on the work of Susan Strange and other scholars in international political economy (IPE). A field established in the 1970s, the core of the IPE approach to states and markets is recognition of the pressures brought to bear on nation states by the world economy. Offering a critique of both Marxist and neoliberal understandings of market "logic" and attempts to analyze economies as autonomous units, scholars in IPE focus on the structural power of global governance regimes in directing credit streams and access without limiting their analysis to the terrain of nation-states (Block 1986:176; Harnes 1998; Strange 1998).

Because I am also concerned with the ways that representations of the economic realm become part of the power projects of particular groups, I further rely on the work of scholars who focus on structural power, particularly the “neo-institutionalists” in sociology study to role of institutions in forming markets. My approach to power and hegemonic representation owes much to Neil Fligstein (1996) and R. Swedberg (2005). Because much of the sociological spadework of disentangling the powerful market forms in the current era, for example the rising power of institutional investors, has been focused on institutions housed within nation-states, I find this work most useful when combined with the global work of IPE as referenced above.

Finally, my analytical frame is based on the anthropological literature of exchange and exchange regimes, e.g. Arjun Appadurai (1986), Ellen Hertz (1998) Marcel Mauss (2000), Marilyn Strathern (1988, 1992), and Viviana Zelizer (1994, 2005). I take as axiomatic the proposition that value flows from the cultivation of social relations, that it inheres in systems of mutual obligation, and that these manifestation of value are consequential for the powerful structures that in turn become institutionalized through such regimes. The politics of managing exchange regimes and the politics of extracting value from the different fields of exchange is the central focus of my analysis. Ultimately value underwrites the process of constructing markets; this means that analysis of market making practices is crucial (Graeber 2001: 61).

Alongside the academic literature on financial market construction, there is a vast and growing field of business periodicals and “how to” guides for investing in stock markets.¹ I have consulted local Malaysian investment periodicals insofar as they give a view of investment frenzy but I do not see them as representative of the market in any analytic sense. As with other self-help books, “how to” manuals for investment reinforce the dominant paradigm of individuals acting alone in society without the intermediation of institutional authorities. By ignoring the determinative role of institutional investors in markets around the world, how to “make a million dollars investing in markets” manuals thus serve to shore up false claims of individual investors’ power and role in market making. What makes these sources interesting is their rhetoric which, especially in “emerging markets,” reveals interesting aspects of market construction at the discursive level.

I do, however, rely on insider’s accounts of fund managing, for example well known financier George Soros’s description of his trading practices and Michael Lewis’s account of his years working for Salomon Brothers (Soros 1994;1998; Lewis 1989). The machismo and sexual aggression described by Lewis (and portrayed in fictional versions such as Tom Wolfe’s *Bonfire of the Vanities*) may seem an overdrawn caricature; however, the practices described in these insiders’ accounts have been confirmed by

¹ *Ulrich’s International Periodicals Directory* for 2006 lists around 2000 publications under the heading of “Business and Economics – Banking and Finance.” The comparable figure for the same category when librarian Carolyn Ulrich began counting, in 1932, is 200 publications. In 1932, most of the publications under banking and finance were central bank reports from U.S. and European institutions and supplemental analysis of the each bank’s credit rating from Moody’s. Currently, there are publications analyzing every product and specialty in the industry as well as targeting every type of investor.

subsequent sociological and anthropological studies of trading floors and market institutions (Abolafia 1996;1998; Levin 2001, MacKenzie 2003a;2003b;2004a;2004b; Zaloom 2003;2004). The ongoing class action discrimination suits against several fund managing corporations in the U.S. point to the systemic nature of racial and gender discrimination in these institutions. In addition, these insider's accounts were confirmed by my own experiences talking with traders and observing their working lives.

I also rely on the published speeches and policy explanations of the former Prime Minister of Malaysia, Tan Sri Dr. Mahathir Mohamad (see for example Mahathir 1998; 2000; 2001; 2002). Dr. Mahathir is an astute populist politician who guided Malaysian policy for 23 years while at the same time centralizing power in the office of Prime Minister. He stepped down in 2003, but his policies and pronouncements continue to be pervasive and influential. He is universally known by the moniker Dr. Mahathir – alluding both to the powerful and sinister pop culture icon Dr. No of the James Bond series as well as to his rural roots as a provincial country doctor. The ubiquitous use of Dr. M to refer to Mahathir underscores the Malaysian public's ambivalent feelings toward their prime minister of almost a quarter century. Malaysians both revere Dr. Mahathir as the man behind Malaysia's rapid economic development who has tirelessly campaigned to raise Malaysia's stature on the international stage, and revile his role in propagating an exploitive, race based inequity in the Malaysian state as well as political favoritism in the private sector. Dr. Mahathir also has a combative stance toward democratic institutions. Already as Deputy PM in 1979, he utilized the Internal Security Act to detain labor activists at Malaysian Airlines. As Minister for Education in the mid-

1970s, he supported police repression of the student movement and was instrumental in the passage of the University Act of 1975 which ended the autonomy of Malaysia's universities. It is common to find government issued pictures of Dr. Mahathir, enshrined behind the cash register at restaurants and shops, presiding over heated arguments about his policies.²

As Prime Minister, Dr. Mahathir launched *Operation Lalang* in October 1987. A response to an electoral challenge of his authority, *Operation Lalang* was a police roundup of "suspects" under the provisions of the Internal Security Act, a law from the "Emergency" still in effect which allowed for arrests without warrant and indefinite detention (as discussed in chapter three). Included in the roundup were opposition politicians as well as leaders of NGOs and university lecturers. In addition, during *Operation Lalang*, three newspapers were suspended and control of the press was reaffirmed (Khoo 1995:284-89). Through licensing and court-packing the government effectively controls the press in Malaysia.

Dr. Mahathir's daily speeches, reported in all news media, often illuminate his policy decisions. In evaluating them, I have supplemented published reports with information gathered both from reporters and from "behind the scenes" actors. In many ways, deciphering Dr. Mahathir's rhetoric has become a national pastime similar to deciphering the pronouncements of former U.S. Federal Reserve Chief Alan Greenspan,

² Note, however, that at the corner teashop debates are circumspect because the secret police are often presumed to be listening, whereas, at exclusive country clubs and resorts, debates are not as constrained.

nicknamed “the oracle” – “Fed watching” in the United States and Kremlin watching in the Soviet era, required similar skills. Often who is standing close to the speaker is more important than what is said and, as well, market reactions are based on the slightest remark. Such market movements, based on readings of rhetoric, can become self-fulfilling prophecies (Henwood 1997:97).

I also met many Malaysian journalists in KL working for both local and international newspapers and magazines and they were a crucial source for contacts and industry information. I spoke with journalists working for the *Asian Wall Street Journal*, the *Edge Weekly*, the *Far Eastern Economic Review*, *Institutional Investor*, *Malaysian Business*, *New Straits Times*, and the *Star*. Several times crucial information regarding syndicate operations, and contacts that I later interviewed, came to me through interviews with local stringers for international papers. Given the potential for repressive moves by the government controlled media, I am not citing them by name. Ongoing legal battles over freedom of the press in Malaysia, and libel suits against virtually every well-known public intellectual (including economist Jomo K.S., social theorist Farish Noor and feminist Patricia Martinez), confirm the need for care in attribution.

The press in Malaysia is tightly regulated. The government news agency, Bernama, controls content and government-linked companies own all the major media outlets. Most market participants rely on international papers for ongoing market reports. In addition, two newer outlets garnered special attention during my fieldwork. *The Edge*, a local business weekly, which has since become a daily, was launched in 1994 and

published by Nexnews in both Singaporean and Malaysian versions. Nexnews is owned by Tong Kooi Ong and Vincent Tan Chee Yioun, the latter a Malaysian billionaire who owns various conglomerates and has significant ties to former PM Mahathir. *The Edge* was, however, locally vaunted for quality reporting and sometimes controversial criticisms. As well, an online only political newspaper *Malaysiakini* (Malaysia Now) whose editorial staff, unlike Bernama's, maintained control of content, was a useful forum for gathering information and contacts. As might be expected, *Malaysiakini* was subject to several lawsuits and was only kept afloat by an infusion of 1.3 million ringgit in cash from a Prague-based venture, Media Development Loan Fund, which invests in independent newspapers in tightly controlled media markets such as Malaysia (Chin 2002:2).

Methodology

My arguments are based on fieldwork conducted in Kuala Lumpur from September 2001 to October 2002. I approached the Malaysian market through a series of interviews with key market players: government officials in charge of restructuring, market operations, and key investment companies. These interviews were supplemented with readings and conversations with Malaysian economists and social scientists.³ I also collected internal reports and investment overviews from various sources, especially trading desks of international banks, which provided an overview of Malaysian

³ I am particularly indebted to Prof. Shamsul A.B. the directors of the Center for the Study of the Malay World (ATMA) at National University Malaysia (UKM) for conversations and for providing me with an institutional home base in Malaysia. I am also indebted to Prof. Jomo K.S. formerly at University Malaya for conversations and for sharing his contacts and detailed knowledge of Malaysia and Economics.

government-linked companies, the hedge fund sector, and the views of institutional investors.

Then, in order to analyze the ongoing restructuring of the Malaysian capital market in the wake of the crisis, I selected Tajudin Ramli's troubled companies as exemplifying the debacle created by the crisis, and as representative of the burgeoning growth in the telecommunications industry in developing countries. I tracked these companies through interviews with government officials at the national debt collection agency, Danaharta, and through officials at the Prime Minister's office. Potential bidders for Tajudin's companies, economists at local universities, and brokers and analysts in Kuala Lumpur and Singapore, were also interviewed, as were journalists and stringers for the *Wall Street Journal*, *The Edge*, and the pro-government local business daily the *Business Times*.

Anticipating that the economic restructuring would have significant effects on the racial and class formations in Malaysia, I gathered information about civil society organizations by talking with residents in newer middle class housing projects in Petaling Jaya, young urban professionals in the "hipper" projects, and poorer residents in older, unplanned areas such as Kampung Baru and the squatter districts. I also followed the public relations "traveling road shows" of the Kuala Lumpur Stock Exchange as they traversed the peninsula and Sabah in East Malaysia. During the road shows, I talked with individual investors and with officials at the Kuala Lumpur Stock Exchange. On return, I attended local, private investment workshops in Kuala Lumpur aimed at stimulating

interest in the market among the investing public. I also attended public marches and debates of all political parties – talking with participants about their understandings of finance capital, the crisis, and its consequences.

In order to investigate the role of institutional investors I sought interviews with hedge funds investing in developing markets in Asia (in 2002 there were 162). In the first round I was able to arrange interviews with managers at 50 of these funds located in Kuala Lumpur, Singapore, and Hong Kong. Given that initial contacts tended to yield only general information, I sought to arrange a second round of interviews with 22 managers with whom I was able to establish rapport. The second round of interviews yielded more in-depth information on each fund as well as market gossip and access to further contacts. Then, I narrowed my scope seeking a firm in which I could observe day to day interactions. Through good luck and collaboration with other scholars, I was able to arrange a second interview with managers at a firm that I considered typical of hedge fund operations (both within Malaysia and globally).⁴ As explained in the appendix, hedge funds represent a peculiar type of institutional investor but, because managers trained in bond, futures and stock markets tend to “retire” into managing hedge funds, they also provide an interesting cross section of financial market practice. I worked as an unofficial intern at this local hedge fund for six months, where I was able to track market positions, daily operations, investor junkets, after hours pub crawls, and training practices. As part of the internship, I traveled with fund managers to Hong Kong and interviewed hedge fund managers there in order to ascertain their views on the Malaysian

⁴ I am indebted to sociologist Aaron Z. Pitluck who was conducting research in KL over the same time for sharing some of his contacts with me.

market restructuring and on “alternative investment” in general. These interviews form the core of my argument in chapter six about the conundrum facing central banks attempting to manage capital market attacks.

Anthropologists often claim ethnographic authority through narratives of how they got “inside” and gained credibility in the field (Geertz 1979:415-16). While this authorial technique has been justifiably criticized, I believe it is important to relate how I managed to get access to a hedge fund (Clifford 1988). However, the politics of studying-up (or perhaps sideways in this case) diverge from standard narratives, and my hope is that my story of gaining entree is revealing of both sides of the exchange. One key “expert,” known here as Ali, allowed me access to his fund management firm, based on one formal interview and an informal follow up encounter. After our initial interview, I considered his fund management company to be an ideal site for investigating market operations in Kuala Lumpur. Ali had worked all around the world and consequently had a far-flung network of contacts. His firm invested in both Malaysian and global markets. He and his partners had inside contacts with elite circles in Kuala Lumpur. As well, as a small private fund management company he only needed to obtain clearance from his partners to have me as an unofficial intern. I, therefore, requested a second more informal interview and asked whether it might be possible for me to hang around and observe the firm’s operations. A large part of this second interaction, which included other members of the firm, was taken up by a discussion of the Burning Man festival. Ali and his coworkers were surprised at my detailed knowledge of the festival circuit on the West coast of the U.S. and I became an interesting informant to them.

Created in the 1970s as a forum for counter-cultural radical environmentalist revels, Burning Man is a weeklong festival with participants from around the globe, held annually in early September in the Nevada desert in the United States. It is billed as an experimental, radical attempt at sustainable “intentional” community building. The temporary city erected each year houses about 35,000 people and the event continues to grow. The culmination of the festival is the burning of a large wooden sculpture of a man on Saturday night, the sixth night of the event. Burning Man is held to be a "spectator-free" zone and without cash or commercial transactions in which participants are instead supposed to rely on a gift exchange regime (although this is not always successful in practice). Participation has increased every year as well as the size of the statue that is burned (see <http://www.burningman.com>).

The field of play at Burning Man is reminiscent of other bohemian anti-establishment revels. For example, the burning of the large statue, the culminating event of the festival, follows the same participatory theme as that of the secretive and highly select gathering at Bohemian Grove examined by sociologist, G. William Domhoff in the early 1970s. Bohemian Grove, although originally conceived as an artists' club, was transformed in the late 19th century into an elite organization based on exclusivity and limited membership. Tucked away in California's redwood forest, the annual summer camp outside San Francisco became *the* place for the informal networking of U.S. elites. In 1942 it was the site at which leaders of the atomic-bomb project decided which experimental nuclear plants to construct in the lead up to building the atomic bomb

(Domhoff 1974:42, 58-59). The informal sociality at the Grove also provided a risk-free ground for trying out ideas and strategies, for creating policy consensus behind the scenes; Nixon used speeches at the Grove to vet major policy decisions in front of industry leaders before going public (Domhoff 1974:19). The informal, counter-cultural elements encapsulated in burning down statues and bohemian revelry provided a place for developing “kitchen-sink” intimacy and coordinating elite projects during the California boom of the late 1970s, so crucial to the reorganization of the U.S. economy around the military-industrial complex.⁵ In the same way, I would suggest that the Burning Man festival became part of the field of play for the new “entrepreneurial” Silicon Valley elites involved in the reorganization of the U.S. economy around the informational-military-industrial complex. Whereas earlier participants were characterized mainly by their youth and environmentalist politics, these kinds of creative entrepreneurs increasingly played a role.

American trained and with an acute perception of American counterculture and product differentiation, Ali viewed Burning Man as a radical variant of entertainment similar to extreme sports’ “bigger, better, faster, more” variant of aggressive machismo wedded to consumer capitalism. Because I was raised in a milieu of “radical” counter culture in a small “hippie” community, I could provide a critical perspective on the

⁵ The term “kitchen-sink” intimacy is Nuel Pharr Davis’s term to describe the phenomenon of the elite taking part in manual labor at the Grove, “... there was no more intoxicating distinction than to wash dishes at the Bohemian Grove while President Sproul [of University of California] dried them. Sproul supported Lawrence [Livermore] as faithfully at board meetings. He helped Lawrence to a jovial kitchen-sink intimacy with two of the most influential Regents, John Nelan and William Crocker (Davis 1968: 69-70 cited in Domhoff 1974:58-59).

festival circuit. Viewing sex, drugs, rock-and-roll and unfettered expression (even if only for a week) as primary symbols of Americanism, Ali was interested in Burning Man as the quintessential marriage of American “entrepreneurial spirit” to radical self expression. I believe that, during the course of our conversation, as I started telling stories, I became “exotic” enough to be able to pique his interest. In a quintessential exchange, he offered me a window into his world and I offered a window into mine. In other words, I could frame our encounter as the encounter between contending economic subjectivities. Ali operated effectively in his workday life to shore up the orthodox views and functioning of global financial markets as well as the global financial regime. But at the same time, he had conflicted and complicated desires among which was a fascination with cultural alterity. He may have wanted to be both a market mover and a non-participant, a drop out in the terms of hippie culture of the 1960s. In retrospect, I wish that I had recognized and discussed this tension, rather than concentrating on the tools and operations of his working life. As anthropologist Hiro Miyazaki has shown, participant observation may be a useful frame for getting at the hopes and dreams and ambiguous desires of elites (Miyazaki 2003).

At the same time, both Ali and I were interested in the global financial regime. Our exchange was also, therefore, an encounter between different sets of calculative tools and institutional processes. In more consequential terms, I represented free, American accented, educated labor to be utilized in case of need. As an informal intern, I was allowed to observe and on occasion to participate in the operations of the fund. As much as I was trying to analyze and understand Ali’s mobilization of personal networks in

engineering and deploying his derivative tools, he was interested in deploying my networks. My Fulbright fellowship and my whiteness were interpreted by Ali as potential assets, a different set of networks that he considered might be useful. For example, because of my American accent, I was delegated the task of trying to determine Former Prime Minister Mahathir's full schedule for his visit to the U.S. and to the White House in early 2002. Would it be possible to arrange via the Heritage Foundation, known at the time to be scheduling his trip, face time for certain key clients? I was unsuccessful in finding out any "useful" information from the Heritage Foundation. However, if I had had better networks I might have been successful. It has since emerged that disgraced lobbyist Jack Abramoff (currently under indictment on multiple charges) was paid \$1.2 million to organize Dr. Mahathir's meeting with President Bush. While Dr. Mahathir denies that the money came from the Malaysian government, he told reporters he was aware a payment was made to Mr. Abramoff and said he had been persuaded by the Heritage Foundation to meet with Bush in 2002 (Baradan 2005:8). Mahathir stated, "I understood some people paid a sum of money to lobbyists in America but I do not know who these people were and it was not the Malaysian government." According to Dr. Mahathir, the Heritage Foundation believed he could help "influence (Bush) in some way regarding U.S. policies (Sharanjit 2004:4)."

Overview

Using evidence gathered from field research in Kuala Lumpur, Malaysia, I am examining two related problems. First, by analyzing the ambiguous relationship between foreign direct investment (capital flows) and growth I am addressing a problem usually

viewed through the lens of development economics. Before the Asian financial crisis of 1997-1998, private capital flows were often viewed as inherently growth inducing. In the decades after World War II, economists described private capital as flowing to “developing countries;” since the 1980s, the terminology has shifted to “emerging markets.” In this dissertation I am analyzing the constituent parts, the packaging, of capital flows in order to address the ramifications of capital movements across the globe in this later period. The second problem I am analyzing is the complicated relationship of the actors in global financial markets, the persons and institutions who manage capital flows, to the larger realm of the global economy. The first problem might be seen as a local issue but when combined with the second problem, it turns out that the particularities of my case study, in Malaysia, have broader implications. I argue that systems of mutual obligation, the cultural networks of financial managers, are an intrinsic constituent of capital flows in financial markets. Because the work of capital managers forms part of the powerful structures and mechanisms of economies on a global scale, their networks matter.

My arguments are based on fieldwork conducted in Kuala Lumpur, Malaysia during 2001 and 2002. Based on interviews and participant observation, I describe the tools and practices for creating value through managing capital circulation in the global financial regime as of roughly, 2005. At the time of my research, there appeared to be no limit to credit expansion under the powerfully hegemonic neoliberal global financial regime. Fund managers effectively expanded credit, absent supra-national agencies re-regulating or revising the terrain of international finance. Production and exchange

regimes appeared to be expanding indefinitely, with fund managers able to mine that expansion. Interviews around the region about formal and informal systems of training in global fund management firms revealed that fund managers underwent formal training through “apprenticeships” in Anglo-American fund managing firms and later worked in financial centers (New York, London, Tokyo, and Hong Kong) and in marketing around the world. Most interesting, they were subject to informal, hegemonic, forms of training encountered in the scripts and practices of white, Anglo-American, male prestige. Based on my participant observation as an unofficial intern at a hedge fund, I am arguing that informal modes of socialization in the fund management industry created racialized patterns of network formation. The resulting informal and informational networks have impacts on market making and on sovereignty.

It is also my point of view that, while structural inequalities adhere within the overall geography of development, crises are not necessarily the result of overaccumulation on the one hand or inept “crony capitalists” on the other. This is because the timing and dynamics of crises are determined in unrecognized zones of economic value creation in offshore markets. Until the present U.S. centered crisis, whose extent is yet unknown, financial failures have reinforced the “free market,” extending the range of the operability of tools. Because the calculative technologies are implicitly creative, moreover, an area of significant ignorance or unknowability (structurally rendered so by neoliberalism) has been a critical means of creating value.

In chapter two, I analyze globalization, understood as the process of enforcing neoliberal policies globally, as a process of re-regulation at the trans-national level rather than “merely deregulation” at the nation state level. Arguing that nation-state sovereignty is transformed by the presence of governance authorities above and beyond states, I examine “Asian” developmental states as an innovation of late capitalism, in which global competition entails institutional innovations that are enforced by imperial power and global elites. Seeing the critical element as the impact of state-market institutional innovations on larger institutions of global governance, I argue that we must examine whose innovations (developed in civil society and fostered by individual governments or imperial governments) will be enforced in global institution building. From this perspective, Malaysia’s attempts at tweaking the global system to the advantage of the nation-state and local elites is seen as a qualified failure – a success in terms of economic development indicators but a failure as an exercise of sovereign power.

In the context of the governmental practices accompanying neoliberalism, garnering an understanding of the self as a racially marked resource for “strategic entrepreneurialism” is designated patriotic by nation-states and by leaders in the global economic arena. The technologies of control and distribution, which move people and assets from the center to the periphery, from inside to outside, are the central part of this conflict. Given that there is an ongoing escalation of the process of primitive accumulation – accumulation via strategies of predation, fraud and violence – developmental states like Malaysia seeking to participate and their actions have

significant political effects. In chapter three, I examine how class privileges are instantiated and transformed by Malaysian development. I argue that in the case of Malaysia the political effects are continued disenfranchisement and inequality, centralization of power within the office of the Prime Minister and continued “custodianship” of rights by elites.

The Malaysian government, in channeling credit access and privileges toward a racially defined category (that remains, however, mutable), maintains power through ensuring that older elites have access to both local and international power circuits, while other citizens are denied similar access. Mahathir’s project of creating an ethnically defined entrepreneurial class should be contradictory to the aims of Chinese and non-Malay Muslim elites but in fact it is not. This is because Dr. Mahathir has created a Malay middle class while ensuring that his allies (both Chinese and Malay alike) benefit from redistributive schemes, in effect satisfying the governing coalition’s political (middle class) and economic (elite) constituencies. The Malaysian case reveals how, in augmenting arbitrage opportunities between different racial formations, globalization furthers racialization, encasing individuals within particular power formations rather than consolidating “difference” under a single global regime.

In chapter four, I analyze the making of expertise in playing the global game of arbitrage from a Malaysian space. I argue that the creation and maintenance of an opaque market serves a particular category of institutional investor (and those investment banks which handle their business) and maintains a division between different types of investors

and their exposure to risk. The sociality of networking facilitates not only the transfer of assets and risk across regulatory borders but also the formation of a shared global field for the formation of various syndicates. What matters is the sociality of the “new rich,” not only in Asia but globally. Stock ownership is not an adequate substitute for control or participation in the political process of creating and managing markets. Cronyism, whether in a state syndicate or a global conglomerate, benefits from a global arena in which the decisions of elite networks are apprehended as decisions of “the market,” i.e. substituted for regulatory frameworks.

Chapter five analyzes the subjectivity inculcated among managers in a single hedge fund investing globally but rooted locally, in Malaysia, the hedge fund owned by Ali. Racial and class cleavages locally and internationally become visible in the daily work of the fund managers. For instance, while the fund’s workers saw the boss Ali’s American-ness as a cultural difference between themselves and him, they never questioned the marketability of American-ness as a means for capital accumulation. In addition, although they talked about social class in terms of the division between themselves and their recently urbanized compatriots, they never framed differences between the boss and themselves as class differences. Indeed they ignored his access to governmental patronage, to foreign capital markets, and to the global marriage market, all of which flowed from his family’s colonial and post-colonial elite status. Part of the financialization of the “entrepreneurial spirit” in Malaysia is devaluing the political work of keeping the institutional framework of the market itself going, literally seen as women’s or junior male’s work. In addition, managers at the fund considered themselves

“underprivileged” in trawling for overseas capital due to racist configurations of “Asian-ness” on the part of other fund managers. Observing these cleavages, I seek to untangle the rituals and justifications of a failed attempt by the fund to sway government policy, in the end, fund managers had to arbitrage between different capital structures and systems of privilege.

In chapter six, I examine how the calculative practice of fund management intersects with the global financial regime in creating value. As the terms of debt settlement are determined through sovereign power rather than through an invisible hand or other formulation, hierarchies within markets fictionally enclosed in nation-states are determined by who determines the state of exception. This is because the relationship between capital and state as a form of territorial organization has been changing in accordance with the operations of global-state-like actors. Having failed in its bid to get into the club of global state economic governance institutions in the 1990s, the Malaysian state moved back into client status – transferring sovereign power while realigning (via the imposition and then removal of exchange controls) ownership and control of capital assets to an ethnically designated capitalist class. The transfer of sovereignty was enacted through the process of securitization, the abstract division of objects into intangible “shares” represented by numbers or pieces of paper.

But, at the same time, conceptual, technical and procedural norms must be imposed through institutions and this requires conversion into a scale of value. The scale of value, in cases of fresh imposition, is rendered via specific agents and their

subjectivities. I argue that fund managers, as exemplified by those examined in chapter five, embed their subjective assumptions in the spatial and temporal structure of their financial products and are thus central agents in rendering value. Until the present moment, calculation itself becomes revenue generating, moving toward the center of business practice – almost a financial colonization of the productive sector. In short, the political project of neoliberalism was repeatedly reinforced and rearticulated through a series of crises, including the particular one studied here.

The Malaysian context in 2001-2002

On first arriving in Malaysia, many outsiders are struck by the cultural hybridity visible, for example, in the hundreds of years of intermingling of Malay customs of food, dress and language with Chinese immigrants' customs which form the root of *Nyonya* culture in the city of Malacca or the intermingling of Minangkabau, Indonesian migrants ways of life with local Malay practices which form the root of *Minang* culture in the state of Negeri Sembilan (Cartier 1997:576; Peletz 1996; Suryadinata 2002). But, for Malaysians, hybridity is not as striking; rather it is the marking of lines between cultural and ethnic groupings which is constantly referenced in everyday life. As the marking of cultural and ethnic groups is a means for gaining access to resources including education, employment, and citizenship, the contradiction between observable intermingling and political demarcation raises such fundamental issues as the sovereign status of the Malaysian national state as well as the place of the Malaysian state and Malaysian citizens within the global arena. Marking one's ethnicity means making a claim to participation in some unitary identity for your group. For this reason, it is common

practice for Malaysians to designate their own category, to place themselves within the system of racial categories, even when making small talk but certainly when talking politics. Thus, for example, one often hears “As a Malay...” or “She is Chinese” or “He is Tamil.” Entering Malaysia at a time when the nation-state’s power was being tested by large flows of people and of capital into and out of the state, I became interested in the Malaysian state as a mediator in the clearly important political process of demarcation between ethnic groups. At the time, in 2001, the Malaysian government was in the midst of two major moves: expelling foreign workers estimated at 10% of the workforce in order to avoid an increase in unemployment among Malaysian citizens and, at the same time, expelling foreign speculative capital by instituting exchange controls. Given that control and access to capital and labor are the cornerstones of national economic development, I attempted to follow the government’s moves in relation to its stated aim of achieving developed country status for Malaysia by 2020.

Although the Malaysian government’s moves were framed as a response to globalization, large scale immigration and migration have been a continuous fact of life on the peninsula for centuries (Rimmer 1990:16-17). Indeed one of the taken for granted aspects of daily life in many parts of Southeast Asia over the centuries has been the porosity of borders and the ease of exit from governments or rulers or bandits that were too harsh or made demands that were too severe on laborers (Reid 1988, 1993). Today smuggling of goods and people remains a major industry throughout the islands of the archipelago (Farid and Wani 2001:1; “Smuggling” 2002). Malaysia’s long border with Indonesia and close access to the southern islands of the Philippines eases entry and exit

for migrants to the East Malaysian states of Sabah and Sarawak on the island of Borneo. It is common knowledge that thousands of Indonesian and Philippino illegal migrants have been enrolled as Malaysian citizens and ruling party members in a deliberate attempt on the part of the ruling coalition to increase support in the Eastern states (Rehman 1993:253). On the mainland (in West Malaysia), “illegals” primarily from Indonesia are a source of cheap labor for the building trades and domestic work. However, with each economic downturn, this reserve army of labor is expelled (Mazwin and Li 2001a; Sreerema 2002:62).

During the boom years of the 1990s, when Malaysia was averaging 8% GDP growth per year, people from all over the world migrated there through legal and illegal channels to find work. Of 2,007 illegal migrants at one detention center in Johor in 2001 about half were Indonesian and the rest were Nepali, Bangladeshi, Indian, Burmese, Pakistani, Cambodian, Thai, Chinese, Philippino, Sri Lankan, Nigerian, and Liberian (Mazwin and Li 2001b). As with previous downturns, during the massive economic contraction after the financial crisis of 1998, ordinary Malaysian citizens began to experience unemployment and vie for jobs traditionally “reserved” for immigrant workers. As such, the government embarked on a massive repatriation scheme to expel the reserve army of labor. Part of the repatriation scheme was a public relations campaign carried on through the press – government-controlled with the exception of a few internet news sites (Mustafa 2002:149-164). Continued coverage of “feuding Indons” violence, arson, thefts and fights particularly within detention centers preceded a government plan to reduce the number of registered “legal” Indonesian workers by half

(at the time there were nearly 1 million registered Indonesian nationals and an estimated twice that number of illegals) (Mustafa and Tan 2002). Citing difficulty in “controlling” such large numbers of Indonesians, employers were advised to recruit labor from nations other than Indonesia, particularly South Asia. However, the oil palm industry, turning out cooking oil, which directly benefited from government subsidies, was a major employer of Indonesian workers particularly in Sabah and Sarawak (Jomo: 2002; McIntyre 2002). For this reason, the government’s plan to limit Indonesian workers to the plantation sector and domestic service met with a significant backlash from employers (Ritikos 2002:1,8; Wani 2002).

In Kuala Lumpur, many of the people I encountered spontaneously raised the danger of migrant workers as a group and the need to “get them out.” All my friends and acquaintances including Malay, Chinese and Indians of different self-defined classes, agreed that “illegals” were imperative to the economic growth of Malaysia, but at the same time all adopted a patronizing nationalistic language indicating that, “those Africans,” or “those Indons” were “troublemakers” to be gotten rid of. No consideration of wage standards or living conditions was forthcoming, although squatter settlements where migrants commonly live surrounding Kuala Lumpur are concentrated on the rail and light rail lines and, therefore, visible on the daily commute of thousands from work to home. Indeed the idea of solidarity with foreign workers, even amongst families where immigration for schooling and work is a common practice and where parents or grandparents were recent immigrants to Malaysia, was and has remained unthinkable (Abdul 2001:104; Jomo 1988:303; Nonini 1997). Part of the reason is that conflict

between putatively “indigenous” groups and putatively “immigrant” groups is part of the structuring of capitalism and growth in Malaysia (Nonini 1993:8; Thompson 2003:431-32). Raising the specter of class in Malaysia would necessitate recognizing and recategorizing individual and communal identity in relation to the state and the economy (Jomo 1988).

Indeed no matter where one looks, it seems that all issues in Malaysia are filtered through a lens of race and ethnicity. And indeed this filtering has practical use as all the institutions of law, education, employment, and media have been developed according to racial criteria. As an example, one month before the escape of the detainees, allegations were launched by the Malaysian Teachers Union about the practice of educational “streaming according to race” in primary and secondary schools. Secretary General Datuk N. Siva Subramaniam stated that school officials admitted they were segregating students and argued that the practice was the result of a “lack of moral or religious teachers; that they had to follow a quota system; or wanted to have better control of students” (Saithuruka and Loo 2001). Although it is agreed that streaming is illegal, educational segregation was easily achieved in practice. As all unions in Malaysia are under direct government control, the suit filed by rank and file members of the Teachers Union was immediately contradicted by the statements of the Secretary General and, in the end, as the judiciary is also under the control of the executive branch, the complaint was ultimately ignored (Khoo 1995:286-293; Lim 2002:179-183). Similarly, in applications for overseas scholarships, I met many Chinese and Indian students who

claimed that they did not apply to local universities because they know that places are “reserved” for Malay students.

Trying to make sense of continual statements made from a platform of Malay, Chinese, or Indian-ness (rather than for example Tamil, Haka, Hokkien, Minang or any other recognizable historical cultural complex) entails recognition that the claim is first a claim on resources and connections and then also a claim on values and ethics. Seen historically, through the lens of colonial domination, racism is about accumulation of resources by some through the dispossession of others. Colonial rule transpired through a decentralized despotism whereby native elites consolidated “local class power” in the name of tradition (or ethnicity) and adopted wholesale the colonial racialized view of rights pertaining to citizenship. According to this view, state-making institutions designate “customary rights” for the indigenous and “other” rights for the rest. In the case of Malaysia, *adat* or customary law only applies to Malays. Processes of designating differential rights during the era of British rule became constitutionally mandated after independence and federal institutions became quota driven. In effect the units of the nation-state are constituted by ethnic groups with their own “states” or constituents. Claims on the state must be made according to ethnic criteria in order to be recognized but the categories of “indigenous” and “new migrant” are not necessarily equally expansive (see Mamdani 1996 and Watts 2004 for comparison with African colonialism). Once the legal precedent of ethnicity as the basis for political identity (and representation) is established then ethnicity cannot be other than a political force and indeed resource for staking claims.

This is not to say there are no competing realities. Before the institutionalization of race as a resource for demarcating claims on the Malaysian state, that is before the birth of the divided citizenship of the Malaysian nation-state, fraternization, education, marriage, and all other hallmarks of hybridity were the common lot of most people in Malaysia with the exclusion of the very poor in isolated areas and of the British colonizers (Lim 1996; Harper 1999: 80-93). As will be shown in chapter three, opportunities for schooling and life chances were built along class rather than ethnic lines. Moreover, as rights in the formation of the new state were apportioned through ethnicity, the experience of Malaysian-ness became increasingly disparate, while work and market related interactions across ethnic lines increased. An example is the socializing between ethnic groups that takes place during various religious holidays wherein people invite colleagues and friends to share food. Such exchanges are typical for the Hindu festival of Divali, the Islamic feast to mark the end of Ramadan and the feasting around Chinese New Year. In the celebrations that I attended race was the foremost lens through which national events were interpreted.

Achille Mbembe has argued that territorial state power is fundamentally defined as “an intersection of moving bodies. It is defined essentially by the set of movements that take place within it” (Mbembe 2000:261). As an example the Malaysian state exists as a territorial configuration on the basis of the control of labor through the long-standing alliance between local elites and Anglo-American capitalists. The nature of the alliance can be seen to function the same way in many post-colonial states. The expulsion of

“illegals” during the crisis outlined above functioned in the same way in Malaysia as in South Africa where rules allowing some “illegals” entrance but not others (in South Africa meaning black Africans not Asians in Malaysia meaning Muslims not Africans) were efficiently systematized and resources forcefully diverted to the process (Mbembe 2000:277). In the context of the post-colonial state, even adept leaders have been unable to increase democratic representation because the result of colonization is a carving up of space and resources such that racialized populations are forced to account for the entire “financial burden of reproducing themselves and to circumscribe the phenomenon of poverty within racially associated enclaves” (Mbembe 2000:266).

One explanation for this might be that racism mediates questions of political economy for the country as a whole. A public defense of immigrants’ rights was undertaken by members of the opposition coalition, the Barisan Alternatif (BA). In 2001, the BA had just attempted a historic move – uniting Chinese constituents and reformist Islamic constituents – by writing a party policy outlining the means of creating an Islamic State, in line with the goals of Islamists which would at the same time recognize non-Muslim Chinese citizens on a platform of equality (Lim 2001). However, the coalition quickly split over how to handle the specifics of legal entitlements for *bumiputera*.⁶ Building a new cross cutting party apparatus in this case necessitated recognizing and recategorizing individual subjectivities of Malaysian citizenship. Given the challenge, it is unclear whether charismatic leader of the BA, Anwar Ibrahim, who has recently been

⁶ *Bumiputera*, locally known as *bumi*, are constitutionally defined as groups who are “indigenous” to the Malay Peninsula and endowed with privileges not given to other Malaysian citizens.

released from prison and re-elected, will be unable to sustain a coalition cutting across ethnic lines in the long term.

Chapter Two

Theorizing global actors: states, markets and sovereignty

Embedding: markets in states and states in markets

Current debates about development in the modern world center around the scope for effective action of various discernible agents on the global terrain: nation-states, transnational class and/or networking formations, nongovernmental organizations, global governance organizations, and multinational corporations. All of these agents are mutually entangled in the creation of spaces of action in the global economic field. Analysis of their various instruments for intervening in the economic field should reveal the range and scope of action as well as which agents have a competitive advantage at a particular juncture. Theorists differ as to the critical agents in the structuring of economies and societies, but current critical analyses center on the conceptual linkages and relative weight of states and markets and the meaning of sovereignty. There is general agreement among social theorists that state and economy are mutually constitutive and that both state and market are embedded in societies that may have different institutional structures which, in turn, play a crucial role in political and economic development. Most important, the interaction of state, market and society is constantly being altered (from the inside and from the outside) through the dynamism of competition for capital and coercive means (e.g. Block and Evans 2005:505; Tilly 1990:2-5).

Analyzing globalization, Pierre Bourdieu argues that markets are constructed in tandem with national states. As Karl Polanyi insisted, historically, states contributed the political means for unifying economic space, cobbling together national markets through

intervention and enclosure. States were thus key actors in the initial, original commodification of land, labor and capital (Bourdieu 2005a:224; Polanyi 1957a:72). The political process of commodification of the key inputs of capitalist production immediately transformed the unified field of markets into markets that were differentiated, creating disparity. Difference and disparity led in turn to arbitrage between markets and to systematic processes of dispossession and exclusion. Bourdieu states further that the integration of differentiated markets became a means of domination, "...unification [concentration of power within a territorial space] benefits the dominant, with the difference between the two being turned into capital by the mere fact of their being brought into relation" (Bourdieu 2005a:224). But while Bourdieu sees unification and concentration as "limited by all the barriers, especially juridical ones, to the free movement of goods and persons ... and limited also by the fact that the production, and particularly the movement, of goods remained narrowly bound to geographical place" (Bourdieu 2005a:224), others focus on inter-state competition for capital and coercive means as the crucial ingredient of market making at the inception (Arrighi 1994; Tabb 2004; Tilly 1990).

Examining the origins and impact of national states as economic spaces, Charles Tilly concentrates on the dynamics of competition between cities and larger political units in Europe from the Medieval to the modern era. Larger political units came to dominate by exerting coercive power in the long term within particular territories (Weber 1946). Tilly defines states as coercion wielding organizations that unlike households and kinship groups also maintain priority over other organizations within a territory, noting

how they represented the world's largest and most powerful organizations for more than 5000 years. He then examines the dynamic synergy between cities and states in Europe, arguing that the dominance of Europe stems from the dynamics of concentration of capital, which crystallized in cities, and concentration of coercive means, which crystallized in states. Admitting that empires, city-states, federations of cities, networks of landlords, churches, religious orders, leagues, and warrior bands are all among the forms of governance that might be termed states within the scope of his definition, Tilly shows that only slowly did the national state come to dominate. A national state denotes a state governing multiple, contiguous regions and cities by means of centralized, autonomous structures (Tilly 1990:2-5). For Tilly, the central issue regarding the "exceptionalism" of Europe is why and how European states converged on different variants of the nation-state form. He focuses on the relative weight of internal differences (coercive intensive regimes versus capital intensive regimes) as causes for state development as opposed to external causes for state development. The issue is of interest here, because the trajectory of nation-state development and the potential for sovereign action depend on the relative weight of internal or external coercion, that is the room for maneuver that states can command.

Attempting to outline the relative weight of internal and external coercion leads both to a focus on the forces of civil society which may mitigate the coercive weight of the state and, as well, to a focus on states as they operate within the international competitive arena. In his analysis of the rise of capitalism, Polanyi argued that market societies are constantly being reshaped toward laissez faire exposure to the naked power

of the market on the one hand, and toward offering social protection from that power, on the other. As a result, he argues, there is a “double movement” wherein institutional innovations are enacted on both fronts – in markets and within civil society (Polanyi 1957a). But, as noted above, markets are embedded within civil society that, in turn, are created on state terrain. Moreover, civil society also influences the state terrain (Block and Evans 2005:506). Thus, one might argue that internal dynamics influence the rate and trajectory of state formation. However, the irresistible impact of warfare, especially in terms of technological innovation, means that internal explanations are not convincing without a systematic investigation of the relationship between military organization and state formation – a central point for Tilly.

Examining the systematic accumulation of capital and coercive means entails examining empire building. In turn, empire building is the extension of national state interest (the interests of those within the dominant class or amongst the political elite) in the global arena. Critical theory necessarily explores struggles for control of the state, discussing for example colonized states in terms of comprador, quasi, or rentier status, but also analyzing the predatory actions of postcolonial states. Such analyses, however, cannot account for variation among national-states and their institutional innovations. Locating “explanations of state-to-state variation in the individual characteristics of states [that is their institutional structures of power] not in relations among them,” (Tilly 1990:11) renders global analysis of imperial systems impossible. World Systems analysis avoids the problem by explaining the formation of diverse paths of state formation through a characterization of the world economy as the division between

capital and labor on a world scale. Relations between states are explained by the economic structures of individual states, which in turn proceed from their position within the world economy. As Tilly argues, this minimizes the significance of war, and the preparation for war, as crucial variables in accounting for the relative position of a state within the world system as well for the organization and practice of particular states (Tilly 1990:11). This is because wars and empire building ultimately entail abrogating the sovereignty of competing national states.

In sum, the keys for analyzing national states and markets are interstate competition for mobile capital combined with competition between nation-states for control of coercive means. These intertwining competitive processes crucially influence the social and political environment for capital accumulation. In assessing the rules by which nation-states and capitalists play in the competitive fields of the global market since the 1970s, critical theorists posit a massive reorganization of capitalism wherein functions previously monopolized by nation-states have been revoked or rewritten by globalizing forces (Arrighi 1994; Harvey 1989; Strange 1996). Charting this course in the 1980s, David Harvey examined the revision of the “Fordist compromise” between capital and labor in the U.S. in the 1950s. During the 1970s, the United States shifted from being the predominantly production-based economy of the post-war period to being a predominantly service-based information technology economy. As a result, competitive advantages were accrued by capitalists who were able to switch into a mode of “flexible accumulation,” incorporating the spatial advantages of real time communications. Capitalists also benefited from the destructive “race to the bottom” competition as nation-

states provided incentives for corporations to site operations in their jurisdiction at the cost of social welfare for their citizens (Harvey 1989). Harvey shows how, in the case of the U.S. in the 1970s, the unraveling of the Fordist-Keynsian balance of financial (mobile capital) and state powers (coercive capital) created an advantage for mobile capital in relation to nation-states. Writing in the mid-1990s, Giovanni Arrighi also pointed to this same unraveling of the balance of mobile capital and state capital as the crucial transformation in the explosion of new financial instruments and markets for trading in real time globally (Arrighi 1994).

Clearly within the last forty years major changes have taken place in the social relations of capitalist markets, creating the (now in crisis) market dynamics referred to as “neoliberalism.” A central tenet of neoliberalism is the assumption that individual freedoms are guaranteed by market freedoms (Harvey 2005:6). And as neoliberalism has come to dominate the policy programs of governments across the globe, market forces have advanced on many fronts, being ceded power over vast sectors of the economy by public institutions like governments and governmental authorities. The faces behind “market forces,” benefit from and advocate for this economic mantra and the political stratagem of neoliberalism. Through globalization – understood as the process of enforcing neoliberalism globally – the initiatives of such privatizing and liberalizing elites have transformed the world (Harvey 2005:33).

Key markers of neoliberalism are financialization, centralization, and flexibility. Harvey sees the shifts enforced by neoliberalism as marking a search for financial

solutions to capitalism's inevitable, systemic crises. Taking a longer historical perspective, Arrighi argues that these processes mark the point of maturity of a particular cycle of accumulation. A cycle of capitalist accumulation (MCM' where M=money capital and C=commodity capital) is ultimately pared down by innovators in a debt cycle, who revert to their ultimate preference for liquidity such that the cycle becomes stripped of the intermediation of commodity capital (Arrighi 1994:4-5). In Arrighi's formulation,

Marx's general formula of capital (MCM') can be interpreted as depicting not just the logic of individual capitalist investments, but also a recurrent pattern of historical capitalism as world system. The central aspect of this pattern is the alternation of epochs of material expansion (MC phases of capital accumulation) with phases of financial rebirth and expansion (CM' phases). In phases of material expansion money capital "sets in motion" an increasing mass of commodities (including commoditized labor-power); and in phases of financial expansion an increasing mass of money capital "sets itself free" from its commodity form, and accumulation proceeds through financial deals (as in Marx's abridge formula MM') [elsewhere termed financialization]. Together, the two epochs or phases constitute a full systemic cycle of accumulation (MCM'). (Arrighi 1994:6).

Explaining the development, not of nation-states, but of the world economy, Arrighi sees four systemic cycles of accumulation, "each characterized by a fundamental unity of the primary agency and structure of world-scale processes of capital accumulation," in approximate 100 year phases: a Genoese cycle, a Dutch cycle, a British cycle, and a United State's cycle which may possibly be coming to an end (Arrighi 1994:14). The networks of power and accumulation that enable leading states to reorganize and control the world system grow in scale and scope as these cycles progress from one to another. For Arrighi and for Marx, an agency or social class is capitalist "in virtue of the fact that its money is endowed with the "power of breeding" systematically and persistently (Arrighi 1994:8). Further, the development from one cycle to the next,

the restructurings of the world economy in each successive phase, have not occurred as the unintended outcome of chains of action of governments and communities over time, but rather they have occurred

under the leadership of particular communities and blocs of governmental and business agencies which were uniquely well placed to turn to their own advantage the unintended consequences of the actions of other agencies. The strategies and structures through which these leading agencies have promoted, organized, and regulated the expansion of the restructuring of the capitalist world-economy is a regime of accumulation on a world-scale (Arrighi 1994:9).

Arrighi builds his analysis of the world system on Max Weber's analysis of competition between states. Weber argues that "separate states had to compete for mobile capital, which dictated to them the conditions under which it would assist them to power..." (Weber 1961:247-9 cited in Arrighi 1994:13). Agreeing that state formation is primarily driven by competition for mobile capital between cities and subsequently larger political units, Arrighi argues that in addition, the concentration of power within particular blocs of governmental and business agencies was as essential to the successive material expansions of the capitalist world-economy as the competition among the political structures of nation-states. Capitalist expansions occur only when a new center has accrued sufficient power to operate above inter-state competition – that is to bring such competition under control and ensure some degree of cooperation between states. Thus for Arrighi, the expansion of the capitalist world-economy has been propelled not by inter-state competition but by inter-state competition in combination with an ever-increasing concentration of capitalist power in the world system at large (Arrighi 1994: 12-13).

While for Arrighi financialization marks the end stage of each cycle of capital accumulation, for Harvey financialization marks fairly recent change in the spatio-temporal fix. For example, when overaccumulation within a given national system leads to unemployment and surpluses of capital, surpluses can be absorbed by a temporal displacement through investment in long-term projects, or through spatial displacements such as the opening of new markets, productive capacities or resources, or a combination of both spatial and temporal displacement. Temporal displacement into social infrastructure such as investment in education or transportation has the drawback of being impossible to move around once institutionally organized in a space. In aggregation, however, such infrastructural investments can further what Harvey terms a spatio-temporal fix (Harvey 2006:110-133). According to Harvey, recent investment in informational technology has contributed substantially to financialization as a “fix.”

A reduction in the cost and time required for movement, i.e. a time-space compression, is a fundamental necessity of successful competition within the capitalist mode of production (Harvey 1989). But fixed capital, rooted in the territorial imperatives of nation-states, lends itself to monopolistic privatization by elites. In contrast, flexible capital, which is deterritorialized, lends itself to a competitive revamping of privileges. In combination, accumulations of fixed and flexible capital alter the geographical landscape that is the economic field. When the forces of capital accumulation require an outlet beyond the state, imperialist practices emerge because the state tries to manage flows to its own advantage against the deterritorializing interests of capitalist elites. The state thus plays a crucial mediating role between flexible interests and fixed interests,

channeling flows between the circuits of capital (that is between production of values and surplus value, consumption of commodities and reproduction of labor power) (Harvey 2006:105,110,113).

The Bretton Woods institutions and the framework of international finance

After WWI private bankers and central bankers acted in concert attempting to restore the pre-1914 liberal order in international finance which rested on the twin pillars of free capital movement and gold as the international standard of value. Two of the most powerful groups in this movement were New York and London bankers who offered large loans to governments willing to accept these policies. By the mid-1920s these efforts had mostly succeeded but as a result of the crash of 1929, the global depression, and its impact on war reparations and debt repayments, their success was short lived. These same bankers also created the Bank of International Settlements as an institution to facilitate cooperation in international finance. Due to the ongoing global depression, however, by mid-1931 Germany and Austria had introduced capital controls and Great Britain had abandoned the gold standard. The power of New York and London bankers waned and was replaced by a coalition of industrialists, labor leaders and Keynesian influenced state leaders who favored market intervention (Helleiner 1994:25-29). The worldwide shift away from liberalism toward market interventions such as capital controls was led by Japan and Germany as part of the remilitarization in the 1930s and became a crucial piece of economic strategy for most European states (Polanyi 1957a).

World War II marked the nadir of the liberal economic orthodoxy and the ascendance, in both the U.S. and in Great Britain, of interventionist economists who had demonstrated the effectiveness of exchange controls and large-scale governmental intervention in financial markets during the war. Postwar planning leaned toward an international economic regime designed to curtail the power of bankers in domestic and foreign markets. When negotiators gathered to redefine the architecture of the post-war financial order at Bretton Woods, New Hampshire in 1944, state leaders and their economic advisors were centrally concerned to protect their national policy autonomy from the volatility of private international capital flows that they had witnessed in the build up to WWII (Helleiner 1994:30-34).

War funding and reparations were crucial issues in the post-WWII planning for a new international financial regime. The agreements adopted as a result of the Bretton Woods meeting represented a dramatic rejection of liberal policies which were in place before the 1931 international financial crisis. Both J.M. Keynes and Harry White, representing the U.K. and the U.S. as the chief negotiators and arbiters of the agenda, agreed that all member governments should have the right to control all capital movements. The original argument was that international capital movements must be controlled to facilitate domestic policy autonomy for states at the mercy of short term speculative movements of currency. Both Keynes and White argued that a liberal financial order was not compatible with a stable exchange rate system and a system of liberal trade. Interest rates could only be managed according to internal state priorities if

speculative capital movements were controlled. Keynes stated that freedom of capital flow was

an essential part of the old *laissez-faire* system and assumes that it is right and desirable to have an equalization of interest rates in all parts of the world.... In my view the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this (Keynes 1980:149 cited in Helleiner 2004:34).

The options for handling speculative capital flows remain the same today as in Bretton Woods era: institute cooperative capital controls and tighten exchange controls (both proposals were rejected by the U.S. establishment in the Bretton Woods agreements); and institute floating exchange rates (difficult if the goal is to create a relatively stable international financial order), or offsetting financing (the U.S. establishment's preferred mechanism since WWII) (Helleiner 1994:59-61). Indeed there has long been a recognized need for an international "lender of last resort" but except for capital controls the International Monetary Fund, established by the Bretton Woods agreements, had no provisions to act as such. Lead negotiators looked to the BIS to enforce financial stability through smoothing central bank cooperation but the BIS, as a European institution and product of the pre-1931 era world system, also had no provisions for acting as "lender of last resort."

At the time of the Bretton-Woods meetings in 1944 circulation of speculative financial capital was considered such a danger that capital controls were seen as an essential tool to keep speculative flows from suffocating international trade. Hence the original drafts of the Bretton Woods agreements included policy provisions that (1) all

states should have the right to institute exchange controls to screen current account transactions for illicit capital movements in order to prevent speculation and (2) that all states should cooperate in enforcement of each other's regulations such that both ends of a capital flow could be tracked (Helleiner 1994:37-38). However, New York bankers opposed these provisions as they would be forced to forego fees on capital flying to their institutions from Europe. They argued that what states were terming speculative flows were actually an appropriate response to European states' inappropriate interest rate policies and, further, that capital controls were the mark of fascist states and therefore not compatible with liberal democratic government. In addition, as it is difficult to distinguish current account from capital account transactions, the bankers lobbied for a "key currency" proposal to create exchange rate stability by restoring convertibility to the most important currencies in international markets, the British pound and the U.S. dollar. In the end, the bankers' lobby carried their alterations through because of their influence in the U.S. Congress. The overriding principle adopted by the Bretton Woods institutions was restriction; states were given the right to control capital movements but there was no positive requirement for cooperation.

Noting that the shifting allegiances worked out through the Bretton-Woods agreements represented a restructuring of the pre-war transnational alliance of U.S. and U.K. bankers in opposition to state power, Eric Helleiner argues that the U.S. government did little to promote a return to the pre-war liberal financial order (1994:51-60). New York bankers, however, refused to help cooperate with European governments to control capital flight from Europe and for this reason the controls instituted around Europe

ultimately failed. Bretton Woods was ratified by the U.S. Congress in 1945 just after the new Truman administration came into power and the influence of Roosevelt's New Dealers against international banking powers waned. The Truman administration worked together with New York bankers such as Winthrop Aldrich to transform the key institutions created by the Bretton Woods agreements, the World Bank (WB) and the International Monetary Fund (IMF), into more conservative organizations. For example, in a crucial move, they decided not to enforce the Bretton Woods provisions that would have led to the liquidation of the Bank of International Settlements. This key decision, despite the public perception that the BIS had collaborated with Germany during the war, set the stage for the ushering in of a "neoliberal" order over the course of the following decades.

Balance of payments crisis around Europe, in the context of rising inflation, and an attempt by states to retain full employment, led to new exchange controls and increasing capital flight. New York bankers again refused to consider controls on inflow, sacrificing the long-term interest in a stable international financial system in favor of rapid short-term profits. The contradiction between the short-term goals of bankers and the long-term goals of states was resolved through the Marshall Plan which provided offsetting financing assistance to European states in the midst of a balance of payments crisis (though the outflow of capital was greater than all aid sent in the early post-war years). The Marshall Plan thus became a compensation for the U.S. failure to control "hot money" pouring out of Europe. Interestingly the U.S. negotiators ensured that the IMF would not have the power to finance deficits (Helleiner 1994:51-60).

With the advent of the Cold War, creating economic growth (rather than controlling inflation) became the key objective for Europe. For U.S. and European policy makers financial and monetary stability were second to this primary (security) consideration. The U.S., for example, supported the decision not to extend convertibility to the capital account for Europe and Japan even into the 1960s. Capital controls only began to be dismantled in the 1980s. Although capital controls were common in the international arena, already in the early years after the war BIS officials and neoliberal thinkers were pressuring the U.S. and Europe to remove controls and follow more orthodox liberal policies. A more internationalist approach among British financial officials, who opened London's foreign exchange markets as an offshore zone of full convertibility in 1951 and, in 1953, convinced some European states to authorize private banks to deal in each other's currencies, heralded the coming demise of the Bretton Woods international financial order. In 1954, when London reopened commodity markets with no restrictions, effectively capital and current account convertibility were restored, e.g. traders could mask currency exchange via commodity transfers (Helleiner 1994:61-70; Palan 2003:12-17).

Whether we see the advent of the Eurodollar market – offering dollar denominated loans to finance trade between European countries – as a factor of happenstance (Helleiner 1994; Palan 2003) or as shaped and created by U.S. and U.K. elites (Block 1977; Strange 1998; Tabb 2004), the Eurodollar market had the effect of shifting most exchange to a dollar basis. U.S. experiments with capital controls in the

mid-1960s, in turn had the effect of increasing demand in the Eurodollar market, and indeed states began financing their external deficits through their holdings in the Eurodollar markets (Helleiner 1994:90). Interestingly Helleiner argues that the unique fungibility and mobility of money means that only a few key players are needed to produce fundamental change in capital market structures, e.g. the U.S. and the U.K. acting in concert to create the Eurodollar market changed the balance of power in the entire international financial system in favor of liberalization (Helleiner 1994: 196). Once again Cold War security concerns trumped the concerns of free market advocates as states continued to be committed to policies of insulation – using unilateral capital controls and offsetting financing to prop up the Bretton Woods order in the 1960s. At the end of the 1960s, however, an emergent neoliberal order became apparent. A key figure in this new order was Per Jacobsson, longtime head of the BIS who became managing director of the IMF in the 1960s. He was the central mover behind removing Bretton Woods restrictions on the IMF's provision of offsetting capital. However, as the IMF was undercapitalized, they had to resort to BIS financing and “club forming” (including drawing such agencies as the U.S. Federal Reserve into the negotiations) in order to organize short-term credit swaps to offset speculative capital movements in the 1960s. As will be seen below, the instantiation of ad hoc decision making “clubs,” formed on the basis of camaraderie and dense networks between major powers, insured that new tools would be used in favor of key players (Helleiner 1994:97-98; Tabb 2004:108-120).

In the 1960s enormous speculative capital flows began to destabilize the precarious exchange rate system of Bretton Woods which was based on the gold

standard. By 1967, the IMF and cooperating countries' central bank financing failed to forestall the devaluation of the pound. Huge flows of funds from the U.S. to Europe resulted in the suspension of gold convertibility and states around the world tightened capital controls. The existence of Eurodollar markets rendered controls ineffective, e.g. corporations were able to use "leads and lags" in trade financing to mask currency transfers. While European states and Japan agreed to try cooperative controls – tracking both ends of transactions – the U.S. opposed these measures. At the time, the U.S.'s structural power in the fading Bretton Woods regime was already clear. British Chancellor of the Exchequer, Dennis Healey, stated in 1973, "no change could be made in [the] structure of world finance without the consent of the U.S. (Healey 1989:416 cited in Helleiner 1994:109)." The U.S. pressured the IMF to amend its articles of agreement in favor of liberalization. In 1973, the U.S. announced it would abolish capital controls in Jan. 1974 – the so-called Nixon Shock – changing the international financial order from a controlled public system to a neoliberal system based on market freedom.

The U.S. acted to preserve its own policy autonomy in the face of growing balance of payments problems and assumed that market pressure could do what political pressure could not, namely force devaluation of European and Japanese currencies. Transferring the burden of current account deficit to foreign countries was only possible in an open capital market (Helleiner 1994:113). In Susan Strange's terms, the U.S. wielded structural power in the emerging neoliberal international financial order: reinforcing the dollar's position as a world currency and assuming that due to the unique depth and liquidity of U.S. financial markets investors would continue to underwrite U.S.

deficits by holding assets. Crucially, U.S. financial elites did not want to recycle petrodollars through the IMF but rather through the U.S. Treasury, hence restricting the range of choices available to others (Strange 2002c; 1998).

A central paradox within the newly emergent neoliberal international financial order is that only states with structural power could preserve some policy autonomy. In this new order, floating exchange rates were supposed to adjust to reflect a country's fundamental economic position, but exchange rates moved erratically through the 1970s as they became subject to speculative capital flows. States became vulnerable to external constraints and the danger of falling victim to “vicious circles” – where financial experts lose confidence in a currency, subjecting it to a downward spiral which in turn exacerbates domestic inflation and leads to further loss of confidence which can only be addressed through “structural adjustment.”

Proto-global state making and club formations

Another way to conceptualize the structural power of neoliberalism is through the concept of “club formation” (Eden and Hampson 1997). A key transition in the ascent of this global economic regime was the management of the failure of the Long Island-based Franklin National bank in 1974 by an ad hoc group of interests, an exclusive group of invited “club members” (Spero 1980; Tabb 2004). The protocols for managing the collapse of large financial institutions that emerged then have continued, reappearing, for example, in the case of the collapse of Long Term Capital Management in 2000, and Bear Stearns in 2008. Franklin National's leaders, viewing the burgeoning foreign exchange market as an opportunity to profit by trading on National's own account, had

racked up huge positions. Although Franklin was not alone in their positions, this bank fell apart due to its heavy reliance on short-term borrowing to finance long term loans. The handling of the Franklin National failure by a small group of government and private financial experts set the precedent for successful non-democratic, low profile interventions in the global arena. When Franklin's problems were made public, uncertainty over contagion risks led to ad hoc international cooperation and the formation of a crisis management committee. The committee was formed through the "close personal network and high degree of consultation among central bankers" to contain the meltdown using private deals and restrictions on information, e.g. they relied on controlled leaks to the press rather than official announcements (Spero 1980:153).

The failure of Franklin National subsequently led to the formation of another ad-hoc committee, the Committee on Banking Regulation and Supervisory Practices, widely known as either the Cooke Committee, after its chair Peter Cooke, Executive Director of the Bank of England, or as the Basle Committee after its meeting place. Representatives from eleven countries attended the Basle meeting of 1974, their purpose being to create guidelines and set a precedent regarding what governmental interventions might be considered "legal" in attempts to control regulatory arbitrage and protect the international financial system from bank failures (Tabb 2004:175). Significantly, the capital adequacy standards adopted by the Cooke committee lacked any enforcement mechanism. Rather, the primary tools of enforcement became "soft law" and "concentric club formation" as discussed below. In effect, the Anglo-American preference for low capital adequacy was adopted as the global standard to the detriment of France, Germany and especially Japan.

The U.S. and Britain went on to force the issue, by applying techniques of “soft law” enforcement, arranging their own bilateral agreement and then threatening to apply its terms to foreign banks operating in their markets. Out of these negotiations, came the Basle Accord of 1988 wherein U.S. definitions of bank capital, risk weighting, and treatment of off balance sheet items all became the international “standard” (Tabb 2004:177). Criteria were also adopted allowing the credit risk for central bank debt of all OECD countries to be listed as zero by major ratings agencies. These criteria put developing countries at a significant disadvantage in the global borrowing arena. Similarly in 1999, when a financial stability forum met, chaired by Andrew Crockett, former head of a large transnational bank, no pronouncements were made which might be deemed harmful to the special interests of large financial institutions. Because South-South financial connections are thin in comparison to dense North-South connections, in general practices perceived as “best practices” in financial oversight converged on Northern models until the crisis of 2008 hit Northern countries. As William Tabb argues, the concept of “concentric club formation” recognizes the “density of business sector networks in the powerful states,” above all the U.K. and the U.S., which initiate and negotiate neoliberal norms and then disseminate those norms to the rest of the world (Tabb 2004:428). In effect concentric club formation also means a reorientation of states to favor capital accumulation by the cosmopolitan elites of what are termed “core countries.”

If globalization is as a process of reorienting regulation to the trans-national level rather than “merely deregulation” at the nation state level, nation-state sovereignty must be transformed. In Tabb’s terms, there is an “emergent global stateness” in the current global state economic governance institutions (Tabb 2004:413-415). Traditionally sovereign governments are not subject to external regulation except by their own consent, which may be withdrawn at any time. Conceptualizations of sovereignty as power which is final and autonomous become problematic, however, in the current global economy because there are indeed governance authorities above and beyond states. What happens if the balance of power operates not between states but above them? If we accept that nationally constituted “ad hoc” groups with specific aims and interests have turned to supranational means to meet their objectives, in this case the liberation of capital from state-based regulation and constraints, and have influenced their own and other governments to accept their objectives, then it makes sense to speak in terms of a transnational capitalist class and patterns of fragmented sovereignty (Tabb 2004:151-153).

At the global level, soft law is a useful policy tool because law in general is a binding course of action. Much of the foundation for global economic governance institutions is not, however, embodied in formal law, such as treaty law, but as we have seen is shaped through processes of negotiation by ad hoc, unelected groups who propose a consensus based on converging voluntary agreements. Historically merchant law traditionally provided for non-state arbitration for transnational business disputes. Nation-states traditionally restricted capital’s prerogatives when they conflicted with

basic needs, particularly with regard to social reproduction – this is how Harvey (1989) analyzes the mid-century “Fordist” compromise between capital and labor. Consensus statements by club members, however, constitute a new norm because nation-states that fail to obey soft “rules” will likely “incur disutility” costs (Tabb 2004:154). An example here would be the quantitative “reputation costs” incurred by countries which challenge the consensus (as will be seen when we examine Malaysia’s enactment of currency controls in chapter six). Countries agreeing to follow, or at least appearing to follow, a soft law regime relinquish domestic authority over a range of issues which gives soft law force. As countries incorporate these laws into their domestic legal systems, in regulating or not regulating merchant banks for example, domestic legal systems converge on the international consensus. All told, global economic governance institutions “provide bankers and transnational producers a way private power can be legitimated and preferred regimes made acceptable” (Tabb 2004:163). Tellingly, when Japanese authorities attempted to create an alternate club, the Asian Development Bank, in the midst of the Asian financial crisis of 1997, they were blocked by the U.S. (Jomo 1998a). The public use of soft law and concentric club formations, which yield a competitive advantage to those able to operate both inside and outside the national economies, belies traditional concepts of state-sovereignty.

Another challenge to state sovereignty is conceptualized as “the offshore” economy – a space for the circulation and accumulation of capital without the intermediation of the regulatory regimes of nation-states. While embryonic forms of offshore economies emerged in the late 19th and early 20th century, the proliferation of

offshore zones and perceived fissioning of sovereignty came about in 1970s, due to (1) technological innovations making virtual space accessible globally, and (2) the structural effects of the U.S. led cycle of accumulation in the aftermath of the Cold War buildup, wherein Anglo-American styles of contractual marketing became the standard.

The first phase of the internationalization of capital, in the latter part of the 19th century, was deeply entrenched in state-building because states, in conflict and in cooperative buildup are perpetually preparing for war, monopolizing coercive means as an expression of sovereignty, and are therefore primary consumers and innovators in the realm of credit expansion (Tilly 1990). But, as seen in the recurrent conflict between coercive-intensive and capital-intensive regimes, nation-states have only ever been fictively closed. Even the most powerful states remain easily penetrated by mobile capital. Critical theorists analyzing capitalism as a global system thus argue that international institutions of global governance “invisibly govern the national governments” (Bourdieu 2005a:228). One mechanism rendering the “enclosure” of national economies entirely fictional is the offshore economy. The offshore zone is not simply a legal justification of the economic interests of a global capital class. Rather, sovereignty within the “global economic field” has been fragmented not only through the development of the offshore zone but also through arbitrage between national economies that dates to their inception. Because the non-regulated offshore zone is legible only to those institutions and agents in “core countries” with an already existing competitive advantage, only capitalists with global interests that include the core countries are in a position to take advantage of the offshore zone.

As discussed below, complicating the story of class power, the structures and institutions of the offshore zone were set up fifty years prior to the explosion in their use as a means of capital accumulation. The conflicts of nation-states as economic units posed problems which lawyers and policymakers, through club formation, gradually solved in reaction to the expected actions of one another. Clearly, the relationships between the institutions of international finance and capital accumulators are not directly instrumental but rather indirect. In addition, because neoliberalism as an economic policy was propounded by elite networks and patron-client ties during the Cold War, it is “an economic policy aimed at unifying the economic field by a whole set of juridical-political measures, designed to remove all the limits to that unification, all the obstacles to that extension, most of which are linked to the nation-state” (Bourdieu 2005a:224).

Nevertheless, the removal of barriers to the flow of goods and services and capital has also entailed the erection of different means of marking national economies in the developing world, characterized by continuing client status and racial stratification (as outlined in chapter three). These places are thus prime zones for original or primitive accumulation via strategies of predation, fraud and violence – what David Harvey terms “accumulation by dispossession.” These notionally “national” economic spaces, that is developing countries, are marked as not fully modern, not fully national markets, by means of comparison to the U.S. model and their obvious client status. They are marked as well by the application of direct coercive force through the continuation of covert and overt military operations of the “cold” war (Harvey 2006; Mamdani 2004; Tilly 1990).

Economic globalization is thus a product of specific policies enacted by agents and institutions in tandem – as argued above, a political project popularly termed neoliberalism. The effect of neoliberal policy is to create the conditions for domination and accumulation. As will be argued in chapter six, the Asian financial crisis and its aftermath can be seen in this light, as the coercive application of soft law to enforce the adoption of global norms of capital accumulation. But, again, if neoliberalism is being driven by proto-global state makers – “concentric club” formers – then the basis for the sovereign status of nation-states is being fundamentally altered.

Sovereignty and fragmentation

As stated above, in general terms sovereignty refers to a nation-state’s room for maneuver in relation to its citizens and subject populations and in relation to surrounding states. The concept of sovereignty refers both to the zones of civil society (a state may be overthrown if its coercive apparatus is exercised without concern for social reproduction) and to the zone of the market (wherein capital accumulators are perpetually eluding the grasp of centralizing state forces). However, in the specific terms of its historical application, sovereignty is the exercise of absolute internal dominance over a territory by an autonomous state. In these terms, sovereignty has been an explanatory principle within international relations for several centuries. Genealogies of the concept usually trace it back to the 17th century Treaty of Westphalia and the system of interstate relations established there, as articulated by Hugo Grotius. Grotius, a lawyer writing for the Dutch East India Company, declared in 1604 that the high seas were a shared resource, a commons freely given to all. Grotius’ innovative argument paved the way for private

corporations with sovereign backing to claim that their self-interested policies supported the general interest (Tabb 2006:170-171). As the conceptual elaboration of the concept of sovereignty proceeded in tandem with elaborations of the market in the 19th century, Grotius's intervention in merchant law remained relevant. Claims to sovereignty showed themselves to be part of the double movement outlined by Polanyi (Polanyi 1957a:72). For instance, although modern markets appeared to many as the exchange of goods and services, contract exchange emerged as the most prevalent form of exchange. Endless chains of contractual relations in which the commodity is constituted as a set of legal relationships require a stable system of law for contract enforcement (Palan 2003:85; Sen 1981:1-8). Ronen Palan argues further,

the institution of sovereignty defines the unity of the political system with the economic system, for it defines not only the powers of the state but also the sanctity of contract. Differently put, the sanctity of the contract is secured by the principle of sovereignty (Palan 2003:86).

Global exchange is therefore rooted in a system of states as sovereign agents.

The institutionalization of sovereignty, in specific state regimes, serves to demarcate lines of authority and responsibility and also provides the foundation of contract law, e.g. each individual in a contract must be locatable in a sovereign realm. The interpretation of sovereignty to mean the exclusive right to make law came to be orthodox understanding in the 19th century (Palan 2003:74-75). Nation-states' sovereign status was argued to rest on the fact that capitalist society is based on contracts and contracts are only valid when based on free exchange by individuals who have equal protection of law. States are composed of such individuals, defined as citizens and the state ensures their legal equality. As contractual obligations are only sustainable in

conditions of relatively predictable futures and stability, states seek to ensure such conditions and thereby actively intervene in economy and law. In so doing, states become both the origin and the subject of law (Palan 2003:74-75).

The contradiction of being both origin and subject of the law was recognized early. Writing in the early 20th century, Thorsten Veblen argued that, with the transformation from divine kingship as the basis for political authority to democratic participation as the basis for authority,

the democratic Nation, therefore, is a sovereign by the Grace of God... But the democratic nation has no personal existence except in the several persons of its citizens. So the experts in political speculation have drawn the logical consequence, to the effect that these democratic citizens are vested with this principle of sovereignty, each and several, unalienable and in perpetuity. That is to say, these democratic citizens, each and several, by Grace of God hold sovereign dominion over the underlying population of which they each and several are abjectly servile components. So also it should apparently follow by force of the same metaphysics that each of these sovereign citizens, being at the same time a loyal member of the underlying population, by Grace of God owns unqualified and unalienable allegiance to his own person in perpetuity (Veblen 1923: 26-27).

More recently, Giorgio Agamben excavated the manner in which the contradiction wherein states become both the origin and the subject of law is the fundamental basis of sovereign power in the modern world. Agamben argues that this fundamental contradiction, wherein ultimate authority or the basis of sovereign power is determined by the absence of power, can be resolved by recognizing that sovereignty rests on “a suspension of the juridical order itself” (Agamben 2005:4). In other words, a sovereign power is “he who decides on the state of exception” where the legal order itself

is suspended and any application of force is possible (Schmitt 1922 cited in Agamben 2005:1). If a state of exception is

the suspension of law itself – as its original means of referring to and encompassing life, then a theory of the state of exception is the preliminary condition for any definition of the relation that binds and, at the same time, abandons, the living being to law (Agamben 2005:1).

The agents and institutions deciding on the state of exception guarantee

“its anchorage to the juridical order. But precisely because the decision here concerns the very annulment of the norm, that is, because the state of exception represents the inclusion and capture of a space that is neither outside nor inside (the space that corresponds to the annulled and suspended norm),” the sovereign power is outside the legal order even while belonging to it (Agamben 2005:35). Agamben’s analysis of the state of exception reveals the fundamental application of sovereign power to create “a zone in which application is suspended but that law, as such, remains in force” (Agamben 2005:31).

Reconceptualizing sovereign power as the ability to determine the state of exception opens a path for exploring the contradiction between the inside and the outside necessitated by the enclosure of states and economies in fictional sovereign spaces. If at root, sovereignty rests on determining the state of exception, then the commodification of law making (and other aspects of the sovereign powers of states in the second half of the 20th century) is not as contradictory as it first appears. That is because the offshore zone, which insulates nation-states in law, is also the zone demarcating the insides and outsides of markets, a zone in which the application of law is suspended but still remains in force.

The offshore economy, as a zone of exception wherein the application of law is suspended even while remaining in force, emerged during the expansion of multinational corporations after World War I. The metaphorical connotation of offshore, language taken from merchant capitalists on the high seas, flowed from the recognition, in international law, of corporations as individuals. Contradictions in the relationships between nation-states became apparent due to the fact that sovereign authority over individuals does not necessarily cease when a subject leaves the space of state territory. The question was whether this same principle applied to corporations, as legal entities. Following the precedent set by Grotius' *lex mercatoria* or merchant law, corporations were seen to operate under the same subject principles as individuals (Palan 2003:100). With strong support by governing bodies in the U.S., Britain and Germany for the internationalization of business, the contradictory impulses of sovereign authority in transnational zones was not resolved through clear cut treaties but rather through a patchwork of different precedents and agreements. Once again, as seen above, the treaties of the turn of 19th century are replaced in the 20th century by concentric club formation, negotiation via committee, and the application of soft law on the part of global state-like actors, pointing toward global economic governance or a global financial regime.

Fictional domiciles for corporations emerged through precedents set in the late 19th century in British common law courts according to which companies under the control of British citizens were considered British. As British companies were not required to pay income tax on profits if all of their production and all of their

management and control were abroad, a loophole was created. Companies could incorporate in Britain and others would recognize them as subject to British law while at the same time they could avoid paying any British tax. Effectively the entire British Empire became a tax haven, an offshore zone (Palan 2003:103).

British common law was also the source for the idea that the location, and hence the regulatory regime, of intangible assets should be determined by the place where transactions physically take place. Following this principle, in 1934 Swiss bankers extended banking secrecy laws to cover foreigners with assets in Swiss banks, enshrining the principle that accounts held in Swiss territory were under Swiss sovereignty. The Swiss government thus solved the conflict between nation-states, as territorially sovereign entities, and the incursions of liquid capital, by dividing the undividable individual subject. Individuals (who legally may be citizens or corporations), could now “reside in one capacity in one jurisdiction and in another capacity in another jurisdiction” (Palan 2003:105). And since living individuals cannot spread themselves physically over different jurisdictions they were offered fictional or juridical location in Switzerland (Palan 2003:106).

As corporations can divide themselves between different regulatory regimes, occupying multiple zones simultaneously, technically multinational corporations are not legally verifiable entities. Rather, they are multiple bodies – groups of corporations operating in different jurisdictions with a common – due to the combined explosion of tax havens and techniques of looking for the best offshore domicile, multinational

corporations have insulated themselves from the law making regulatory apparatus of nation-states. The “fiscal subject” is divided but as corporate actions inhabit multiple jurisdictions, the “real subject,” that is the profit maximizing corporation, remains unified. Hence, in the first analysis, “the origins of offshore can be linked to important contradictions in the basic institutional structure of modern capitalism, namely, the expansion of market relationships within the context of a particularistic state system” (Palan 2003:109).

As such, accounts of the decline of “absolute sovereignty,” or of the conditional aspects of sovereignty, misconstrue the nature of sovereign authority in capitalism. Aihwa Ong, for example, uses the term “graduated sovereignty” to characterize states’ various and flexible experiments with giving up control over specific populations (migrant workers), territories (as with Export Processing Zones), and flows (capital markets) (Ong 2005:339 and 2000:56). But states like Malaysia, in simply mining inherited structures of economic inequality in an attempt to maximize returns on investment and productivity, have already ceded the ability to determine the state of exception (Castel 1991:294).

Sovereignty has been conceptually divided in at least four ways. First, there is “international legal sovereignty” denoting mutual recognition by other state actors in the field as well as holding formal independence in law. Second is “Westphalian sovereignty” denoting political control of a territory based on the exclusion from authority of external agents. The Westphalian conception of sovereignty presumes rules

legitimizing the absolute rights of governments over citizens, a general stability in the international legal regime, and long periods during which the balance of power operates between rather than above states (through conflict and capital flows); it is, in other words, speaking to the historical development of national states in Europe (Tabb 2004:152-155). Third, “domestic sovereignty” denotes the legal institutions of political authority in a state territory or the monopoly over the legitimate use of coercive power in a defined territory (Weber 1946:78). Finally, “independence sovereignty” denotes the ability of government to regulate flows of labor, capital, and information across territorial borders (Krasner 1999:3-4).

These aspects of sovereignty may be glossed as recognition, control, territory, and autonomy, and the assumption of analysts in the current era has often been that some aspects of each adhere to all nation-states. But the history of imperialism belies the idea that partial sovereignty corresponds to real power. In principle, an empire might include all subjects over an entire territory, even lands that are newly annexed, under a single sovereign, as for example in the Roman Empire. Napoleon’s attempt to create an empire in post-Westphalian Europe precipitated something else – a fragmentation of sovereignty necessitated by the legal demarcation of sharp distinctions between citizens of the empire and citizens of France. As citizenship was not accorded in an equal manner, the relation of sovereign and subject was fundamentally altered (Pagden 2005:29-39). In effect, the conception of sovereignty legitimated in Europe accorded the ability to determine the state of exception to nation-states in Europe while according only a “fictional sovereignty” to colonial territories. In the Federated States of Malaya, for example,

sovereignty was fragmented such that all exterior relations, including export control, were in the hands of British agents (Andaya and Andaya 1982). Once we take account of the rest of the colonial world's governing apparatus, it is clear that fragmented sovereignty is a necessary part of empire, integral to accumulation via dispossession. Sovereignty divided between conqueror and the conquered, internal affairs and external affairs, national economy and global economy is in effect "partial colonization, but total domination" (Tocqueville 2003:57 quoted in Pagden 2005:44). Conceptualizing sovereignty as power which can be fragmented posits exceptions as separate from the origins of sovereign power. If, as Agamben argues, exceptions are integral to sovereign power, then what Ong has characterized as "graduated sovereignty" practiced by states in Southeast Asia is rather the erosion of sovereignty enabled by domination.

Coercion and capital in the offshore zone

In the offshore zone, neoliberal capital markets prevail by invoking the power of sovereignty. This is possible because of the "special relationship status" or client relationship between the offshore zone and particular post-colonial states that developed through specific cracks in the colonial apparatus. Hence, as Palan states, offshore financial centers such as the Cayman Islands use their sovereign rights "and the basic principle of 'fictional' location of the contract... as a source of revenue [via license fees] by turning themselves into attractive points on nomadic capitalism's eternal journey" (Palan 2003:176). Once the game is understood by everyone, then sovereignty no longer refers to control of physical, territorial space but rather adheres to a "gatekeeping capability" to charge a fee on flows passing through (Palan 2003:177) – at the same time

controlling the distributive capabilities of state. The point is that nation-states which operate without sovereign power are left with trying to affect the trajectory of capital – time spent – rather than being able to open and close the gate.

Companies go location shopping for the privilege of “parking” in a jurisdiction – jurisdictions in turn correspond to bundles of regulations. As argued above, arbitrage between different regulatory regimes is an ancient practice. The point here is that arbitrage between jurisdictions increased exponentially in the late 20th century. An example of the process of competitive arbitrage between markets can be seen in the very loose regulatory regime adopted by New Jersey whose incorporation laws were intended to attract business from New York. Delaware and other states adopted the same rules leading to the sale of corporation charters at bargain prices by several competing jurisdictions. By 2002 Delaware was home to half of the companies listed on the New York Stock Exchange because of this competition (Palan 2003:102).

The actions whereby states engineer sovereign and non-sovereign spaces are political choices. Offshore-ing is a technology of states seeking to attract new businesses where efficiencies involve packaging and repackaging regulatory arrangements for sale to both firms and citizens. In turn, the market as a field is constructed over and above the sovereign rights of states through concentric club formation and soft law, and nation-states, when they are packaging and selling regulatory agreements, may explicitly favor some citizens at the expense of others. The offshore zone, as part of the continuing

process of state formation at the level of the proto-global state, is thus a zone of competitive accumulation.

The rise of the offshore as a zone of competitive accumulation has also been linked to shifts in the balance of forces in domestic politics. This is evident in “core countries,” as for example when the British financial elite propped up “the city” of London as an offshore zone in the 19th century (Carruthers 1996). Rather than entailing a response to regulation and taxation, the increasing commodifications of sovereignty represent a response to the systemic shifts of capitalism. Another example is the rise of the Eurodollar market in the 1960s; according to Arrighi, this was an “unintended outcome of the expansion of the U.S. regime of accumulation” which in turn marked the beginning of a shift to a new systemic cycle of accumulation (Arrighi 1994:301). In other words, the offshore was not created by the needs of capital; rather the offshore was already in existence and its use became expedient in the climate of the 1960s. The recent explosive growth of the offshore zone fulfills a “set of needs” on the part of continuing cosmopolitan capital accumulators (Palan 2003:73-74).

The sanctity of the contract is secured by the principle of sovereignty. And contractual relationships, now spanning the entire globe, are rooted in the system of sovereignty. The rules and norms at the level of international law and finance are inherited from common precedent and from colonial extractive regimes on the one hand, and on the other hand are innovations of concentric club formation on the part of global elites. The global market is therefore inherently inter-national, extending across multiple

ethnically demarcated “nation-scapes” and regulatory regimes which constitute and are constituted by (via competition for accumulation and concentration of coercive means) the global market (Appadurai 1991; Palan 2003:87). Conflict arises between nation-states seeking to insulate themselves in law and ensure sovereign status and the forces of capitalist expansion seeking to promote an infrastructure of transnational law – the old merchant law updated. The doctrine of sovereignty as applied in international law is thus implicated in the endless recursive process of creating gaps between regimes and then bridging those gaps through technologies of core states that, by claiming their particular civilized discourse to be universal, normalize the process (Anghie 2004:4).

While the concept of offshore and the practice of arbitrage were part of the formation of the modern system of nation-states from the outset, in the 1970s offshore technologies exploded, to the point even of being used as instruments of state policy. The explosion was owed to technological innovations in combination with the adoption of neoliberalism by state policy makers and technocratic elites. Lawyers, economists, tax evaders and criminal syndicates “taught” elites in post-colonial nation-states how to develop their offshore hinterlands (Dezalay and Garth 2002:17-20,28; Perkins 2004:59-65; Winters 1996:54-75). The territorial sovereignty of the nation-state helps to compartmentalize global capitalism so that those who remain on-shore, including national political systems with democratic aspirations, appear to keep a hands off policy toward offshore, even though both realms are clearly under the same rubric of sovereignty. Territorial nation-states as containers of power are often captured by some dominant regional interest, or in the case of colonial empires, by some racial formation

(Harvey 2006:105). As core states have a disproportionate influence on the overall financial architecture through which spatio-temporal fixes are pursued, their elites are exceptionally privileged. We find them reproducing their exclusionary social relationships through processes of capital mobility, competition, rush to the bottom, and the commercialization of sovereignty.

If nations are conceived as an “imagined community,” the belonging or non-belonging to that imagined community is inextricably coupled with national state building through which lines of exclusion are drawn (Anderson 1983; Arendt 1985: xviii). The governmental machinery of the modern nation-state is an organized apparatus for constructing nationalism and building exclusive sovereignty. As noted above, however, the concept of citizenship combines ideas of nation and sovereignty into a contradictory unity. The state is conceptualized as the servant of the nation, defined as a cohesive imagined whole, even while part of the historical process of enclosing the nation-state, translated in terms of territorial and ethnic closure, is the emergence of what Palan calls a “three-dimensional national cage” extending the nation-state’s sovereignty in commerce and coercion into oceans, into the air and into the ground (Palan 2003:95). In other words, the fact that the development of states in circumscribed spaces is coextensive with the development of “nations” creates a situation in which the “nation” as a formation is privileged in relation to all other forms of organizing populations (Poulantzas 1978:100 cited in Palan 2003:152).

Developmental States

These national “cages” are sites for prospective accumulation. Nevertheless, because change comes about through institutional transformation, rather than simply through growth or the accumulation of capital, informal, cultural norms fomenting in civil society are the engine of development (Block and Evans 2005:508). Problems arise if movements in civil society become anti-market, or resist accumulation for the few at the expense of the many, challenging the state in these regards. Developmental states organizing accumulation in a “predatory” way may also become successful. The question is when, or under what conditions. Seeking to explain the differences between states as engines for development around the world, theorists argue that, in Asia as compared with Latin America, states were generally able to develop ties with elites while maintaining autonomy from them (Borrego et al. 1996; Block and Evans 2005; Evans 1995; Wade 1990). To the extent that this support of local elites has rested on these elites being able to create internationally competitive industries, the states in question had to build institutions based on meritocracy.

After World War II and the economic take off of developing countries there was a polarization between neoliberal, market-based explanations, and statist explanations for success stories. In 1995, Peter Evans contributed a reframing of questions, away from the role of states versus the role of markets, towards analysis of how some states pursued more effective development paths than others. In his recent analysis of “state-directed development,” Atul Kohli argues that in any effort to replicate developmental success, patterns of state authority are crucially important. For Kohli, as for Evans, the creation of

effective states precedes economic development and industrialization. Successful state intervention involves cooperation between state and business but as well some “insulation” for the bureaucratic elite so as to minimize corruption and state “capture” by private interests (Evans 1995:4-17). The political organization of power such that states increase their capacity to collect taxes, make public investments, and have the ability to take a role in disciplining the labor force are the central concern. According to their arguments, the form and assemblage of state power becomes the decisive factor in industrialization and “success” in the periphery (Evans 1995:10-18; Kohli 2004:9). Kohli argues further that colonial interactions, especially regarding the structuring of elite networks and dominance, are also a crucial determinant of development potential.

I follow Evans and Kohli in arguing that the success stories are not cases of state triumphing over market (or the reverse) but rather state intervention in support of profits for private investment, which the market reinforces. Further, as Karl Polanyi argued the “great transformation” in the U.K. began under conditions of protection (Polanyi 1957a; 1957b). The current success stories, termed developmental states, are following this pattern – including market interventions such as tariffs, subsidies, credit controls, training, technological protection, bureaucratic cooperation with the private sector, etc. (Kohli 2004:7). Kohli provides a rough characterization of three historical patterns of how state authority is organized in the developing world: (1) neo-patrimonial, (2) fragmented-multiclass, and (3) cohesive-capitalist or developmental states. Neo-patrimonial states, like “rentier” states, are those states where public office holders use public resources as their own patrimony and power is concentrated among cohesive

authoritarian elites with strict class allegiance, e.g. Nigeria (Watts 2004). Fragmented multi-class states rest on a broader class alliance and less centralized authority and the resulting patterns of state authority are messier and more incomplete in their penetration into society. In fragmented multi-class states, industrialization is only one among many state goals and, as these states are not able to achieve tight control of labor, they tend to be middling in developmental success, e.g. India.

At the other end of the spectrum, “cohesive-capitalist” or developmental states have centralized and cohesive authority structures that penetrate into society. These states have often designated economic growth in terms of national security in the cold war context and pursued growth as a primary national goal. Because any alliance between state and capital is subject to fluctuation, these states have tended toward authoritarian political structures and have all achieved tight control of labor, e.g. South Korea (Kohli 2004:9-12). In the case of developmental states, scholars appear to agree that foreign aid, wartime stimulus, and technological transfer should be treated as dependent variables while the role of the state is the independent and therefore decisive variable.

While Peter Evans argues that states which have “embedded autonomy” are able to enlist the cooperation of business elites while still maintaining some independence from their goals – state efficacy in this case derives from competent state bureaucracies and a free flow of information between the state and business elites – for Kohli cohesive-capitalist states, while also relying on an embedded alliance between state and business

elites, depend for success lies on the state's ability to define areas of national priority. This aspect of state power is rooted "not in the levels of information exchanged between the state and business but in the amount of power the states command to extract resources, to define priority areas of expenditure, and to instill a sense of discipline and purpose in society" (Kohli 2004:385). In these terms, a developmental state becomes a custodian state – turning companies into state-guided corporations through well-designed, consistent and thoroughly implemented state intervention. The Malaysian case study is interesting because, as we shall see in chapter three and four, it is a developmental success story but policies have not been consistent or thoroughly implemented over time nor indeed consistently interpreted or analyzed. The work of Malaysian economist, Jomo Kwame Sundaram, formerly at University of Malaya and British economist John Drabble, now at Australian National University, exemplify the range of accounts of Malaysia's development success. Jomo argues that Malaysia's success is not ersatz capitalism while Drabble maintains the contrary view (Drabble 2000; Gomez and Jomo 1999; Jomo 2002). In addition, the Malaysian state, while maintaining a political commitment to growth has not been able to assure profitability of efficient producers over inefficient ones.

In tracking the role of the Malaysian state during and after the crisis of 1997-98, I am augmenting Kohli's characterization of the cohesive-capitalist developmental state model on two fronts. First, by tracking financial elites, I seek to show how a state's inconsistency in implementation can be welded to the interests of particular networks.

And second, I seek to show how sovereignty impacts the interaction of elites within global capital markets. Kohli states that

... a narrow alliance of state and business elites that hopes to run a country as if it were a corporation is difficult to hold together, mainly because others in society also demand representation. If left unchecked, such demands require state's attention and resources and detract from its power to pursue its narrow growth goals. That is why cohesive-capitalist [developmental] states tend to be authoritarian, often reaching deep down into the society to create well-structured interest groups and thereby to minimize political opposition" (Kohli 2004:22).

In chapter three, I show how, in Malaysia, this structuring takes a racial form and in addition, this structuring of inequality on the part of the state is "read" by external forces, that is, other states and markets, as legitimate.

The operations of the state as a point of multiplication and coordination of power relations can be seen in one of the distinctive features of Asian developmental states, Malaysia included – namely the long-term investment, by the state, in education. Already in 1999, Amartya Sen saw the apparent corruption and nepotism on the part of state bureaucracies around the region as being offset by a consistent long-term policy of investing in education, corresponding to the recycling of capital through tertiary circuits of accumulation (Sen 1999:20-24). Until recently, however, Asia's emphasis on educational investment entailed recycling capital through the educational institutions of the core countries where the repertoires of development discourse are set (Dezalay and Garth 2002; Escobar 1994). As core states have a larger stake and share in global governance institutions, and greater synergy between public sector elites and private sector corporate elites, they have a distinct influence over the complex web of political

and legal space that enables global markets to work. As the possibilities for institutional innovation in global markets are determined in interaction between local, national, and global levels, the advantage accrued by core states in relation to developmental states remains substantial (Strange 1998; Tabb 2004).

Rethinking Malaysian and “Asian” Success

In terms of economic and human development, Asia is often seen as a success story (UNDP 1999; World Bank 2007). However, establishing bases for comparative measurement of success remains controversial as questions of periodization and methodology surround evidence of divergence or convergence of global incomes. Several watersheds appear in the debates. The first is a divergence, creating inequality between European growth and the rest of the world, somewhere around the time of the European Renaissance. The second is a convergence after WWII. And the third is a sharp divergence in the early 1970s when disparities between core countries and the rest of the world rose rapidly. From a situation of relative equality a millennium ago, the inequality ratio reached 19:1 in 1998 (Jomo 2006:10). While growth and development are uneven and historically contingent, these statistical watersheds are of interest because they dramatize the coincidence of rising inequality with the recent restructuring of the economy under neoliberalism. The correlation would seem to be suggestive. But Jomo Kwame Sundaram notes, “while inequality undoubtedly increased over the twentieth century as a whole, and declined after world War II, there has been a debate over the claims that it has continued to fall after 1980...” (2006:12). It is argued, for example, that the world’s ‘middle class’ has retained parity (Maddison 2001 cited in Jomo

2006:12), has shrunk (Milanovic 2002 cited in Jomo 2006:12) and has grown (Sala-i Martin 2002 cited in Jomo 2006:12).

Nevertheless, during the current round of globalization, the UNDP has documented increasing evidence of growing inequality globally, even though differences in data collection and periodization make comparisons difficult. For this reason, analysts take into account the spread of specific policy prescriptions, for example the propagation of regressive tax systems, in documenting inequality. In addition, as former Senior Vice President and Chief Economist of the World Bank Joseph Stiglitz has argued, the policy prescriptions of global governance organizations, such as the IMF and World Bank, have increased income inequality and reduced economic growth for many in developing countries (Stiglitz 2002). Ethnographic analysis of inequality, particularly in regions where statistics are scarce or flawed, provides further crucial documentation of inequality globally.

In Malaysia, for example, the government remains reluctant to release socio-economic statistics seen as sensitive (Jomo and Lee 2001:217). Income statistics are presented in tables that identify the top 20%, middle 40%, and bottom 40%, but without indication of how top, middle and bottom are demarcated; such a skewed representation obscures the share of wealth held by the top percentile.⁷ Although in 2007, Malaysia ranked 63 (of 277 countries) in the gini index, with a score of 49.2, the ranking represents

⁷ Fax communication from Tasir bin Abdul Hamid, “ Mean Monthly Gross income by Income and Ethnic Groups 1995 and 1999” (Dept. of Statistics, Malaysia) July 11, 2002.

a relative approximation.⁸ Malaysia's score in 2005 was better than that of the U.S. for the same year, but the 2007 score provided an indication of increasing inequality relative to the U.S. and relative to Malaysia in previous years (Koh 2006). Again, because the underlying household surveys differ in methodology and in the type of data collected, data are only relatively comparable across countries (World Bank 2007).

Because the developmental state itself is an innovation of late capitalism, in which global competition entails institutional innovations that are enforced by imperial power and global elites, the critical element is the impact of state-market institutional innovations on the larger institutions of global governance. The question of interest is whose innovations (developed in civil society and fostered by individual governments or developed by imperial governments) will be enforced in global institution building? The creation of expertise that is globally salable is a potential unintended consequence. Just as development experts can apply the same sets of tools and frameworks around the globe, so too bureaucratic experts apply neoliberalism.

As we have seen, WWI and years following were already a testing ground for the functional mechanisms and apparatuses of the state of exception as a paradigm of government. One of the essential characteristics of the state of exception – the provisional abolition of the distinction among legislative, executive, and judicial powers – here shows its tendency to become a lasting practice of government (Agamben 2005:7).

⁸ On the gini index, a value of 0 represents absolute equality, and a value of 100 absolute inequality.

Given the length of the state of exception declared during “the Emergency” in Malaysia, as will be seen in chapter three, and the reinscription of “emergency powers” in the constitution, Malaysia has been within a state of exception, declared by Cold War hegemons, since its inception as a nation. The impact of this state of exception ramifies through the bureaucratic order and places developmental strategy within the coordinating scope of the Prime Minister’s office.

Asian developmental states in general, and Malaysia in particular, have often been labeled as “proto-capitalist” or parasitic or “rent-seeking” (Drabble 2000; Gomez and Jomo 1997:5-7). But these labels obscure the determinative relationships between states in the emergence of political forms. If, as argued above, states and state sovereignty emerge out of the competitive dynamism between local capital accumulators and local politicians in their preparations for war, and in explicit competition with outsiders (both capital accumulators and war preparers), then the fundamental variables must include the characteristics of both neighboring states and of global empire. In Asia, nation-states have largely been surrounded by totalitarian dictatorships propped up during the Cold War by U.S. support and by draconian labor regulations. The economies of these states followed from their political frameworks, which fostered a high degree of centralized political and economic control, large-scale “bloated” public works projects without significant payoff, and nepotism and kinship based patron-client networks (Hefner 2001; Winters 1996).

The creation of the global governing apparatus also affects Asian developmental states like Malaysia, among other ways by eliminating distinctions between governing branches. Indeed, the technical, social, and legal process of creating a range of action for transnational experts – for example specialists in converting political variables into mathematical variables according to the logic of concentric club formation – shows that the determination of sovereignty passes through both local and international spheres of accumulation without being ratified in either. As such, I argue that in the current neoliberal turn (whose dynamics may or may not be undergoing a further transformation), an emergent global-state formation has the leading role. What might be termed a “proto global state” is forming via alliances between state and non-state agencies which are also aligned with networks of mobile capital, glossed as the offshore networks of the global capitalist class. The alienation of the state from democratic processes of accountability proceeds in tandem with this new state form, as well as with the expansion and deepening of competition for mobile capital.

The greater the “scale and scope” of competition the greater the opportunity for expansion (Arrighi 1994:16). Hence, the appropriation and consolidation of sovereign power by mobile capital – in Agamben’s terms the ability to determine the “state of exception” – expands opportunities for accumulation. But further, there is a cyclical escalation of the process as smaller nation-states seek to annex to themselves some of the capacity to profit from systemic cycles of capital accumulation. Given that there is an ongoing escalation of the process of primitive accumulation (Harvey 2006:144), we can

expect to find developmental states like Malaysia participating, and with political effects.

As Agamben argues,

modern totalitarianism can be defined as the establishment, by means of the state of exception, of a legal civil war that allows for the physical elimination not only of political adversaries but of entire categories of citizens who for some reason cannot be integrated into the political system. Since then, the voluntary creation of a permanent state of emergency (though perhaps not declared in the technical sense) has become one of the essential practices of contemporary states, including so-called democratic ones (Agamben 2005:2).

Put somewhat differently, as developing states attempt to wrest some control in the global economic field from core states, accumulation via dispossession becomes their dominant mode of capital accumulation. It is, therefore, crucial to trace how these putatively closed national systems give mobile capitalists a competitive advantage, including the ways in which innovations in national debt financing facilitate the concentration of power and capital in particular groups of “capitalist hands.” If capitalist expansion can only occur when a new center accumulates sufficient power so as to operate above inter-state competition, we can expect nation-states to seek advantage by operating in the interstitial zone between states. In conclusion, I quote at length from Achille Mbembe who argues that,

To conceptualize globalization adequately, the classical distinction between spatiality and temporality has to be made more relative. Interpreted from what is wrongly considered the margins of the world, globalization sanctions the entry into an order where space and time, far from being opposed to one another, tend to form a single configuration. The domestication of global time proceeds by way of the material deconstruction of existing territorial frameworks, the excision of conventional boundaries, and the simultaneous creation of mobile spaces and spaces of enclosure intended to limit the mobility of populations judged to be superfluous.

In the regions of the world situated on the margins of major contemporary technological transformations, the material deconstruction of existing territorial frameworks goes hand in hand with the establishment of an economy of coercion whose objective is to destroy “superfluous” populations and to exploit raw materials. The profitability of this kind of exploitation requires the exit of the state, its emasculation, and its replacement by fragmented forms of sovereignty (Mbembe 2000:284).

If those able to operate in the interstices have a competitive advantage because they are not limited by the specific spatio-temporal fix in a particular national economy, then they will be able to create a new center, encroaching on previous power centers. The demarcation of “superfluous populations” and the creation of mobile spaces of enclosure are part of the process of marking race and nation as resources.

Chapter Three

Commodifying sovereignty: mining credit markets for national development

A central conclusion from chapter two is that innovations in state and market and, in particular, in the ways in which market development means creating avenues to credit for some and debt for others, reveals a continuity between colonial extractive regimes and cohesive-capitalist or developmental regimes of the post-colonial era. Below, I examine the demarcation of rights to exchange in Malaysia, where racial terms loom large, and the consequences for dispossession. As we will see, newly cosmopolitan subjects, embedded in a specific political economy, became a resource for local and global elites as part of the intensification of accumulation via dispossession. For these subjects, garnering an understanding of the self as a racially marked resource for “strategic entrepreneurialism” was encouraged as “patriotic” both by the Malaysian state and by leaders in the global economic arena (Mitchell 2003:13-14). At the same time, the subjectivity of these new cosmopolitans challenged underlying market and state configurations. If a national state can be seen as defined by the set of movements that take place within it, then the creation of global markets, that is the history of capitalism, appears as the history of conflicts to control the movements of people and capital. The technologies of control and distribution, which move people and assets from the center to the periphery, from inside to outside, are the central part of this conflict as seen in the analysis of states in relation to markets (Mbembe 2000:261; Mitchell 2002). An examination of how racial and class privileges, instantiated during the colonial period and reinforced by the Cold War, have continued valence in Malaysian development illustrates this argument, as seen below.

Colonial political economy and the exploitation of ethnicity

The construction of race in Malaysia, that is the creation and maintenance of a racially demarcated power structure, has always operated in tandem with the construction of market capitalism, in part because of the situation of scarcity of labor and the continuously porous boundaries along the entire peninsula. As stated in chapter one, the borders of Malaysian Borneo are porous, leading to massive “illegal” immigration from the Philippines and Indonesia to the Malaysian states of Sabah and Sarawak for work in the forest and palm oil industries (cf. Tsing 1993). Piracy, flight, slash and burn agriculture were all common options for a historically mobile population. Upon arrival in the 17th century, the East India Company through its agents such as Sir Stamford Raffles and J.S. Furnivall operated both as a corporate trading company and as a government entity seeking to turn a profit. As an extractive industrial employer, however, it was desperate for cheap labor. Indeed, historians have argued that the construction of Malay-ness derives from the 17th century and was a response to both the arrival of colonial trading corporations and to an influx of Chinese immigrants to the tin mines. The idea of Malay as a racial classification then became institutionalized with the introduction of the colonial census. In 1891, “race” replaced “nationalities” in the colonial census for the Straits Settlements in Malaya (Hirschman 1987 cited in Goh 2002:210). And, although the idea of Malay ethnicity continued to be challenged and altered (for example the category at one point included subjects across the Malay archipelago) it became rigid as the British colonial government attempted to create Malays as a “yeoman peasantry” by excluding them from industrial and plantation work.

Focused exclusively on the extractive industries of tin mining and rubber plantations, the colonial government desired a “politically stable Malay yeoman peasantry” as a counterbalance to the influx of millions of indentured Chinese and Indian laborers during the tin mining and rubber planting booms of the 19th and early 20th century. The colonial government therefore provided some institutional credit for farmers in order to counteract the effects of seasonal credit crunches and exploitative usury. However, the colonial government’s primary commitment was to British capitalists who received privileged access to credit. As well, the Malay Reservation Laws created a separate market for Malay land and capital. The colonial government justified the separate market as an attempt to adhere to Malay customary law (in particular the Islamic prohibition against usury) in the midst of booming prices and speculation on property. Rules were instituted whereby Malay-owned land was legally saleable only to other Malays. The consequence was that prices for Malay land were depressed relative to fully saleable non-Malay land. Capital costs were correspondingly higher for Malay borrowers as their land, not fully alienable, was worth less as collateral (Jomo 1988:35).

In addition to the monopoly on long distance trade established by the East India Company, indirect rule in the Straits Settlements, as instituted by the British government, usurped local coastal trading. Malay peasants, caught within a semi-alienable land market with consequently depressed prices, were also legally barred from selling their labor on the market. In order to minimize the loss of foreign exchange and to curb the drift of Malay peasants into cash crops, competing with British planters, the colonial

administration instituted laws requiring padi production by Malay peasants. Anxious to insure sufficient rice production to sustain the population and at the same time allow for an expansion of rubber plantations by British capitalists, the colonial government instituted changes in the land tenure system requiring title registration and imposing crop cultivation restrictions. The combination of increases in land prices and changes in land tenure and use led to an increase in indebtedness and exacerbated the chronic seasonal need for credit among Malays in rural areas.

Concomitant with the increasing demand for credit was a strengthened position for creditors and the emergence of virulent racial stereotypes, whether of the greedy Chinese shopkeeper/moneylender or the rapacious *chettiar* class of Tamil money-lenders. Structurally, both classes of moneylenders had slim margins and were in turn indebted to credit wholesalers and international traders themselves (Jomo 1988:42). Colonial planters had access to the best quality land and also lower taxes relative to peasants. But, as Malays were tied to the land through reservation laws, the Chinese shopkeepers or Indian *chettiar* were often the only capitalists encountered and thus became a focal point for rage in the context of colonial labor and credit laws and the rapidly evolving extractive colonial economy.⁹ A few Malay lenders did manage to take advantage of the capital market as well, working around the Islamic prohibition against usury by disguising profit as rent, for example via *jual-janji* “conditional sale” deals.

⁹ As an example of the dependence of peasants on consumption credit from shopkeepers, in 1965 46% of credit in Malacca was loaned from shopkeepers at an average interest rate of 173% per annum (Ho 1969:30 cited in Jomo 1988:46).

At the end of the 19th century, the growth in extractive industries (tin and rubber) led to a radical increase in the population on the Malay Peninsula. For example, due to immigration from China and India the populations of Perak and Selangor increased by 400% between 1874 and 1891 (Jomo 1988:55-56). Chinese capitalists owned and operated the tin mines with indentured Chinese laborers, while British capitalists and colonial administrators operated some mines and, as well, an ever increasing number of rubber plantations which were worked by indentured Indian laborers. The increase in population led to an increased demand for food and by 1890 rice accounted for 35% of imports into Malay territories. Hampered by the lack of irrigation infrastructure and inadequate water supplies due to pollution from tin mining, peasants were not enthusiastic about the shift to wet rice cultivation. The frustration of colonial authorities with peasants' resistance to wet rice cultivation led to their written accounts of Malays as "lazy, irrational, and uncooperative (see for example Furnivall 1944)." In fact, padi yields in Malaysia were the highest in Southeast Asia at the time, but equatorial zones never produce yields as high as tropical and sub-tropical latitudes (Jomo 1988:55-56). Indeed, although Malays were labeled "pre-capitalist" by colonial administrators and legally excluded from the cash crop economy, many survived by planting small but commercially viable, intercropped rubber fields and as petty traders.

Through policies systematically favoring British capitalists over locals, the colonial authorities turned what had been essentially a series of semi-autonomous ports surrounded by slash and burn agriculture and dry rice cultivation, into a feudal system based on padi (irrigated rice cultivation). In so doing, colonial authorities mistakenly

assumed that Malays were and had always been farmers, tied to agricultural production. The colonial government's fixation on maintaining a "free Malay peasantry," a "class of yeoman farmers" ignored the continually shifting agriculture that had been the basis of the staple food economy. Hoping to emulate the trajectory of the Dutch-colonized island of Java, the colonists of Malaysia were disillusioned (Geertz 1966; Jomo 1988:62; Leach 1965).¹⁰ At the same time, they also had a vested interest in overemphasizing the importance of fixed agriculture in order to enforce the registration and commoditization of land so that plantations for cash crops (primarily rubber), reserved for colonists, could be bought and sold.

Cold War devices

Groundwork for the privileging of race was also laid during the "Malayan Emergency" which marked a major turning point in the racial demarcation processes of state building in Malaysia. The Malayan "Emergency" began in July 1948 when the British Colonial government officially banned the Malaysian Communist Party (MCP) and arrested more than a thousand of its members. Emergency regulations included bans on "seditious" publications, unlimited power of detention, arrest, trial, deportation or banishment and established the death penalty for anyone with unauthorized weapons (Deery 2007:29). At the end of WWII, containing the Iron Curtain became a major political goal for the British and the U.S. government. The specter of an international communist conspiracy was assumed to loom over all independence movements, even

¹⁰ Up to the 19th century only the Northern sultanates in the Malay peninsula had organized wet padi (*sawah*) cultivation. Elsewhere in the peninsula shifting dry rice (*ladang*) was the usual style until the 1860s (Jomo 1988:55).

those growing out of insurgency against the Japanese occupation in Southeast Asia. The Chinese ancestry of communist leaders was taken to mean that they had definite connections to the Communist state in China and that these movements were directed by outsiders. Britain's Director of Operations in Malaya, for example, reported to his superiors that the insurgency campaign was operating under the orders of the Cominform (Deery 2007:34). At the same time, rubber and tin exports from Malaysia exceeded the total value of all domestic exports from Britain to the U.S. It was clear that the British government, strapped for cash, had to maintain the value of its currency and forestall a financial crisis and thus to protect British plantation and mining businesses in Malaya (Deery 2007:37). In other words, the British government's financial calculations also influenced the repression of the MCP.

While the MCP was formed in Singapore in the early 1930s and became active in the labor unions in the Straits Settlements, it was also a major component in the "anti-Japanese" guerrilla movement during the Japanese occupation of the Malayan peninsula during World War II. The Straits Settlements were the territories of the British East India Company in Southeast Asia, which were given collective administration in 1826 as a crown colony, as distinct from the native princely states, some of which later formed the Federated Malay States. Initially, the Straits Settlements consisted of Penang, Singapore and Malacca. Before the formation of the Malayan Union in 1946, the Malay states were divided into the Federated Malay States (Perak, Selangor, Pahang, and Negeri Sembilan) ruled by a British High Commissioner in Kuala Lumpur with a British Resident in each component state and the Unfederated Malay States (Perlis, Kedah, Kelantan, Terengganu,

and Johor) ruled by the Malay royalty but under the authority of a British “advisor.” Before the Japanese occupation, the colonial authorities sought to minimize the political nature of the labor rebellion so that insurance companies would not withdraw coverage for the big agency houses or the planting and mining companies. “Outside conspiracies” were blamed for stirring up the independence movement (Harper 1999:150-152). Here, too, the British government could not afford to lose currency reserves generated from Malaysian exports. Not surprisingly, the guerillas were designated “bandits” or “terrorists” even though the British Army still owed many of them their pensions. After the Japanese invasion of Malaya in 1942, however, the MCP created the Malayan People’s Anti-Japanese Army (MPAJA), receiving arms and training from the Far East Special Operations branch of the British military. When the British returned to Malaya in 1945, the MCP did not continue operations as an anti-colonial armed struggle but cooperated with the British and re-entered politics through the trade union movement.

A wave of MCP organized general strikes was in process when Lai Tek, leader of the MCP, absconded with the bulk of the party’s funds. It later emerged that he had been operating as a triple agent feeding information to the British Special Branch and collaborating with the Japanese occupiers. Although labor in the post war period was more mobile than in later periods, and more vulnerable to uprooting in economic downturns, in 1947 the Pan-Malayan Federation of Trade Unions (PMFTU) represented more than 50% of the total workforce (Deery 2007:43). The British government legislated supervision and registration for all trade unions, in an attempt to wrest control from the MCP and PMFTU during the general strike. And British planters responded to

the strike by cracking down on labor organizing using flogging, execution, and deportation. In addition, planters determined that they would only negotiate with contractors, not with the Pan-Malayan Federation of Trade Unions. In response, the MCP turned to a policy of open insurrection and took to the hills for a guerilla war. The British response was to cut the movement's supplies, recruitment, and channels of intelligence through resettlement of rural Chinese to "New villages" and a bombing campaign on jungle camps.

As historian T.N. Harper points out, "because Malaya has been seen as a major success story of the end of empire, the history of decolonisation in Malaya was always more than a footnote to the Cold War: it became a counter-insurgency primer" (Harper 1999:150). Coercion and enforcement entailed fighting a long drawn out civilian war with the bulk of casualties taken by police and civilians. As well, the "Emergency" marked a militarization of Malayan society, which made the colonial state apparatus a coercive presence in all residents' lives. An example of the extent of civilian casualties was the collective punishment of villages for imputed infractions by individuals. Initially British offensive forces were composed of soldiers from all over British Commonwealth but as thousands of Malays enlisted as constables, the conflict took on an ethnic character. Rural Chinese were trapped in the front lines of the conflict and subject to extortion from both sides (Harper 1999:161). Over 500,000 rural Chinese peasants were forced to resettle in New Villages during the "Emergency" period. Security was draconian and it was not until 1980 that all curfew restrictions in these New Villages were lifted (Porrit 2004 cited in Kee 2006:470). As security forces were not required to

abide by the rules of war, due to the designation of insurgents as “bandits,” they were able to strengthen their legal power indefinitely by detaining anyone considered part of the opposition to colonial government whether communist connected or not (Harper 1999:153).

The forced resettlement of Chinese in New Villages, cut off from their organizing apparatus, stimulated the rise of a new urban centered and elite-led Malaysian Chinese Association (MCA). Through this association urban businessmen regained the power they had lost during the anti-Japanese insurgency and labor union building (Harper 1999:151). In order to pacify the various groups mobilizing Chinese power, the British authorities resumed collaboration with the Chinese elite, and convinced them to reach a compromise with the newly formed United Malays National Organization (UMNO) of Malay nationalist leaders. The Malay leaders agreed to guarantee citizenship status to Chinese in Malaysia; the MCA, for its part, promised to deliver rural Chinese support to the Malay-led nationalist movement. In order to build rural support, the MCA built networks within already existing clan and professional organizations in rural areas (Harper 1999:171). The compromise reached by leaders in the MCA and UMNO paved the way both for Chinese citizenship and for Malay political leadership in future political regimes. In addition, Chinese leaders stated their allegiance to Malay rulers in a symbolic statement of Chinese solidarity. All told, the “Emergency” established UMNO’s main institutional framework including its tools of forced relocation, detention camps, arrests without warrant, and indefinite detention. These, in turn, provided the bedrock for consolidating its ethnically demarcated power in Malaysia, closing off

previous avenues of organizing based on cross racial solidarity (Harper 1999:127, 134, 201; Kee 2006:464).

The “Emergency” also intensified ethnic conflict in rural areas. To Malay peasants the communists were anathema, partially because the MCP, while mobilizing urban Malays in the trade union movement, had never extended its reach into rural areas except in those of recent Indonesian immigration. To complicate matters further, Islam became an organizing theme in colonial government propaganda where the Empire was cast as the defender of Islam against the communist atheists (Harper 1999:167). Most important, over 1/7th of the total population of Malaya was forcibly relocated during the “Emergency.” As the colonial government did not provide legal titles to land in the new settlements, Chinese migrants forced to resettle were officially squatters and survived on remittances from urban areas and migrant work. The decisive battle in the “Emergency” was over Malayan Chinese rights to land but Malay states (rather than national authorities) had prerogatives over land. Only in 1952 did the states begin providing some legal titles and then with delays, probationary periods and restrictions on transfer as well as a shift of tax burdens (Harper 1999:180-181). As rents were raised, rural Chinese became heavily indebted to middle-men. These land issues provide one explanation for the length of the Cold War conflict – a peace agreement was not signed by the MCP until 1989 – and also for the continuing legacy of the “Emergency” whereby Chinese, Malays and Indians in the post-colonial nation-state see each other through the institutional lenses of the colonial state (Harper 1999:196)

The militarization of the colonial bureaucracy and of Malaysian intellectual elites in the early stages of the “Emergency” was such that the special status of Malays within the colonial economy became the organizing principle in envisioning citizenship and constituting a new nation-state. Most dramatically, the political economy of the new state was underwritten by the creation of the category “*bumiputera*,” inscribing Malays as “sons of the soil.” At the time, it was argued by Malay leaders that Chinese economic success had been achieved specifically through the impoverishment of rural Malays. Especially targeted was Chinese businessmen’s monopoly control on transport and licensing (Harper 1999:258-259). Both groups blamed the economic imbalance, universally designated as the “backwardness of Malays,” on the British regime and expected the British to provide redress. This expectation was also precipitated by the “Emergency,” wherein the state’s naked use of coercive force became central to daily life. The repercussions of the “Emergency” forced British, Malay, Chinese and Indian leaders into a revisioning of the economic structure of Malaya, which had previously favored colonial extraction and accumulation. Compromise between Malay and Chinese elites, royalty and business, came to mean ‘reforming’ the Malay rural economy through the instantiation of the *bumiputera* as the foundational political subject of the emerging state. Reform of the rural Malays was promoted through Malay-designated agrarian development schemes, preferential access to civil service and security forces jobs resulting in some urbanization, and through marginalization of rural Chinese in concentration camps (Scott 1985). In addition, during the “Emergency,” Malays were heavily recruited into the plantation sector by both Chinese and British owners because they were not yet members of any union and therefore easier to control (Harper

1999:255-256). During the “Emergency” the stage was thus set for a paternalistic bureaucratic state founded on political compromise between ethnically demarcated corporatist groups with citizenship rights distributed unevenly on the basis of communal rather than class solidarity, as determined through the permanent suspension of legal norms.

The “Emergency” operates as a key national narrative of coherence and as an institutional and conceptual tool increasing the ability of the state to control difference (Asad 1990 cited in Mitchell 2003:391). The salience of the conflict is indicated by the continued presence of former guerrilla villages along the Malaysian border with Thailand whose residents are not allowed to return home. For instance, a former communist guerilla camp in Thailand in what is now Sukhirin remains populated by Malayan Malays partially because an agreement to offer Malaysian citizenship was not upheld by the Malaysian government. These former guerrillas applied for passports but were told that they could only visit Malaysia for two weeks under escort by Malaysian Special Branch officers (Loone 2002). The film “Insurgents” vilifying the MCP and extolling the virtues of the army’s guerrilla and psychological warfare, was produced by the Malaysian Army Intelligence Unit and shown on state controlled TV3 in September of 2002, its narrative reinforcing the continually circulating rumors about secret guerrilla camps. For example, voyeurs who disguised themselves with foliage and built tree forts in order to watch lovers make out in the gardens next to the Petronas Towers in 2002, were mistaken by residents for MCP or other “terrorist” operatives (Murali 2002:1).

Since the “Emergency,” political and economic access has been reorganized with Malaysian politics being structured around the idea of creating a Malay middle class. Gaining control over communist opposition strongholds in the hills was only the first step. Subsequent projects have been aimed not only at “development”— that is at a significant rate of return – but also at strengthening and centralizing control of the state apparatus and forming loyal subjects. For example, Proton, the national car company project in Malaysia, may be considered a failure from the standpoint of job creation, technology transfer, and competitive advantage but not from the standpoint of creating middle class subjectivities. Citizens who view themselves as participants in a burgeoning successful state, and in a party apparatus which serves them well, view it as highly successful (Gomez and Jomo 1997).

The New Economic Policy and racial formation in Malaysia

The restructuring of markets for land, labor and capital in colonial Malaya and the post-colonial state of Malaysia was also an ongoing construction of a racial formation – a process wherein racial categories were created and transformed as a constitutive part of the political economy (Omi and Winant 1994:55). A racial formation corresponds to a spatio-temporal fix (as outlined in chapter two) which includes the means for continued primitive accumulation. By dramatizing the construction and transformation of racial categories within the economic field, each fix foregrounds the crucial aspect of racialization in the process of primitive accumulation. In addition, as discussed in chapter six, racialized markets play a crucial role in how the experts of finance arbitrage between nation-state regimes. Tellingly, the process begun by colonial officials

continued during “the Emergency” and the institution building that followed Malaysia’s independence in 1957. Not only were Chinese-ness and Indian-ness publicly debated as social and political subjectivities; Malay-ness as a construct of Islamic and local folk practice was rigidly defined in the Malaysian constitution. A Malay is textually encoded and fixed by Article 160(2) of the constitution:

Malay means a person who professes the religion of Islam, habitually speaks the Malay language, conforms to Malay customs and was before Merdeka Day [independence day in 1957] born in the Federation or in Singapore or born of parents one of whom was born in the Federation or Singapore; or is the issue of such person.

As well, Malays so defined receive an exclusive set of privileges. Malays are legally treated as *bumiputera* (sons of the soil). *Bumiputera*, locally known as *bumi*, are defined as groups who are “indigenous” to the Malay Peninsula and endowed with privileges not given to other Malaysian citizens. As outlined in Articles 152 and 153 of the Constitution, the privileges granted to *bumiputeras* include quota protections in college entrance and scholarships, training, trade, and business permits and licenses.¹¹

An essential “Malay-ness” was posited as the founding myth of the Malaysian nation-state. Colonial “divide and rule” policies, as well as the cooptation of royalty and educated elites by the British colonial government in power sharing arrangements, had enabled Malay leaders of the movement for independence to create and preserve an exclusively Malay constituency. The Cold War subsequently provided ideological cover for the decimation of a class based inter-ethnic political movement led by Chinese

¹¹ These categories are not necessarily coextensive; Muslim Malay immigrants from Aceh or Sri Lanka are Malay but not *bumiputera* while *orang asli* may be *bumiputera* but not Malay (Kessler 1992:139).

communists. Indeed, many of the government-led reforms of the 1950s were aimed at redistribution across racial rather than class lines in an attempt to win constituents away from the communist-led anti-colonial insurgency. Attempts to define and harness the “character” of the Malay “race” (*bangsa*), a character created in opposition to a “Chinese other,” have been the central project of the post-independence regime led continuously by the same coalition of forces – comprising Chinese, Malay, and Indian associations but headed by a dominant political party, the United Malays National Organization (UMNO).¹² In other words, as is the case with anti-colonial struggles elsewhere, the successful struggle for liberation in Malaya took place within a racialized framework which has bent government policy in particular ways since independence. A key aspect of the colonial inheritance is an inculcated belief in racial “characters.” Malays are often spoken and written of as the antithesis of their “modern, money savvy” Chinese compatriots. For example, in his penultimate speech before his party’s convention, PM and UMNO Party President Mahathir Mohamed argued that Malays are “still weak and backward” after three decades of preferential treatment because they are “lazy, immoral and lack discipline” (Mahathir 2002b:15).”

For the first post-colonial government led by Malay royalty in the person of Tunku Abdul Rahman, the peasants were the center of the governing coalition’s electoral power base. The government, therefore, gave some attention to creating infrastructure

¹² Politics in Sabah and Sarawak, Malaysian states on the island of Borneo, are not controlled by the mainland’s dominant United Malays National Organization (UMNO) partly because of the different ethnic composition of the population and partly because East Malaysia has been treated as a periphery at best by mainland politicians. UMNO recently opened party membership to non-Malays in Sabah as part of an attempt to wrest control of the state from opposition parties.

and credit. But, at the same time, a renewed emphasis on technological inputs due to the Green Revolution and the continued concentration of land in fewer hands – the antidote to plots fracturing into even smaller, untenable sizes – caused increasing poverty and hunger in rural areas. Malay peasants were increasingly pushed off the land and into urban areas (Scott 1988:165). Poverty and hunger in the new nation, interpreted in ethnic terms, led to race riots in 1969 and to the initiation of the New Economic Policy (NEP).

The last link in the chain of Malay and *bumiputera* privileged citizenship, the NEP was a national affirmative action (for the majority) policy, which re-emphasized the privileged position of Malays in the redistribution of wealth and ownership of capital. In addition to the “eradication of poverty,” the NEP was aimed at creating a new class of Malay businessmen [sic], with a concomitant increase in the “Malay” share of corporate capital from 2.4% in 1970 to 30% by 1990. While the Mahathir government claimed that the *bumi* share of this growing “Malay” capital rose to 19.3% by 1990, mainly at the expense of Chinese (not foreign) capital, these figures are suspect as UMNO remains the “custodian” of most of this capital (Gomez and Jomo: 1999:179). The New Development Plan (NDP), which replaced the NEP in 1991, focuses on private sector-led growth rather than public sector, or state-led growth. Redistribution and quota levels were altered but remain in effect. However as most of the *bumis*’ share remains held “in trust” by UMNO and state-linked holding companies, the transfer of capital (again as distinct from control which also remains in the hands of political elites) is figurative at best. As will be seen in chapter four, the NDP provided the medium term bonanza of privatizing public utilities and banks, which were then re-nationalized after the financial crisis in 1998. Meanwhile,

with every new foray into development planning, the Prime Minister's office claims to create further *bumiputera* provisions. For example, the new investment schemes and holding companies set up in the reorganization after the crisis are said to provide integrated support specifically to "*bumi* entrepreneurs" (Securities Commission 2001:13).

But, while the rights of citizenship are allocated in unequal, racialized terms, the racial formation engendered by the unequal distribution of meaningful citizenship is unstable and the categories created are ambiguous. Conversations with Malaysians encountered at weddings, universities, and shopping centers quickly reveal the diversity encompassed by constitutionally defined racial categories. For example, Malik, a retired schoolteacher, was born in Sri Lanka to Muslim parents. One of twelve children, he was adopted and taken to Malaysia by a Chinese sailor who befriended his parents. He was raised in Malaysia by his adoptive Chinese parents. Although many of his closest friends growing up were Chinese and he learned Bahasa Melayu only as a third language, he self-identified as Malay and all his grown children married Malays and have *bumiputera* status. Fatima, a Chinese immigrant, born in Malaysia after independence, grew up speaking Hokkien and English and also learned Bahasa as a third language. She married a Pakistani man she met via an internet dating site, converted to Islam and moved to Pakistan. They later immigrated to the U.S. and then returned to Malaysia with their two daughters. Depending on the context, Fatima could pass for Chinese or Malay and indeed she often attempted to exploit her advantage for a joke – listening in on other women's gossip sessions in Hokkien and then interjecting with a punch line of her own. She was, however, rejected by her Chinese parents and siblings when her husband left her

to take a second wife. Legally, as a convert she was still Chinese and did not have *bumiputera* status.

It is legally possible to become Malay by converting to Islam, sending your children to Islamic schools and changing your name but it is not possible to become *not* Malay due to the legal linkage of Malay and Islamic practice. Apostasy is illegal for Muslims and attempting to proselytize Muslims is a capital crime in Malaysia. In other words, Islamic observance, language and culture are strictly policed and enforced as boundary markers. Nevertheless, like all racial categories, Malay remains mutable. Portuguese-Eurasians and Melekan Baby-Nyonya Chinese have filed suit to become Malays (Goh 2002:211). During the fasting month of Ramadan, anyone looking Malay may be arrested for eating during daylight hours but this policy is not enforced in upscale eating establishments in KL – a clue to the ethnic compromises of class privilege.

Constructing the Malaysian Middle Class

The incongruity between the lived experience of Malik and Fatima and the discourse of racial difference in Malaysia is due to the on-going construction of race as a primary marker of difference in the context of neoliberalism. The experience of Malaysia, in which long term sustained economic growth (as measured by GDP and purchasing power) is concomitant with increasing inequality between status groups, indicates the need to examine the processes of state building as linked to the creation of the Malaysian middle class. But, as seen with the application of the NEP, UMNO often achieved developmental results without redistribution of income or equity. Malaysians of Chinese,

Indian, and Malay descent are all manipulated consumers of state discourses on proper ways of being “modern,” developed and middle class.

“Malaysian” as an identity is a hotly contested category, often invoked by individual Malaysians only when they are outside of the country (Rehman 1998). Within Malaysia, ethnic and race-based categories are the primary organizing constructions of both government and popular discourse. Even the three local television stations are divided by language to represent the major “races” and news programs compiled by the national news agency are presented simultaneously in Tamil, Mandarin, and Malay as well as English. In party organizations and other political forums, issues of social class reveal cleavages in the official policies of social balance. For example, there are fierce debates over whether to mandate the use of the national language in all colleges. In official discourse the national language is termed *Bahasa Malaysia* which translates as Malaysian language but in popular discourse the same language is often termed *Bahasa Melayu* which translates as the language of the Malays. The divergence is highlighted by college entrance exams given in *Bahasa Malaysia* which are seen as favoring students in Bahasa grammar schools over students in English, Mandarin or Tamil schools. At the same time, many argue that giving exams in math and science in any language other than English makes Malaysian students less competitive in the international arena. In mid 2002, the government announced a decision to teach science and math in English in all secondary schools, reverting to the pre-independence policy (Ramlan et al. 2002:1). Known locally as the *kulit*-ification vs. qualifications debate (*kulit* means skin in Bahasa Malaysia), many middle class Chinese have responded through “middling

transnationalism,” sending their children to the U.S., U.K. and Australia for schooling (Nonini 1987). Public oversight on issues surrounding “*kulit*-ification” is, however, circumscribed through the provisions of the National Security Act barring sedition.

The Malaysian state has also been deeply involved in construing the middle class nuclear family as the ideal building block of a multi-ethnic polity of modern Malaysia, while at the same time fostering migration policies favorable to Malaysians. After its ascent to power in 1957, for example, the Barisan Nasional (National Front) refused to regulate or ban illegal migrant labor because most migrants were Indonesian Muslims and could be “counted” as Malay, significantly altering the balance of power and population in favor of Malays (Chin 1998:85). In addition, it was not considered prudent to undermine the supposedly pro-Malay urbanization policy by trying to shift rural Malays into agribusiness labor. Given that there was still some unemployment in the early years of independence (6% in 1980), it was risky to allow an influx of foreign labor. However, as the government was simultaneously nationalizing plantations (taking control from former British colonial operators), it could claim that migrant labor was needed on the plantations, assuming the high ground while devaluing rural wages (Chin 1998:65-66; Jomo 1988:268). Again in 1984, an attempt to regulate illegal migration from Indonesia was repealed as unworkable and impossible to enforce. Another attempt by the Labour Ministry to ban illegal workers during the economic downturn of the late 1980s was overruled by Prime Minister Mahathir (who was at the time also head of the Home Affairs Ministry). In its stead the Immigration Department established guidelines for privately

owned domestic employment agencies, directing them to recruit only from Indonesia and the Philippines.

The regulation of institutions surrounding the market for female domestic servants in Malaysia came to represent a cornerstone of state elites' strategy of engineering consent. In the 1980s, transnational corporations, seeking tax havens and cheap labor, set up factories in Malaysia's tax haven Export Processing Zones (EPZs). These factories relied on young female Malaysian workers who were considered to be unlikely to object to and organize against working conditions (Ong 1987). As a result of these employment opportunities, the supply of local domestic servants decreased, even as larger numbers of urban Malaysian women entered the workforce. The government attempted to rectify the situation by encouraging and specifically regulating the in-migration of foreign workers for domestic service. In the mid-1980s Filipina and Indonesian domestic workers came to be defined as boundary markers between Malaysian classes. Malaysians employing a maid were acknowledged by their peers as middle class but the maid's provenience mattered. Indonesian domestic workers were and are much cheaper to hire than Filipina domestic workers. By creating employment regulations specifying that only co-religionists could hire Muslim women, which is to say Indonesian women, as domestic servants, the ruling coalition manufactured a subsidy for the Malay middle class and was able to claim that its policies were directly benefiting the majority of Malays.

Employment rules further required that employers filing for a domestic servant had to adopt a nuclear family form. This regulation had the effect of altering the status of

unpaid female reproductive work in a culture where multi-generational cohabitation was common. The redrawing of labor lines also entailed an expectation that women purchase what previously would have been produced in-house, namely child care and cleaning. Prospective employers of domestic workers had to file applications that included their marriage certificates, children's birth certificates and copies of their personal income tax return. Family and income rules specified that a family must earn RM 50,000 per year in order to qualify for hiring a Filipina domestic worker but there was no income requirement for hiring an Indonesian servant. By requiring Chinese Malaysians to pay a higher price for domestic service, the BN had thereby instituted yet another unstated subsidy for Malays who could now more easily cross the boundary into middle class modern nuclear family status (Chin 1998:86-88). Meanwhile, during this same period, poorer Chinese and Indian Malaysians were forced into migrant or unskilled labor. For example, in 1992 Malaysian Chinese males formed the largest percentage of illegal workers in Japan, estimated at around 14,000 workers (Nonini 1987; 1997). Both formal and informal migrant worker guidelines were part of the reason why UMNO was able to show developmental results – in the form of a rising, modern Malay middle class – without redistribution of income or equity.

Means of getting around the rules (whereby anyone who was not Muslim was required to pay higher rates for domestic service) included using another person's name and papers or visiting the local *pasar malam* (night market) and hiring an illegal worker. By 1994, there were about 70,000 legal Philippina and Indonesian female domestic workers in Malaysia. Portrayed as either thieves and prostitutes or victims of sexual

aggression, their migration and employability were regulated but work conditions and wages were not (Chin 1998:1-2). Employers, besides accumulating symbolic capital associated with class status, accumulated material capital by stinting on wages and food paid to their domestic workers. Since 1994, the dehumanization of foreign workers has gone hand in hand with increasing demand and the government's refusal to regulate working conditions or allow unions to register (Mydans 2007). In addition, employment agencies routinely deny rest days, stating that this is necessary in order to limit women's exposure to criminal elements at large in public space (Chin 1998:16). Further, domestic employment agencies in the Philippines and Indonesia finance their operations in the same manner as indentured service recruiters in 19th century, by buying women's debts, which they then sell to a Malaysian-based employment agency. These agencies, in turn, deduct a percentage of women's salaries each month until the debt is cleared. Depending on the amount of interest charged it is potentially an extremely profitable venture (Chin 1998:114). Young, single, women from impoverished regions in south and central Luzon in the Philippines or the island of Java in Indonesia, are recruited because they are easier to isolate and control (Chin 1998:118). In turn, Malaysian state agencies turn a profit by licensing, taxing, and "regulating" domestic employment agencies. As Christine Chin's research has shown, the problematic discourse of childish, non-rational, stealing, sexually available women legitimates public watchfulness as well as private non-regulation and exploitation.

The political compromise between elites and the Malaysian middle class entails constructing consent through the creation of an ideal and recognizable middle class-ness.

In providing a political solution to the question of who would raise and train a new generation of modern citizens while “modern” Malaysian women were working, the government rendered the middle class visible through the verifiable presence of domestic workers’ bodies. In Chin’s words, the Malaysian state provided a platform for citizens to pursue “neoliberalism’s view of the good life” (1994:10). As we will see below, this view further entailed the ideal of the individual consumer focused on the ephemeral pleasures of the market, indeed on generating wealth through playing the market. This too provided a platform for a nation pursuing economic growth through the entwined strategies of local and global elites.

Individual investors and insecurity

Inequality is mediated and internalized by the Malaysian public through gendered experiences within the country’s racial formation. For example, a major portion of the government’s quest to create a class of Malay entrepreneurs has been channeled into creating Malays (and Malaysians) not only as proper modern workers but also as consumers and investors. As constituents of an investing public, that is to say stakeholders in the “new” economy, middle class Malay women, in particular, are exhorted to save and invest in the stock market, squirreling money from their household budgets. Special “Islamic” women’s investment clubs have been set up in towns around the country to educate Malay women in becoming proper Muslim investing consumers. In contrast, Chinese men are exhorted to enjoy day trading and are assumed to be discussing investments as part of their everyday life. Calls to be proper consumers and investors are common, but the advertising rhetoric is always tailored to specific racial and

gender profiles. As shown below, messages become decipherable only via ethnic stereotypes: Malay women as overweight stay-at-home mothers with no access to money except for household expenses and Chinese men as rich, savvy investors with lots of liquid cash and time on their hands. The implicit message is that Malay women are in competition with each other, while Chinese men are in competition with the government-run investing companies. That is, Chinese men are in and of the market, i.e. capitalists, while Malays, imaged as women, are still laboring to become such through the inculcation of an entrepreneurial spirit in the home.

In 2002, as part of their market recovery and public relations strategy, officials at the Kuala Lumpur Stock Exchange (KLSE) launched traveling roadshows in rural and urban areas around the country, ostensibly to inform the investing and would be investing public and increase awareness regarding investment opportunities. As with most road show junkets, however, the subtext was to be seen creating and fostering community spirit. The road shows were well attended and included photo opportunities with local industrialists and children. Several that I attended illustrate the gendered and racialized categorizations of the Malaysian economy. On a Saturday in Kuantan, for example, the KLSE held one such event. Kuantan is a relatively underdeveloped state despite its important petroleum plants. Its underdevelopment has been linked to a low dispersal of UMNO party funds and support for infrastructure and human development as punishment for consistently supporting UMNO's primary opposition, the Parti Islam Se-Malaysia (PAS), the Pan-Malaysia Islamic Party. Under a striped tent set up outdoors, the Exchange offered to about 25 children from a local orphanage McDonald's meals and

prizes for the best coloring job on a drawing of the Kuala Lumpur Stock Exchange's new building on Bukit Wang (Money Hill) in the capital city. The local press corps turned up for the photo opportunity but the KLSE's staff and the children (all *bumiputera*) were lackadaisical. Free happy meals from McDonald's cheered them somewhat but the children had to be coached into coloring the building.

At another event, at a women's investment session in the early morning attended exclusively by middle-aged Malay women with a smattering of younger students, the presenter, a middle aged Malay woman in full *tudung* and *baju kurung*¹³ stated that investing and saving was the responsibility of women who should not be reliant on their husbands. Always returning to the goal of investing in the stock market, she did not acknowledge the fact that the market was a risky place to invest and that, further, her organization, Hijrah, was currently under investigation for deal rigging involving their fund management house and state unit trust funds (Bernama 2002d:2).¹⁴ In addition, and much to the amusement of the female audience, she constantly returned to a thematic metaphor of diet and health. She spoke at length about small ways to save money such as always eating home-cooked meals rather than eating out. "If [you are] spending more than you bring home [you] must go on a spending diet," she continued. Her explicit link between investing and weight gain concretized the message that women's management of their households as exhibited in their own and their children's bodies was key to success

¹³ *Tudung* is the Malaysian version of veiling, a full headscarf covering hair and upper torso. *Baju kurung*, a recently invented "traditional" dress dating to the 1970s, is a long sleeved tunic and floor length skirt covering the full body; bright flower patterns of imported silk are favored.

¹⁴ She also refused to acknowledge or comment on the ongoing investigation during my interview with her.

in the Malaysian state. The message was positively received by the ladies in the audience who left the forum chatting about diets and diabetes.

Later in the day, at events explaining day-trading that were exclusively attended by older Chinese men, audience questions became more insistent. One older Chinese man, referring to the loss of his savings in the stock market during the Asian financial crisis said, “I am delusioned [sic]. How are these companies different from Enron?” During another very basic presentation about how to find and use a stock broker (as opposed to punting yourself) another older Chinese fellow delved into the widespread use of nominee accounts by institutional and other major investors. He wanted to know how individual investors could evaluate companies given this widespread use of nominee accounts to hide controlling interests. As well there were questions about brokers using clients’ money to trade on their own account and misappropriating funds out of trust accounts for use by other clients. All of these abuses were put down to family connections which the presenters urged investors to shun in favor of professionals. All were also beyond the field of vision, which is to say unimagined, by the women investors noted above.

At another event attended by an all male mostly Chinese audience, a very aggressive young American-trained Chinese-Malaysian Forex trader gave a presentation on understanding the psychology behind the stock market. He offered a straightforward analysis of how to trade by the numbers, always implementing a stop-loss policy. Ending by repeating the investment guru’s mantra of making a plan and sticking to it – “It’s the

plan; remember everything can be calculable.” – he went on to suggest monitoring stock price changes by the minute if necessary. Again, older Chinese members of the audience challenged this economistic view of the market, asking him if he thought the Malaysian market was a “normal” market. He replied that “all markets are the same, the NYSE, the KLSE, ... the stock market is no longer a guessing game – it’s a brain game. Where is the price going?” As will be shown in chapter four, institutional investors did have better information about where the price was going. By contrast, individual investors, the ordinary Malaysians who joined the stock frenzy of the bull market in the 1980s and early 1990s, and invested their savings in the stock market, felt caught in a market which was not calculable on their terms.

The financial crisis of 1997-98 affected Malaysians through decreased earnings and incomes, inflation of the cost of consumption goods, and reduced government services. Rates of job creation remained high (near 5% per year between 1995 and 1997), but were lower than corresponding rates of growth in economic activity, which were around 8% per year during the same period (Jomo and Lee 2001:219). The discrepancy is usually seen as an indication of growth in worker productivity. Employment in all sectors grew during the 1990s but employment in construction manufacturing, agriculture and financial services declined sharply as a result of the crisis. As noted above, due to the expulsion of immigrant labor, unemployment in Malaysia rose but not to the levels seen in Thailand and Indonesia. Not surprisingly, the impacts of the crisis were gendered. While women compose around two fifths of the labor force in Malaysia, they comprised 42.3% of lay offs in 1998, as a result of the crisis, and the figure rose to and

48.1% in 1999 (Jomo and Lee 2001:233). While the financial crisis and the recession did not create widespread unemployment, malnourishment and social discontent in Malaysia (as compared to Indonesia for example), more households slid into poverty (Jomo and Lee 2001:243).

During the boom years before the crisis there was an investing frenzy among the Malaysian public. Individuals were bombarded with rags to riches stories in magazines and newspapers while investment clubs serving all categories (from young Malay women to older retired Indian civil servants) were opened. Stock watching and day trading became a national pastime and Chinese, Indian, and Malay middle class families I encountered often boasted of being close to a stock picking guru, someone in the industry who dispenses tips and advice. However, except for those with extremely diversified holdings, the crisis wiped away most ordinary investors' profits. Meanwhile institutional investors, having evaded regulatory supervision, made ordinary investors wary. Citizens realized they were paying for bailouts of favored government-linked corporations as well as government investment companies, and were chary of government schemes. And yet, interest in the stock market remained intense. Rather than engaging in collective action to restore and protect individual investors' rights or force better disclosure regulations, investors focused on building networks through which to acquire insider information; collecting "market gossip" became part of everyone's "*cari makan*" or strategy for making a living. A multilayer pun, *cari makan* literally means making a living but figuratively refers to collecting information and, in the case of police and government officials, cultivating favors through bribery.

A KLSE official I interviewed cited a local investment bank's study clarifying that at the time of my fieldwork in 2002, only around 45,000 Malaysians (or around .1 percent of the population) had RM 1 million in liquid assets. Arguing that this is the smallest amount of capital needed to retire with, he urged the public to invest in the stock market and especially in specially designated *bumi* funds. Around the same time, a study sponsored by the Employee's Provident Fund concluded that the retirement funds from the scheme are usually finished within three years of retirement. I asked the KLSE official about recent scandals involving a misappropriation of funds and cooperation with illegal syndicates by Permodalan Nasional Berhad (PNB), a major government investment company that manages *bumi*-only funds. In response, he narrated a just-so story involving an entire town in Pahang where 80-90% of the population disinvested in PNB and invested in a "ponzi" scheme, only to lose all their money. By contrast, locals I spoke with stated they withdrew funds due to the extraordinary low returns that PNB disbursed even during the boom years before the crisis. Meanwhile, at the popular open air eating stalls and teashops, ordinary investors chatting with one another, maintained that the best investment practice is to anticipate, with strategic investments, the awarding of contracts to government-linked companies. As will be seen in chapter four, institutional investors deploy the same strategy, but their privileged access to information guarantees a competitive advantage over individual investors, the Malaysian public.

Bigger Players

Ordinary investors are also tax payers and they grumbled in public and private forums over who would foot the bill for failing companies – for example those of Tan Sri Tajudin Ramli examined in chapter four. In the context of the crisis, the broadest public outcry surrounded the government bailout enacted by Petroliam Nasional Bhd (Petronas), wholly owned by the Malaysian government, and Konsortium Perkapalan Bhd (KPB), a company run by then Prime Minister Mahathir's son, Mirzan. Although the opposition coalition, Barisan Alternatif (BA), attempted to turn voter's anger over bailouts into support for opposition parties, the average Malaysian investor remained more interested in "getting in the game" and profiting from the realignment of the political and business elite. A snap poll in the daily local business weekly, *The Edge*, published on November 5, 2001, reflected astoundingly low levels of public support for either privatization or renationalization of government run companies. When asked to rate the country's privatization drive in light of recent corporate developments at Pemas and other ex-government companies, respondents answered: disappointing 71%, fairly successful 3%, misses the target 26%.

In the same issue, the paper made joking references to the overwhelming interest of private investors in buying into favored government-linked companies. According to my interviews and personal observations in funds around Kuala Lumpur, during the speculative buyout brokers were besieged by calls for shares in government-linked companies (particularly those of Tan Sri Tajudin as examined in chapter four). Describing the influx of calls, several of these brokers

mimicked the refrain, “Can buy-lah?”¹⁵ Part of the reason for investors’ excitement was their perception that getting in on the local game meant gaining access to global profit opportunities. It was well publicized in Malaysia that as part of the fall out from Enron’s bankruptcy, Azurix, an Enron subsidiary created to enable a disastrous foray into the global water business, sold Wessex Water, a municipal water business in the U.K., in March 2002 to Malaysia’s YTL Power International (Prystay 2002:A3; Sidhu 2002;1).¹⁶

Wessex was the largest overseas acquisition by a Malaysian company and garnered international attention as part of the breakup of Enron’s corporate empire. YLT Corporation is a 40 year old conglomerate that developed out of a construction supply and contracting business, a common starting point for many companies founded by Chinese Malaysian entrepreneurs, pre and post-independence in Malaysia (Tan 1993). Listed on both the Kuala Lumpur Stock Exchange and on the Tokyo Stock Exchange, YTL is a star on the Malaysian scene and considered the prototype for successful capital accumulation and expansion. Run by Dr. Mahathir’s close confederate, Tan Sri Francis Yeoh, YTL was awarded an Independent Power Producer license in 1993 and immediately catapulted itself into the business of electricity generation (previously a government monopoly).¹⁷ As YTL began expanding its power generation business overseas, it profited from privatization initiatives around the world – e.g. a joint venture

¹⁵ "Lah" is a suffix commonly used in Malaysia to add emphasis to a word or phrase. It may possibly be of Tamil origin.

¹⁶ Enron paid \$2.88 billion for Wessex Water in 1998.

¹⁷ Tenaga, the publicly listed but government controlled, national electricity company is part of the TMT triumvirate that dominates the KLSE (see chapter 4).

with a Zimbabwe electricity supply corporation as part of the Zimbabwe government's deregulation of power, another joint venture with a Hong Kong provider, and another in Australia. YTL's acquisition of Wessex Water (potable and sewage supplier) from Azurix was its first venture in the water business.

There were allegations of corruption in the competitive bidding process for Wessex and the British CEO of Wessex Water, Colin Skellett, was arrested on suspicion of receiving a £1 million bribe. At the time, the U.S. investment bank which advised YTL on the deal claimed that YTL had offered the best price and that the board of Azurix made the decision without input from Wessex Water (Portanger 2002). Skellett was later cleared of the corruption charges, the payment of £1 million being redefined as a fee for consultancy services (Lynn 2002:2; Singh et al. 2002:1). The clearing of the slate notwithstanding, however, the YTL buyout of an Enron subsidiary remains problematic. Benefiting from the spread of neoliberalism, conglomerates around the world have profited from privatization and government connections in their home country, then moved into new territory in order to hedge their exposure. Tan Sri Francis Yeoh, in buying into Wessex Water, was hedging his exposure to a particular political regime in Malaysia, namely that of former Prime Minister Dr. Mahathir and his successor PM Badawi, both of whom are committed to fostering *bumiputera*-entrepreneurs, sometimes at the expense of entrepreneurs of other ethnicities such as Tan Sri Yeoh.

Yeoh is a Christian convert who thanked God for YTL's successful bid for Wessex. Splashing onto the U.K. scene he also sponsored a free concert by the Three

Tenors (the “Free Tenors” in Wessex’s publicity materials) for the British public. Casual references to hobnobbing with Prince Charles and his early school days at an elite public school in the U.K. served to highlight his and, by extension his company’s, credit worthiness. In the public media Yeoh joked, “Every time I meet him [Prince Charles] he refers to me as a ‘dangerous man, the God man. Here he comes again. He’s going to talk about God.’”(Baker 2003:1).

Tan Sri Yeoh, dubbed as one of Asia’s “new rich” by the international media, is clearly not representative of Malaysia’s middle class. Rather he represents wealth generation through concrete ties to the “old rich” of the developed world on the one hand, and to the Malaysian political elite on the other hand. The preferential access given to American International Group (AIG) (my informants stated that AIG was given first access to the Malaysian market by PM Mahathir because Alan Greenspan was on its board at the time) yielded other “new rich” and “old rich” connections of this type. As Pierre Bourdieu argues, elites (both old and new) utilize their strategic networks to create “formations which delimit the space of possible action” (Bourdieu 2005b:83). Within national and international markets the spaces of possible action have been radically altered by technological innovations at the end of the 20th century, yet through elite networks actors continue to utilize their competitive advantage to create a favorable playing field. By annexing the corporate terrain, defining legality and exchange in a way most favorable to state-linked companies and interests, the Malaysian government seeks to rearrange the extant power structure in the international market arena so that it too may effectively enter the fray.

From the “lazy Malay” to the *Bumi*-entrepreneur

A prime mover in industrialization and modernization projects in Malaysia, PM Dr. Mahathir Mohamed has consistently revived the myth of the “lazy Malay.” As argued above, the myth has historical roots in the strategic importation and deployment of labor from China and India by the British colonial authorities in Malaya. The ‘lazy’ Malay became reified as a category when, with independence and economic growth (based on the nationalization of oil and primary industries, later supplemented with export processing zones) Malays began to move into urban areas in large numbers. Suddenly, older rural modes of sociability, work, and everyday life were inadequate. Malays were identified as traditionalists and therefore as bad capitalists, inept at coping with modernity. PM Mahathir, himself of rural origins, had a concrete role in reifying the myth through his book, *The Malay Dilemma*, written while he was a young practicing doctor in Singapore but with his political ambitions fully formed (Mahathir 1970:52-57). In this book, and in later ones, Mahathir exhorts his “lazy, inept, ignorant, helpless” Malay compatriots to adopt a capitalist, entrepreneurial spirit (Khoo 1995:34-36).¹⁸ The book and his later writings clearly play on racist fears of the Chinese minority, construed as non-natives and not real citizens, yet controlling a majority of business concerns in Malaysia.

At the same time, through the institutionalization of the NEP, and then the NDP, Dr. Mahathir has explicitly attempted to create a *Malay* “entrepreneurial class.” In the process, through the system of instituted privileges, the myth of the “lazy Malay” has

¹⁸ Mahathir’s father was *mamak*, an Indian Muslim immigrant to Malaysia, he is therefore technically not *bumiputera* himself.

transmogrified in popular parlance into the “Malay businessman, *Bumi* businessman, or *bum*” – local code for a shyster who knows nothing about business or finance but has acquired riches purely on the coattails of preferential treatment and shady dealing with government run companies. The figure of the “*bumi*” businessman has passed into popular culture and become a stock character in plays and TV sitcoms in Malaysia. For example, a skit in a wildly popular play running in 2002 featured a job applicant with no qualifications who is ignored until he mentions which village (*kampung*) he hails from and is then immediately hired. The skit was greeted with wild applause and laughter. “*Bumi* businessman” evokes someone who has absolutely no credibility and is untrustworthy. The flip side of this myth is the “Chinese businessman” who is both credible and trustworthy, even while his crony connections might be the same. For example, during the financial crisis, fund managers spoke to me of Public Bank as a “good bank” and a “safe bet” specifically because it was known as the only remaining bank run by Chinese Malaysians. Against these prejudices, PM Dr. Mahathir attempted to re-invent the Malay businessman, removing the negative connotations, through speeches and press releases pointing to the “*Melayu Baru*,” the so-called “new Malay,” as exemplified by rising “*bumi*” business stars such as Tan Sri Tajudin Ramli and Azman Mokhtar (see for example Edge 2001:2-20).

The project of creating a *bumi* entrepreneurial class should be contradictory to the aims and interests of Chinese and non-Malay Muslim elites but in fact it is not. This is because over his years as Prime Minister, Dr. Mahathir not only created a Malay middle class but also ensured that his elite allies – whether Chinese such as Tan Sri Yeoh or

Malay such as Tajudin Ramli – benefited from redistributive schemes, in effect satisfying both his middle-class and elite constituencies. The institutional apparatus for doing so was inherited from the colonial patterns as can be seen through the example of the construction industry. At independence, British capital dominated all sectors of industry except construction. In a bid to win support from Chinese capitalists and at the same time shore up the ideals of a modern, Malay middle class, the first Prime Minister of Malaysia, Tunku Abdul Rahman, who descended from Malaysian royalty, and his finance minister Tan Siew Sin, a major plantation owner, allocated large sections of the federal budget to the housing sector. In this way they were able to conjoin the premise of a “house-owning democracy” with substantial flows of state spending to the construction sector (Tan 1993:21). As Chinese-Malaysian capitalists owned 85% of the construction companies at independence, they received the benefit of state spending in the housing sector while “middle class” Malays, Chinese and Indians bought the houses.

Meanwhile, Malaysia’s project of creating an ethnically defined class of “entrepreneurs,” the *bumiputera*, also entailed the transfer of ownership and control to particular elites who were not necessarily *bumiputera*. Specifically, the project elevated a class of Malays with Islamic credentials and transnational corporate ownership rights, as power players in global business. During the 1980s, divisions emerged within the United Malays National Organization (UMNO), the central party of the governing coalition, over patronage policy and disputed elections. Development policy was also contested via pan-Islamic revivalism. Partly in response to the Iranian revolution and to the proxy war in Afghanistan, Islam and the proper role of Islamic legal theory in relation to development

became a central political issue. Islamic identities within Malaysia took on an internationalist orientation, contesting state powers (Goh 2002:188). The UMNO leadership was challenged as not Islamic enough. Cooptation of the younger leadership of the Islamist movement, in particular its charismatic leader Anwar Ibrahim, was UMNO's seemingly effective strategy for maintaining hegemony. As noted in chapter one, however, Anwar spent the 1990s in prison under the Internal Security Act, although he has recently re-entered politics as an opposition member and is attempting to weld a parliamentary coalition to unseat the current Prime Minister Badawi (Mydans 2008:A10; Sanger 1998:5).

Among the Malay middle class, dissatisfaction with the government's undemocratic practices and policies was contained through effective manipulation of fear of Islamic "terrorists" after the 9/11 attacks in New York City and later attacks in Bali and the Philippines. Dr. Mahathir, already pushing himself as the foremost example of an entrepreneurial "Islamic" leader, appeared the perfect trustworthy partner for America. Moving onto the international stage, upon stepping down as PM of Malaysia in 2003 Dr. Mahathir was elected to chair the Organization of Islamic Countries (OIC). His speech upon assuming the chairmanship outlined his vision of "Islam, Inc." – the creation of a capitalist Islam using Malaysia as an example (Mahathir 2003). In critiquing "the West," Dr. Mahathir utilizes racist and sexist terms, contrasting the "Chinese businessman" or "the Malay businessman" in Malaysia with internationalist "Jewish financiers." At the same time, Mahathir retains credibility in market terms because of his absolute support for capitalist development on neoliberal lines. In addition to developing the Malaysian

financial markets as the ultimate destination for Islamic finance (which follows the form but not the substance of disallowing interest according to Islamic law), Mahathir sought to gain the spotlight for himself as leader or CEO of a kind of capitalist modernist Islamism, a new project of empire (Mahathir 1988, 1998, 2000, 2001, 2002).

In his speech, Dr. Mahathir called for the unification of the Islamic world based on a return to the fundamentals of Islam's "golden age of imperialism" (Mahathir 2003). He argued that fundamentally, Islam supports a broad based engagement with the world, not a singular focus on theology, and pointed toward a rejuvenation of science and technology studies in the Muslim world as a realm for creating entrepreneurs, criticizing an over-emphasis on the pursuit of legal disciplines. Although this critique of orthodox modes of Islamic jurisprudence and development plans was accompanied by introducing a virulent strain of anti-Semitism (earning standing ovations), Mahathir's platform was based on replicating Anglo-American corporate capitalism.¹⁹ He offered no substantive critique of capitalism or globalization; rather "Islam, Inc." in his formulation was to be a marketing tool for slicing off a bigger piece of the pie for Muslim leaders. Mahathir slips easily into the preformed categories of a racialized market metaphor when describing his vision of the reasonable, sustainable, and successful Islamic society but he does not challenge any of the terms of financial liberalization and globalization pioneered in England and America. The parochialism of Dr. Mahathir's racialized global view and the global cosmopolitanism that neoliberalism purports to create seem jarringly contradictory

¹⁹ The anti-Semitic quote is: "The Europeans killed six million Jews out of 12 million. But today the Jews rule the world by proxy. They get others to fight and die for them" (Mahathir 2003).

in juxtaposition. But the surface discrepancy can be resolved by examining the terms of creditworthiness globally.

Networks and transnational capital mobilization: global *guanxi*

The Malaysian government and the networks of elites connected to the government entered the global fray in the midst of what sociologist Manuel Castells refers to as the new “network society” in which information processing has become the major measure of productivity and means for successful competition in the global economy. According to Castells, the new “informationalism” has engendered a new sociality based around a global competition for information technology and processing (Castells 1996; 1997; 1998). Following Harvey (1989), Castells points to compression of time and space through this real-time global conjunction. Castells’s emphasis, however, is on transformations in social organization such that networking becomes the most significant global practice in accumulating wealth and power. Castells’ central claim is that the ‘information age’ has a different organizational logic than the industrial capitalist age. In the new regime of accumulation he sees the hierarchies of industrial capitalism as being replaced by a networking logic that is more efficient in the context of information processing, this being the major input and output of industry globally. For Castells the business organizations, both formal and informal, of East Asian capitalism are prime examples of the efficiency of networking practice in action (Castells 1996:172-195; 1998:272-77). For him, the “space of places” previously tied to production is replaced by the “space of flows” which changes the fundamental nature of capitalism. A cosmopolitan elite manages flows of capital, i.e. information, while those left in the ‘space of place’ are marginalized (Castells 1996:376-415).

Castells defines social movements as “purposive collective actions whose outcome, in victory as in defeat, transforms the value and institutions of society” (Castells 1997:3). As Charles Tilly points out, Castells’ definition “uses both intention and outcome to define the object of analysis” (Tilly 1998:2). These observations regarding social movements can be extended, in a very general way, to social networks. To the extent that networks have a core of common identity forged in local terrain, they can be a force which undergirds the expansion of global informationalism or global capitalism. As some networks mobilize and retain more power than others, the relationship between networks matters. We need a means of evaluating power acquisition and maintenance within and between networks. Networks are generally viewed as a “relational form of governance in which authority is broadly dispersed” enabling very quick strategic linkages and perhaps competitive advantage in a system where flexible accumulation dominates (Smith-Doerr and Powell 2005:380). But as Castells argues, “The informational/global economy is organized around command and control centers able to coordinate, innovate, and manage the intertwined activities of networks of firms. . . . They are pervasive, and they are located throughout the geography of the planet, excepting the ‘black holes’ of marginality. On the other hand, there has been a spatial concentration of the upper tier of such activities in a few nodal centers of a few countries.” (Castells 1996:378-379).

In viewing networks this way, we are drawn to appreciate that they encompass all aspects of life, not only job connections but also social ties. Formalized through legally

sanctioned exchanges of material or cultural capital, networks of elites (even while manifesting many informal aspects) have a significant advantage over those with limited material and cultural capital. This is why networks of elites are central to accumulation. There is no compelling evidence that authority is broadly dispersed among networks in the global space. Rather authority remains highly stratified, such that, for example, training in one of the top investment banks in the U.S., the U.K. or Japan is still considered necessary to move into a position of authority in any major global investment bank. Authority adheres to those with exceptional amounts of material and cultural capital and loose networks congeal around these concentrations, these individuals.

It is in this regard that local accounts of “Chinese” networking in relation to Malaysia’s developmental success (which followed the political compromise between Chinese capitalists and *bumi* politicians) is of interest. Much attention has been focused on the role of Chinese entrepreneurialism and the success of Chinese-run corporations in Malaysia and Southeast Asia more broadly (Hefner 1998; McVey 1992; Nonini and Ong 1997). Scholars across a range of disciplines have attributed this to the competitive dynamism of *guanxi* networking styles (Hefner 1998; Yang 2002; Yazawa 2006:314-316). *Guanxi* can be defined as networking that seeks to capitalize on the reciprocal obligations and trust embedded in strong social ties, enabling an exchange of favors and influence outside the domain of the original linkages. While *guanxi* networks are an integral part of Chinese societies and have been pervasive in daily life over a very long history, some scholars tout the existence of these networks as if they are the result of an unchanging Chinese cultural imperative; a culturalist interpretation which is then offered

as the explanation for development in the entire Asian region (Huntington 1997; see Nonini and Ong 1997 for a review of the debates). But from a global perspective, *guanxi* can be seen as elites' networking praxis or market-making linkages, i.e. part of their everyday life whether or not they are Chinese (Gomez and Benton 2004; Gomez 2004).

Guanxi networks can, therefore, be more profitably viewed as civil society organizations – as non-governmental or quasi-governmental “empowerment” coalitions – which, in Southeast Asia, most often take the form of business associations. The deployment of capital by groups of Chinese through kinship, educational, and business networks is neither unique nor unexpected and is in line with other studies of the deployment of social capital by both minority groups and business elites in widely varied social and economic contexts (In-Jin 1995; Jacobsen 2007; Pyong and Bozorgmehr 2000; Razin 1993). It is notable that the literature on *guanxi* networks was founded on an exploration of Chinese-ness in a minority population, i.e. overseas Chinese. Building enterprises in a hostile, regulatory environment, it is not unexpected that entrepreneurs would rely on face-to-face ways of building trust and extant modes of network and credit mobilization. The circumstances that generate a reliance on “traditional” forms of network formation are similar across many regions of the world and are not culturally or ethnically specific.

And yet, the myth of an unchanging, transnational culture of Chinese-ness and of the competitive advantage of overseas Chinese networks, has been effectively deployed by “nationalist” politicians across various contexts in Southeast Asia. The “over-

privileged” Chinese capitalist is popularly depicted as a cause and consequence of disasters and may be utilized by governments to facilitate the transfer of power and wealth from Chinese business groupings to newly favored government cronies. Against the specter of a coordinated, nefarious Chinese “mafia” organized along *guanxi* lines, Malaysian economist Edmund T. Gomez points out that competition among Chinese business organizations is often fiercer than cooperation (Gomez 2002;2004). While Chinese business networks and networking do exist and are crucial to the success of enterprises, it must be recognized that they are contingent; they emerge, multiply, move and shift in response to specific historical, governmental, and economic circumstances and events.

Dramatizing this argument were the events of the “Asian” financial crisis which exposed the barrenness of the culturalist explanation for overseas Chinese business success. There were expectations in Indonesia, Malaysia, Thailand, and the Philippines, all countries with a substantial Chinese minority in possession of economic clout, that the Chinese community as a whole, discursively constituted by the local press as a united transnational elite with unitary interests, would swoop in and snap up key corporate assets at low prices. These expectations were not born out during the course of the crisis. By contrast, parallel expectations that multinational corporations with political connections in the International Monetary Fund, the World Bank, the International Financial Corporation, and other development and regulatory authorities backed by core country institutional power, would benefit were indeed born out (Chang et al. 1998a:649-52). The causes and consequences of the crisis might be seen as an indicator that the

specter of a culturally specific Chinese capitalism is not a reality, but rather, that the ad hoc international monetary regime emergent since Bretton Woods and especially since the 1970s, favors any *guanxi* network with a previous competitive advantage – specifically networks linked to the structural power of core countries in global markets, in other words the countries with sovereignty as discussed in chapter two.

Ironically, while Malay and Chinese elites are able to mobilize credit resources transnationally, middle class Malays are barred from similar moves due to their institutionalized “privileges.” In the bond market for example, the largest investors in Malaysia (the Employees Provident Fund (EPF), the Armed Forces Fund (Lembaga Tabung Angkatan Tentera) and the Social Security Organization, are legally compelled to invest around 70% of their funds in Malaysian Government Securities. After the crisis, almost no Malaysian Government Securities were held by foreign investors. Moreover, within the investment management sector, the relatively constrained EPF continued to dominate. Holding a large amount of capital and only outsourcing about 1% of its funds to external fund managers, it has retained considerable leverage within the Malaysian capital market and over other investment managers. As will be discussed in chapter four, the EPF has funneled Ministry of Finance losses through its own shell companies and scandals continue over EPF missing funds and below market returns (Bernama 2002c:10; Cruez 2002:1,4). In other words, the post-colonial era looks much like the colonial era in terms of restrictive credit markets to which the Malay middle class remains captive. Rather than creating a new elite, the NEP’s restructuring of society actually operated to

shore up the UMNO's base among the old elite, leaving the Malay middle class "privileged" but marginalized.

Networking, social capital and exchange in the long term

Chinese-led business and political elites, who consolidated an ethnic power base in opposition to the class based appeal of the Malaysian Communist Party during the "Emergency," and the colonial and post-colonial Malay elite, who consolidated power with the support of the British colonial government, reached a compromise in the 1960s, giving the Malays power within politics and the Chinese some political and substantial economic power. The compromise entailed nationalizing industries and restructuring the economy via ownership transfers and trusteeship rather than by emphasizing overall income equality. The Malay elite was and is composed of rich landowners, royalty, professionals, and business administrators, and long standing trading families of Indonesian, Indian or Arab descent (ironically as "foreign" in their connections and descent as the "Chinese" capitalists discussed above). Within Malaysia, as noted above, the Malay states are the nine states of Peninsular Malaysia that have hereditary Rulers (seven Sultans of Kedah, Perak, Kelantan, Terengganu, Pahang, Selangor and Johor, the Yang di-Pertuan Besar of Negeri Sembilan and the Raja of Perlis). In principle, these rulers (titled Raja and Yang di-Pertuan Besar in Perlis and Negeri Sembilan respectively and Sultan elsewhere) are figureheads and follow the principles of constitutional monarchy. In practice, the royals have significant immunity from legal prosecution and privileged access to capital and resources. In a singular power sharing arrangement, the nine Rulers of the Malay states elect the Yang di-Pertuan Agong (King) of Malaysia from

among themselves. The Malay states are distinguished from the States of Malaya, which comprise the Malay states and the two former British settlements of Penang and Malacca, which do not have native Rulers, but are headed by Yang di-Pertua Negeri (governors) appointed by the Yang di-Pertuan Agong.

“Politicians come and go but sultans are forever.” This saying, repeated by many different informants in interviews and on the street, renders legible the hierarchy of social networks in Malaysia. Access to political influence means clout but access to royalty is the most saleable of commodities. At the apex of the hierarchy, *guanxi* can be activated across racial and/or class lines. An individual like Ali (the CEO of a local hedge fund analyzed in chapter five), an “Americanized Malay” according to his friends, who chose to work and live in Malaysia, provides an instructive example. He represents not only his own personal achievements and dreams but also the unfolding historical formation of a powerful elite – the trajectory, opportunity, and interests of the Noordin family.²⁰ This Mamak, or Indian Muslim family, traces its immigration to Malaysia to 18th century Penang (one of the Straits Settlements and headed at that time by a British governor). The roots of Ali’s governmental connections, through which he obtained licenses and investors for his business, are in his father’s Oxbridge degree and his work at the Petronas national gas company in the immediate post-independence period. His father’s education at an elite U.K. university was in turn enabled by royal connections formed in Kelantan during the Japanese occupation. In another regress, these connections were grounded in the family’s pursuit of education, adventure, and a professional niche

²⁰ Noordin is a pseudonym for this family.

following the takeover in Penang by the East India Company in 1790, which resulted in the demise of the family's trading schemes.

Ever since the Noordin's founding matriarch and her son sailed from south India to Penang, there has been a history of inter-ethnic marriage in the family network. In keeping with alliance-building in *entrepot* towns along the straits, trading families in Penang and Malacca frequently intermarried (Harper 1999:16). As elsewhere marriages among kin were an opportunity for cementing commercial ties, amplified through frequent polygamous unions.²¹ At the same time, immigrant trading families rapidly assimilated the Malay customary rules or *adat*, a combination of Islamic strictures and local practice. While histories of these elite families tend to overemphasize the process of assimilation, this being a way to assert family members' constitutional rights as Malays and *bumiputera* as discussed above, there was no legal or naturalized foundation of "Malayness" in the 18th century (Abdur-Razzaq and Khoo 2003; Ragayah 1997; Tang 2002). Customs varied widely depending on the region and forms of Islamic practice were also divergent (Andaya and Andaya 1982). Indeed, descendants of the trader who founded the Noordin family pointedly married multiple wives of different heritage such that every branch has Malay, Siamese [Thai], Indian and Chinese ancestors. Ali, the contemporary CEO has a Chinese-Malaysian mother. While the common tongue became Malay, the lingua franca of the region, everyone had a smattering of other tongues. In addition, as the founder was appointed by the British to manage local disputes and collect

²¹ Under Islamic law a man may marry up to four wives. Custom, or *adat*, in Southeast Asia also sanctions the practice. In general, plural marriages are much more common among elites than among other groups but the practice varies widely from state to state (within Malaysia) and between countries.

taxes from the Indian population, the family had a strong impetus to learn English and adopt anglophile dress as well.

Members of the Noordin family passed through all the professional posts that were available to locals during colonial occupation, branching out after independence into political posts with Bank Bumiputera and Petronas as well as going into careers in law, medicine, the military and education. The family's public mythos is that it originated in Arabia, a common claim among elite Malay families throughout the region. The documented origins of the family in India are construed as referring to a "sojourn" followed by migration to their "real" home in Penang in the mid-18th century. The founder and his brother began as traders on local routes bringing cloth and opium from India to the Penang free port and transshipping to Aceh, returning with pepper, rice and other spices. At that time Penang was a bustling port city profiting both from the British and Dutch long distance trading routes to China and from the local Southeast Asian trading routes monopolized by two groups: south Indian Muslims and Jawi Peranakan Muslims. Intermarriage between these groups underwrote the formation of the local elite and the "founding father" of the Noordin family became a wealthy merchant in the textile trade.

In most respects the networking success outlined for the Noordin family resembles the trajectories of other elites in Malaysia. Before independence, it was common practice among prestigious (although not royal) families to marry multiple partners from different national or ethnic groups, this being a way to further linguistic

and cultural capital as well as entrepreneurial capital. The practice ceased with independence and the rise of Islamist nationalist discourse and discriminatory laws. However, similar “multicultural” maneuvers continue to be pursued in the realm of education. Families may spread their sons among the linguistically differentiated schools of Malaysia (Malay, Chinese, English) to hold open the doors of opportunity entailed in linguistic facility.²² Or, Chinese families, in seeking to become Malay, may send their children to Muslim schools. Such maneuvers have also helped families circumvent a bewildering shift of policies regarding the language of instruction in public schools, in particular the shift in 1970 from English only instruction to Malay only instruction in higher education (Shamsul 1999b; 2001).

But Ali also developed a second network, a connection with a local merchant bank, Bank X, whose current head, seen as a “new” *bumi* businessman, was closely linked to PM Mahathir and was appointed as a successor to those who fell into disfavor with the departure of finance ministers Tun Daim Zainuddin and Anwar Ibrahim. Ali’s XAM hedge fund started as an in house proprietary trading fund of Bank X and according to the bank chief, “the Malaysian public still sees XAM as part of Bank X;” indeed many investors came through those same connections. As the process of creating these circuits of access to capital is also the process of making up individual subjectivities (Hacking 2004:278), Ali’s *guanxi* process represents both his Anglo-American training and his Malaysian training as a participant in a particular racial formation. The racial formation in Malaysia, in channeling access and privilege toward a racially defined category (that

²² Personal communication from Shamsul A.B. in discussion of August 1999.

remains, however, mutable) maintains power through ensuring that older elites have access to both local and international power circuits, while other citizens are denied similar access. Mahathir's project of creating a *bumi* entrepreneurial class should be contradictory to the aims of Chinese and non-Malay Muslim elites but in fact it is not. This is because Dr. Mahathir has created a Malay middle class while ensuring that his allies (both Chinese and Malay alike) benefit from redistributive schemes, in effect satisfying both his political (middle class) and economic (elite) constituencies.

Through the concentration and centralization of power in the office of the prime minister and the establishment of political parties as corporations (and by extension the governing coalition as a conglomerate), the Malaysian state has become an emergent corporate form with risks and rewards shared unevenly across the corporation. Ownership and control are concentrated in the hands of well-connected elites and foreign institutional investors while Malaysian workers have truncated rights as employees (unions are outlawed), consumers, and individual investors in "the market" as managed by the state. Liability, within this political-economic structure is born not by the corporation but by the middle class. In addition, as the government channels the credit and investment of ethnically stratified groups through its own companies, it holds some investors savings' captive. Effectively the Malaysian state is fashioning a permanently insecure future for individuals through protectionist measures, even while those protectionist measures reinvigorate support for the governing regime.

Using the same structural process of creating dual credit markets, the post-colonial government has replicated the British colonial government's paternalistic, racial stratification of the economy and social life. The resulting "duality," which can be maintained only through authoritarian control of elections, security, and press at the expense of human rights, insulates local elites from their putative "home" economy. Individual players in capital markets differ in the depth of their knowledge about particular nodes and this differential expertise can determine success or failure in setting up channels for accumulation. Shaping unequal channels, racial stratification also creates "economic" subjectivities. The global corporate racial formation, which privileges Anglo-American training and legal corporate forms as well as particular masculine, white elite privileges, constitutes a moving frame for elites more generally who are seeking to cash in on liquidity. Thus, in Southeast Asia, elites move from the financial services industry in London to Hong Kong to retirement in Thailand or Malaysia without ever fixing themselves or their capital on local terrain. Ironically, the multiplication of capital market connections under the neoliberal global financial regime supports continued racialization on both local and international terrains. Global finance, in practice, increases the power of particular modes of socialization and racialization, that is the accumulation of cultural capital (Aronowitz 2003:50). In augmenting arbitrage opportunities between different racial formations, globalization furthers racialization encased within particular power formations rather than consolidating "difference" under a single regime.

The construction of a racial formation rests on a series of projects in which people and social structures are represented and organized (Omi and Winant 1994:55-56). Like “the economy” which is created, inhabited, transformed and destroyed through the same interpenetrating processes of representation and institutional organization (the same intertwining of projects), a racial formation undergirds the powerful structures which represent and “explain” the existence of nation, self and other. As the prime movers in the newly globalized field of fund management, Asia’s new rich are altering the field and the flows of finance through their actions. Do they represent transnational capitalist, class-based interests? Theorists of a transnational capitalist class conceptualize class in terms of relations to the means of production, distribution and exchange and apprehend the transnational capitalist class as the ruling class of the global system (Sklair 1998:135-137). But emphasizing the central role of the capitalist class in commoditization and financialization, rendering “everything more abstract (Sklair 1999:135),” elides the key issue of how a “capitalist class” relates to national interests and national economies as well as to international interests. In contrast are the social theorists who argue that class can never be reified as a thing, but rather must always be analyzed as a political project engaging real actors (Aronowitz 2003:23,39-40).

Among such actors in recent times are the neoliberal proponents of the deregulation of finance (Harvey 2005:33). Fund managers cement ties with local and international politicians even while politicians recognize that the interests of fund managers often run counter to local or international politicians’ interests. This is possible because of the change in the extension of sovereignty to mobile political subjects – a shift

in the basis of political sovereignty whereby the most mobile investor becomes the most credible political subject and, therefore, obtains increased power (Palan 2003:13). As the informal organizations of elites evolve in interaction with the formal institutional orders and modes of governance in capitalist societies, investing and consuming have become central to the definition of political sovereignty (Marcus 1983a:10). The global financial system would be inoperable without the informal networks and modes of operation of elites. In other words, the technological revolution of real time communication becomes an operable global financial system only when the extant networks and modes of sociality of fund managers are added to the equation (Mackenzie 2004:86, 97). The “mutually shared, tacit praxis” of elite networks which cuts across formal orders also functions to support those same institutional orders (Marcus 1983c:42). Malaysian elites are indeed part of a transnational capitalist class even though they do not have the same structural leverage as core country elites within shared networks. But, following social theorist Stanley Aronowitz’s definition of class as a collective political project (rather than a socioeconomic category), Malaysian elites’ concerted political organizing should attract attention. Their goal is to change the configuration of power in the global arena such that they will have more leverage.

As beneficiaries of privileged entitlements, financial elites maintain an informational advantage without having to maintain market infrastructure – indeed, as will be seen in chapter five, while denying the value of infrastructure. The process is similar to how individual human rights discourse has mushroomed as neoliberal states eroded all other non-individuated forms of social solidarity (Harvey 2006:28).

Corporations, as legal individuals, have recourse to these newly solidified legal entitlements even as rule-making power is dispersed among non-elected elite led institutions, the club formations discussed in chapter two. The idea that civil society, and other institutions outside the state, will have a say in promulgating or reforming these rules becomes increasingly preposterous given the simultaneous reconfiguration of state institutions and practices in favor of coercion over consent, capital over popular movements, and executive over other branches of government. The “clubs” that move class power continuously exercise criteria of inclusion and exclusion; this is what provides them with maneuverability. As will be examined in the next chapter, the individual sovereignty enjoyed by corporations also redounds to class power but as an unrecognized or unacknowledged consequence of class acts.

As will be argued in chapter six, a further consequence of the ethnic, indeed racialized basis for apportioning rights in Malaysia is the creation of expertise that is generalizable on a global scale. Just as development experts can apply the same sets of tools and frameworks around the globe, experts in state-building (as racial demarcation enabling capital accumulation) are in demand globally. Internal racial restructuring draws on international repertoires across the world. For example, Singapore’s separate but parallel process of marking Malay subjects as problematic involved applying the arguments of eugenics honed by U.S. experts (Heng and Devan 1995:210). Keeping in mind that the word state is not a conceptual category which names a unitary actor but rather designates a node of coordination and multiplication of power relations, or an assemblage of practices, techniques and tools, I am interested in articulating the

connection between state building and transnational capitalist formations (Ferguson 2006, Ong 2005). It is not necessary for corporate leaders to have full foresight and implementation ability in order to benefit from the processes of state building in relation to globalization. And as will be seen, the technical and legal process of creating a range of motion for transnational experts, for example fund managers converting political variables into mathematical data removed from the political process, is also part of the power assemblage coordinated through state channels (Ferguson 2006:281-282 and Ong 1997). While Malaysia's ruling coalition's expertise is not necessarily an expansion in the magnitude of the capabilities of the state, it is (as will be argued below) an expansion in the extent and reach of a particular kind of exercise of power.

Chapter Four

Malaysia, Incorporated: an “alternative” response to the challenges of globalization?

A casual glance through any business paper in the world today reveals a startling array of conflict of interest and corporate deal rigging scandals – for example to name only a few, Societe Generale, Parmalat, AIG, and Citigroup (Arnold 2008:14). While pundits claim that these cases represent only the few bad apples within an overarching healthy environment of corporate governance (or so they say in the developed world), the scope of these scandals may also indicate systemic problems. Similarly the currency crises around the developing world in the late 1990s provoked questions about the health and efficiency of governance in international financial markets. But is the current bout of corporate scandals and financial crises merely a periodic readjustment or something more profound? From the somewhat quotidian analysis of two government-linked publicly listed corporations, one in the developing world and one the developed world, this chapter seeks to uncover the structural implications of recent illegal market operations in the corporate arena, by highlighting specific networks of global operators.

The Malaysian market arena

In 1998, the entire financial market in Malaysia was under reconstruction, first through the imposition and then removal of capital controls and later through the restructuring, consolidation, and transfer of ownership of a substantive portion of all companies listed on the main board of the Kuala Lumpur Stock Exchange (KLSE). When I began to investigate stock market restructuring in the wake of the Asian financial

crisis of 1997-98, it became apparent that the ongoing merger and acquisition plays amounted to nothing less than the re-nationalization of major sectors of the Malaysian economy. I heard considerable grumbling about and analysis of the government's de facto re-nationalization schemes and became interested in understanding how government and business elites were able to manage public opinion and dissent in the face of increasing inequality and a decreasing quality of life for the middle class. In essence, and ironically, the Malaysian Prime Minister solved the problem of how to remove capital controls and revive neo-liberal free market policies by re-nationalizing major market sectors, both in finance and production. In what follows I outline the process by which elites manage access to market information, credit, and regulatory bodies both through non-regulation and through adopting international techniques and standards. I collected information from corporate players and financial analysts on a series of government-initiated and government-led mergers to illuminate the transformation of the equities market and the broader economy.

A fundamental factor in analyzing the nationalization or re-nationalization of publicly listed companies is the particular configuration of ownership in Malaysia's stock exchange. The fundamental factor in KLSE trends is the dominance of a triumvirate of companies within the Kuala Lumpur Composite Index (KLCI), an industry standard tracking device used to determine overall trends on the main board of the exchange, equivalent to the Dow Jones Industrial Average of the New York Stock Exchange. The components of the triumvirate, known as TMT, are Tenaga Nasional Bhd, the national energy company; Telekom Malaysia Bhd, the national phone company; and Malayan

Banking Bhd, Malaysia's largest bank which is also controlled by government entities. Each of the three companies, Telekom, Maybank and Tenaga, taken individually, has a market capitalization of more than twice any other listed company in Malaysia.²³ With the inclusion of the fourth largest market capitalization listed company, Petronas Gas Bhd, a delivery system subsidiary of the national oil company Petronas (an acronym for Petroleum Nasional), the top four companies on the KLSE have a combined market capitalization totaling 30% of the total KLSE (and closer to 40% of the KLCI index). Given that even the three TMT companies account for well over a third of the entire market capitalization of the index,²⁴ any change in their operations, profitability, or structures creates a seismic shift in the index, in the KLSE and in the Malaysian economy. In fact, industry informants stated that as Malaysia does not yet have a consumer price index, energy consumption, calculated monthly by Tenaga Nasional, is often used as a proxy for a consumer index, and thus as a major predictor for future demand in the economy overall.

Increases and decreases in the KLSE and the KLCI have a major impact on the government's finances and fiscal policy.²⁵ In fact, given the percentage of listed

²³ The listing of Maxis, a telecommunications company, and PLUS, a construction company spun off from a government-controlled conglomerate, in 2002 represented the next largest market capitalizations in Malaysia.

²⁴ Market capitalization is the overall value of a company's stock, i.e. the number of shares of the company multiplied by the current market price of those shares. The total market capitalization for a stock exchange is the current market capitalization of all listed stocks. While market cap is a crucial measure of a company's stock price, it does not measure the value of the company.

²⁵ Tenaga Nasional is 77% owned by government entities: 36% owned by Khazanah Nasional, 17% by the Minister of Finance Inc., 11% by Bank Negara and 13% by government pension funds. Maybank is 51% owned by Permodalan Nasional, a

companies directly and indirectly controlled by government entities, and the equity-investing craze that followed and flowed from double-digit growth in the Malaysian economy in the 1990s, the exchange and the index are also an instrument of the Malaysian government's monetary and fiscal policy.²⁶

In the post-crisis period after 1997, more than eighteen companies had a significant, government initiated, change in ownership and control, among them the top four companies on the KLSE – the three TMT and Petronas Gas with their combined total of 110 billion ringgit (almost 30 billion US dollars at the post-crisis fixed exchange rate of 3.8 ringgit per dollar) in market capitalization. The government re-nationalized these companies. Indeed, of the top ten companies on the exchange²⁷, six are government controlled, representing 74% of the market capitalization of Malaysia's major conglomerates. The government's ownership and control of publicly listed companies on the KLSE makes the Malaysian stock market a major arena for the mobilization and channeling of resources by government-connected elites. As described below, the instantiation of the Malaysian government as the primary market mover built upon, and

government holding company and Amanah Saham Bhd, a government pension fund. Tenaga Nasional is 77% government owned; Khazanah Nasional, another holding company, owns 36%, EPF 5%, Amanah Saham Bumiputera, a pension fund, 8%, the Minister of Finance Inc. 17%, and Bank Negara Malaysia, the national bank, 11%.

²⁶ Malaysian government revenues are not public information. I am still attempting to determine the percentage of government (and also of UMNO party) revenues that derive from the equities market. The government also raises a significant portion of its revenues through the property market; according to industry insiders many of the bailouts after the crisis were "laundered" through the sale and acquisition of property (particularly in Penang, Johor and Selangor where property values have skyrocketed).

²⁷ Two large IPO's – a privatized highway project, PLUS, and the listing of a major cellular operator, Maxis – were inserted into the top 10 and also into the KLCI in 2002. Unless otherwise indicated, they are not reflected in the numbers quoted.

expanded, an early government policy and public discourse captured by the phrase “Malaysia, Inc.”

Post-crisis changes in Malaysia’s capital market infrastructure

Over the course of four decades, Malaysia has been one of a small number of “developing” countries to achieve substantial economic growth and development. Malaysia is now both an importer and exporter of labor, has a rising middle class, and boasts one of the highest literacy rates in the world. Hunger, which was widespread during the 1960s, has been virtually erased for the current generation. These achievements have been managed through rapid economic growth in the Gross Domestic Product, which increased by close to 10% per year in the 1980s and early 1990s. Growth was led, first, through primary product exports (oil, timber, tin and palm oil) and later through industrialization in the manufacturing, construction and consumer sectors. Former PM Dr. Mahathir Mohamed was in control of economic policy for over 20 years and shepherded Malaysia through rapid changes in development policy and changes in the global economy.

From 1981 to 1985, a period of international economic recession, plummeting commodity prices, and associated high interest rates in the United States, Malaysia’s commodity export oriented economy experienced a recession. In this context, Dr. Mahathir shifted away from the redistributive emphasis of the National Economic Policy of the 1970s toward emulating the industrialization and growth strategies of Japan and Korea. He introduced a heavy industry program (a national car and a steel plant in

partnership with Nippon steel) in tandem with a new “look East policy” subsequently known by the acronym LEAP. The LEAP policy was abandoned five years later and, with the appointment of Daim Zainuddin as finance minister in 1984, Dr. Mahathir embarked on the creation of Malaysia, Inc. In Malaysian economist Jomo’s words Malaysia, Inc. was an attempt to “re-subordinate civil society to the demands of private capital,” entailing privatization in tandem with decreased public sector spending (Jomo 2003). These initiatives did not help to revive growth rates, but rather than alter course, in 1986 Dr. Mahathir shifted toward even greater economic liberalization and a major push toward privatization. In addition, during the years between 1986 and 1997, Malaysia, along with Thailand and Indonesia, instituted a depreciation policy against the yen and the U.S. dollar, the goal being to increase exports and attract foreign investment.

Dr. Mahathir’s timing for shifting development strategy toward privatization was fortuitous, as the first generation of Asian tigers were experiencing rising labor costs, leading manufacturers to move from Taiwan to Singapore and Malaysia. As a result of his liberalization initiatives, Malaysia’s economy became the most “open” in the region at the right time. His decision to implement capital controls in 1998 was thus a stunning policy reversal which completely cut off the Malaysian economy from global capital markets. Controls were gradually removed over the period 1999-2002.

Capital controls or not, before, during and after the crisis, Dr. Mahathir’s privatization initiatives created a capital market in line with the Anglo-American corporate model. The Malaysian capital market, which facilitates mainly corporate

borrowing, consists of the equity market (stock market), private and public debt securities market and a market for financial derivatives, as well as hybrid markets that fulfill specialized roles, e.g. markets in Islamic-based instruments. Activities enabled by this capital market include: securities brokering and trading, investment management, risk management, corporate finance, and underwriting mergers and acquisitions. Participants, both foreign and local, fall into the following classes: investors (retail and institutional), issuers, and intermediaries (stock and futures brokers, merchant banks, fund managers, unit trust companies, exchanges, clearing and depository institutions, issuing houses, and rating agencies). Encompassing this range of actors is a regulatory framework consisting of the Malaysian Securities Commission (SC) (reporting in Malaysia to the Minister of Finance), the central bank (Bank Negara Malaysia), the foreign investment committee, and the attorney general.

Historically, Malaysia's major market institutions had a unique external link to Singapore's markets. Singapore, as a major *entrepôt* of the British Empire, was created as a free market center. When the Malayan territories and Singapore were administered as one unit by British Colonial authorities, the Kuala Lumpur Stock Exchange was formed by local stockbrokers of the Malayan Stock Exchange as a subsidiary of the Singapore exchange. Trading was linked to the Singapore exchange via direct telephone lines. After separation in 1965, the exchanges remained linked until Malaysia terminated the currency agreement between the two countries in 1973. The link between the two markets continued even after 1990 however, because, although all Malaysian-incorporated companies on the Singapore stock exchange and all Singaporean-

incorporated companies on the KLSE were de-listed and re-listed on their respective national exchanges, an over-the-counter market was immediately established in Singapore for Malaysian-listed stocks, the Central Limit Order Book (CLOB). Due to the linking of the two stock exchanges, Malaysia was represented on both developed and developing country benchmark indices used by institutional investors, e.g. the Morgan Stanley Country Index (MSCI).²⁸ CLOB represents an as yet unresolved point of conflict between Singapore and Malaysia as the currency controls imposed in 1998 froze all CLOB assets and the unwinding of these contracts is still ongoing.

Due to the boom in foreign direct investment during the 1990s, by 1996 there were four exchanges in Kuala Lumpur (a commodity, a futures, a main exchange, and Mesdaq for tech stocks).²⁹ All the exchanges were merged into one entity in the wake of the crisis. The KLSE market capitalization increased from RM132 billion in 1990 to a peak of RM 807 billion in 1996, losing half its value in 1997 with the onset of the crisis. Before the crisis the KLSE was ranked as the 11th largest exchange in the world with a market capitalization over 300% of Malaysia's GDP.

While in the 1970s and 1980s financing for development was provided by the banking sector and public borrowing, that is by the government, in the 1990s the

²⁸ The effect of duplicate listings on capital flows has yet to be quantified but fund managers in public pension and mutual funds are required to have exposure to markets in line with the benchmarks established by the MSCI. Duplicate listing should, therefore, have had a substantial effect on FDI.

²⁹ Between 1980-89 the total value of new issues of shares raised through the equity market was RM10.6 billion, while for the period 1990-1999 the figure was RM87.7 billion, more than eight times higher (Securities Commission 2001:Appendix p.13).

government's privatization programs boosted the equities market as a primary means for companies to raise capital. Certainly the vast influx of foreign capital was channeled through the stock market (whether through government investment vehicles, private borrowing, or individual investors). In line with other countries in Asia, the savings rate in Malaysia has always been high, but increasingly in the 1980s and 1990s individuals chose to invest their savings in the equities market rather than in banks. Malaysian market institutions responded by increasing and differentiating products and services in the investment management industry, broker and corporate advisory services, derivatives market, and the Islamic capital market. And by increasing public relations outreach such as the KSLE's roadshows examined in chapter three.

Another goal of the government's restructuring of the capital markets was the improvement of the risk management industry through "active promotion" of the derivatives markets. The SC viewed derivatives in line with fund managers' own views (see chapter five), as a source of "value-added" business for local market institutions and intermediaries. Futures brokering thus became first in line for deregulation – a way to attract transactions.³⁰ Another major change was the adoption in 1999 of the Capital Market Master Plan (CMMP), a "market based" approach to regulation, in which global competition in a non-regulated arena takes the place of regulation – that is "market discipline" becomes the ultimate arbiter (Securities Commission 2001:29). The CMMP mandates only minimal enforcement and does not address systemic risk (that is risk

³⁰ The SC also views the developing market in "Islamic securities" as a growth opportunity; they are putting most of their regulatory energy into securitizing the "moral investment premium" incorporated in Islamic-based assets.

inherent in the global capital market). Switching from being the most “liberalized” market in the region to being the most regulated to being the most “liberalized” again, Malaysia’s experience reveals that even though “alternative investors” are able to evade capital market regulations, they prefer non-regulated markets. Investment is only slowly recuperating and has not yet returned to pre-crisis levels.³¹ Nor have attempts by the SC and the BN to remove controls on short selling and push Malaysia’s capital market into line with Anglo-American capital market structures been entirely successful. Institutional inertia and the government’s reluctance to remove the competitive advantage of its own investment vehicles are impeding the process. What will happen now, in the wake of the core countries crisis in financial institutions is unclear.

The government’s response to the crisis in capital markets, after the imposition and then removal of currency controls, was to alter institutions and regulations to create a market that is even more open; further deregulation, liberalization and “market driven” consolidation have intensified until the present. The CMMP states that the goal of regulators is, “further promotion of the market for risk capital and a facilitative environment for high-growth companies” (Securities Commission 2001:7). Malaysia has, in other words, removed most of the restrictions on short selling and stock borrowing, increasing the opportunities for hedging and speculation. As well, the post-

³¹ As compared to the stock market, the bond market in Malaysia, remains contorted because the largest investors – the Employees Provident Fund, the Armed Forces Fund (Lembaga Tabung Angkatan Tentera) – are legally compelled to invest around 70% of their money in Malaysian Government Securities. Almost no Malaysian Government Securities are held by foreign investors (post-crisis), but the positive response to corporate bonds such as the new issue by Petronas in 2002, indicates some return of interest in the bond market (though not for public debt securities).

crisis CMMP outlines a plan for the “demutualization,” that is the recreation as a for-profit entity, of the KLSE in order to facilitate broader representation of “its constituents’ interests in its management and decision-making processes” and, as well, follow the lead of larger exchanges around the world (Securities Commission 2001:24).

The Securities Commission, established back in 1993 as the principal regulator for the capital market has, since 2000, attempted to confront the changing role of intermediaries and professionals in the securities, banking and insurance industries and to increase the integration of services and products in these markets. The SC, however, is not known for strict enforcement but rather prefers licensing as its main mode of intervention. The majority of my informants in the financial services industry agreed that as of 2002, the SC’s efforts to “streamline and expedite” the issuance and approvals process for licensing have not yet been effective.

The main changes invoked by the CMMP are increased integration with the global financial system, the adoption of international standards, deregulation and liberalization, and “market driven” consolidation. The creation of an integrated clearance and settlement system as well as the merging of all exchanges were quickly carried out. But other changes were to be phased in over the period 2001-2010 as follows:

- Phase 1 (2001-2003) progressive deregulation and selective liberalization
- Phase 2 (2004-2005) remove barriers to entry across other capital market segments
- Phase 3 (2006-2010) become a “mature” capital market and develop international niches of competitive and comparative advantage (Securities Commission 2001).

PM Dr. Mahathir and the genesis of Malaysia, Inc.

During the 1990s in Malaysia, major news outlets, both local and foreign, referred continuously to the “new Malaysia, Inc.” and the “new faces of corporate Malaysia.” Depending on their political viewpoint, journalists either derided the lack of changes in corporate governance or praised on-going changes, hoping for more. No one in the popular media, however, questioned the existence and functioning of a new Malaysia, Inc., presumably different from its predecessor. At the same time, at the ubiquitous corner tea shop and in everyday conversations, the “new” Malaysia, Inc. served as a metonym for the systematic transfer to and reconsolidation of resources by a particular contingent of politically connected elites. Comprehending Malaysia, putatively a nation-state, as a corporate entity in both local and international parlance was not an innovative discourse, but it became increasingly useful as the addition of the adjective “new” enabled a re-branding of Malaysia, and Malaysian companies, in the international competitive arena. Before tracing the instantiation of “new” in the discourse of Malaysia, Inc., I will trace the initiation of Malaysia, Inc. as a project of Prime Minister Dr. Mahathir Mohamad, and the subsequent function of corporatized Malaysia in local Malaysian politics and in the international arena.

PM Mahathir first initiated the concept of Malaysia, Inc. in the mid-1980s in tandem with his policies of deregulation and privatization of public sector industries such as electricity and telecommunications. His stated goal, in conscious mimicry of the economic policies of U.S. President Ronald Reagan and U.K. Prime Minister Margaret Thatcher, was to decrease the fiscal burden of the Malaysian state by allowing private

corporations to run previously public sectors of the economy. In defiance of Anglo-American neoliberalism, however, and following the spectacular fall in primary commodity prices in the mid-1980s, PM Mahathir decried the supposed coordination of “Western” institutions and nations in creating these falling prices and shifted his rhetorical attention to the, then, miraculous success of Japan’s exporting conglomerates in creating growth in the global economy (Berger 1996:103). Scholars in Japan were then outlining the “Japanese model” of development based on close coordination of governmental and private sectors under the combined direction (and with the full faith and credit backing of the Bank of Japan) of the Ministry of Trade and Information (MITI) (Wade 1990).

In Japan, and to some extent in South Korea, Japan, Inc. as a development path meant significant cooperation between government and the private sector, including government directed investment in particular technologies. The primary example of successful public-private sector cooperation and planning is the centrally planned, long term strategic guidance and long term investment of the Ministry of Trade and Industry (MITI) in Japan, which enabled the development of value-added industries and technological innovation. Ironically, such state-led development followed the model of the military industrial complex that had emerged in the United States after World War II. Moreover, the subsequent Cold and Korean Wars –catalysts both for the U.S. government’s policy assuring Japanese exporters access to U.S. domestic markets and for the U.S. government’s policy regarding procurement from Japan – were fundamentally necessary although not sufficient for the success of Japan’s developmental trajectory

(Tabb 1995:91-94). Viewed in this way, the synergy in Asia that led to phenomenal growth rates was initiated by a historically contingent transfusion of resources from the developed to the developing world – the reverse of what transpired in other regions. The contingency of the economic dynamism of Japan (and now of China) was not fully acknowledged by other countries attempting to follow the same trajectory.

In Malaysia's privatization policies Mahathir sought not only to copy the model of coordinating public and private sectors in the search for growth in value-added export industries; he also sought to transfer the ethics implied in the Japan, Inc. model. His initial outline of the concept in a memo stated,

The Malaysia Incorporated concept means that Malaysia should be viewed as a company whether [sic] government and the private sector are both owners and workers together in this company. In a company, all owners/workers are expected to cooperate to ensure the company's success. Only through the success of the company, will the owners' and workers' well-being be safeguarded and improved (Mahathir 1988:3).

Utilizing the idea of the nation corporatized, Mahathir was able to sell the Japan, Inc. brand to the Malaysian public as an anti-imperialist stance against the supposed collusion of "Western" nations in commodities markets. At the same time, he maintained his stance as a fiercely anti-communist, anti-union and pro-capitalist leader in Southeast Asia. As such he was recognized and applauded as pro-development and pro-business in the international arena, his "anti-western" stance notwithstanding (Khoo 1995:110-114).³²

³² See for example, his co-authored book with conservative Japanese commentator Ishihara Shintaro entitled, *The Asia That Can Say No: A Policy to Combat Europe and America* (Tokyo: Kodansha Intl, 1995).

Malaysia, Inc. in the national arena

When he became Prime Minister in 1981, Mahathir's vision involved two stated goals for Malaysia: achieving developed country status and becoming competitive in the global arena, and, in the process, creating a new class of *bumiputera* entrepreneurs (Gomez 2002:86,91). He set out to achieve these goals in a pragmatic and flexible manner, altering his strategy according to the exigencies of changing domestic and international politics, with a "New Economic Policy" as the cornerstone. As originally codified in 1970, Malaysia's New Economic Policy (NEP) represented an attempt to eliminate poverty and redistribute wealth thereby ending racial inequality in the distribution of resources. As we have seen, the NEP effectively entrenched special rights for ethnic Malays.³³

The implementation of the NEP reinforced the relationship between political and economic patronage already evident during Malaysia's colonial encounter and built upon previous patron-client ties. In their direct and indirect rule, the British favored royally connected Malays who had significant power in the early trading entrepôts, and Chinese capitalists who held sway over subcontracted laborers (as well as significant control of credit resources in tin mining areas). As shown in chapter three, the initiation and operation of the New Economic Policy as enacted by Dr. Mahathir was a tool for

³³ Special privileges were instituted for the *bumiputera*, literally sons of the soil. *Bumiputera* are constitutionally defined to include ethnic Malays and exclude Chinese and Indian Malaysians. Some Dayak groups in the Malaysian states of Borneo, Sabah and Sarawak, are defined as *bumiputera*, while others are excluded.

concentrating resources in the hands of descendants of precisely these politically connected Malay elites (Jomo1988:21,162).

The NEP soon became an effective tool for the concentration of wealth. The governing coalition, Barisan Nasional (BN), composed of the United Malays National Organization (UMNO), the Malay Chinese Association (MCA) and the Malaysian Indian Congress (MIC), deliberately construed these race-based political parties as trustees for their respective constituencies. That is, rather than direct public participation in government-created business opportunities, the dominant, race-based, political parties were allowed to go into business as their respective groups' trustees (Gomez 1990; Gomez and Jomo 1999). The treatment of the main coalition partners of the BN as corporate units in themselves resulted in a fission of responsibility for long term planning and growth, insuring that Malaysia, Inc. would never be able to replicate the role of MITI or Japan, Inc.

The creation of Malaysia, Inc. is closely tied to the corporate investment strategies of the main political parties within the country. The accumulation of capital by coalition partners was a direct result of fears sparked by the rioting that broke out in 1969 between Chinese and Malay Malaysians. The riots began over accusations of favoritism in the government distribution of rice in rural regions but became widespread in Kuala Lumpur. UMNO elites feared relying on Chinese controlled capital via their coalition partner, the Malay Chinese Association (MCA); in particular they dreaded falling behind in the race for profit from the exploitation of Malaysia's natural resources via control of newly

nationalized former colonial enterprises (Harper 1999:151). And, as seen in chapter three, the entire governing coalition feared communist organizers' and democratic organizers' inroads into the loyal electoral clienteles of the Malay majority. UMNO leaders therefore set themselves up in business, following in the footsteps of the Chinese Associations and other community organizations, to create several discrete investment and holding companies. With time these government companies became a dense interconnected root system for Malaysia, Inc. (Gomez and Jomo 1999:24). Below, I examine the implications of this root system. But before doing so, I return to Dr. Mahathir's attempt to raise the stature of the Malaysia, Inc. brand in the international arena.

Malaysia, Inc. in the international arena

Malaysia, Inc. was Dr. Mahathir's public brand, but even before creating this public brand, as he became Prime Minister, he was working in private on a stupendous international coup - comparable to the sovereign moves of the Dutch and British trading companies in the 19th century - attempting to corner the world market for tin.³⁴ Malaysia had been a world leader in tin production since the turn of the century. In a bid to outmaneuver the commodities markets (and the dismally low prices being paid to primary product producers in the 1980s) the Malaysian government created a company called Maminco and entered into a joint venture with Marc Rich, head of a Swiss based commodities trading firm.³⁵ In 1986, in the wake of persistent rumors, the Malaysian

³⁴ To corner the market is to acquire a stake in an asset (or class of assets) significant enough to effectively manipulate its price.

³⁵ Marc Rich, the eponymous head of the firm, later became infamous as the recipient of a last minute Presidential pardon from then U.S. President Bill Clinton in 2001. Mr. Rich

government revealed losses of over 600 million ringgit (253 million USD at 1986 exchange rates) incurred through a secret buying operation on the London Metals Exchange (LME) in 1981-82 (Wagstyl 1985:14).³⁶

The joint venture between Maminco and Marc Rich offers a template for other syndicate operations of the Malaysian government, carried out through the Ministry of Finance and government holding companies. Government backed initiatives utilize private or listed companies with no real assets, that is shell companies (sometimes pyramided in shells of shells through holding companies and nominees). Shell companies have no problem in gaining access to credit, despite their paucity of assets, because of their relationship with government officials; in effect, the government guarantees their creditworthiness. Maminco was just such a company with a paid up capital of 2 ringgit (Jomo 1990:71; Pura 1986:1).

Since the early 1980s, businessmen who envision and fashion projects that satisfy Dr. Mahathir's branding of Malaysia as a corporate maverick, and his desire to wield substantive influence in the international market, have gained access to the PM's office as well as instant credit and credibility. In the case of the tin corner, David Zaidner, the agent of Marc Rich who convinced Dr. Mahathir to embark on the scheme to corner the market, had already been dismissed by a large multinational for bribing an official of the

was living in Europe in order to evade a 1983 indictment on 51 counts of tax evasion, racketeering and violating U.S. sanctions against trading with Iran (McGeehan and Cowan 2001:16).

³⁶ At United Nations estimates of Gross Domestic Product for Malaysia, 600 million Ringgit represented almost 1% of GDP in 1986, the equivalent of half the money spent on healthcare for the entire year.

International Tin Council (Jomo 1990:72). Dr. Mahathir's desire to trump the dominant powers in the international financial system, which he conceptualized in national and ethnic rather than transnational corporate terms, coupled with the sheer bravado of doing the deal, carried Malaysia, Inc. into new and uncertain terrain.³⁷

In mid-1981, the Malaysian government through Maminco began purchasing huge stocks of tin on the futures market for three-month forward delivery. The increased turnover (resulting from what was termed "the mystery buyer's" purchases) pushed up prices by more than 30%. The tin dealers on the futures market of the London Metals Exchange were, however, as per common practice, selling tin that they did not possess. When these three-month forward delivery contracts came due – all at the same time because they had been purchased by Maminco simultaneously – there was chaos on the market as tin dealers attempted to come up with the metal to back their contracts. As the world's largest exporter of tin, the Malaysian government and Malaysian corporations stood to gain a windfall profit from the forward contracts, occasioned by all the tin dealers of the London Metals Exchange having to supply large tin stocks *at the same time*. However, just before the contracts came due, the LME changed its rules so that tin dealers who failed to come up with the metal could pay a fine rather than supplying actual physical tin.

³⁷ The fact that David Zaidner, who sold Dr. M on the attempt to corner the tin market, is an Egyptian Jew was not publicized in Malaysia. Even while decrying the supposed "Jewish conspiracy" of George Soros and other "mavericks" in international finance during the currency crisis of 1998, Dr. Mahathir was very adept at using the specter of conspiracy theories in public, while himself conspiring to move the market through syndicate operations that involved presumed conspiratorial "types" behind the scenes.

In the end, the collapse of the Malaysian government's scheme was only in part due to the LME's change of rules; it was also the result of the U.S. government's decision to sell part of its huge "strategic" stockpile of tin. The U.S. Congress approved sales from the stockpile in 1980 when world production of tin was already ahead of demand and prices were decreasing. As the world's largest consumer of tin, the United States had a disproportionate vote on the International Tin Council and was able to block floor and ceiling buffers advocated by developing countries who were council members (Crabtree et al. 1990:38-39). LME exchange buyers, aware of the U.S. government's intention to sell and aware of a "mystery buyer's" huge forward purchases, began to sell short for three months forward. In other words buyers were anticipating a price collapse as U.S. tin came on the market.

Although faced with the new supply of tin being sold by the U.S. government, the Malaysian government continued trying to corner the market, buying physical tin (on the spot market) for cash. If the Malaysian government, via Maminco, could sustain this buying spree long enough, the tin traders who owed the "mystery buyer" physical delivery of tin three months forward would be forced to buy tin from the only entity holding any, namely the Malaysian government, at exorbitant prices. Malayan Banking and Bank Bumiputera, both government controlled banks, were persuaded by Malaysian government officials to extend enormous lines of credit to Maminco to finance its spot market purchases, and payments for interest, storage, and insurance as the tin piled up. It was at this point that the London Metals Exchange intervened by imposing a maximum fine for failure to deliver, thereby saving many of its members from bankruptcy when

their contracts came due and they had to purchase tin on the open market, cornered by Malaysia. Unfortunately for Maminco and the Malaysian government, the LME's intervention prevented the anticipated escalation of prices and they were left sitting on an almost worthless pile of tin (Jomo 1990; Pura 1986; Wagstyl 1985).

Dr. Mahatir's first disastrous venture in the arena of international market speculation ended not only with the collapse of Maminco and Bank Bumiputera (a bank with the mission of providing preferential credit to *bumiputera*) but also the collapse of the International Tin Council, a multilateral bargaining unit led by producer countries which attempted to maintain prices in the tin market. Of the extant tin mines in Malaysia, 75% closed in the year following Dr. Mahathir's attempt to corner the market (Mauzy 1987:233). In addition, the Ministry of Finance attempted to cover up the Maminco's losses by setting up new shell companies held by nominee shareholders for the government. These shell companies were allocated new share issues in publicly listed companies at preferential prices through the government-owned and controlled Employees Provident Fund (EPF). The shell companies then sold these shares at vastly appreciated prices on the stock exchange and thus recouped a percentage of the losses incurred by Maminco (Jomo 1990:75). Under the terms of the joint venture, Maminco and Marc Rich were to share profits and losses equally. However, executives at Marc Rich abrogated the agreement and closed all of Zaidner's contracts, escaping with a minor loss, while Maminco was stuck with the actual tin stockpile.

Corporate control in Malaysia, Inc.

When I arrived in Kuala Lumpur in 2001, speculation about the rise and fall of corporate tycoon Tan Sri Tajudin Ramli was splashed across all of the Kuala Lumpur and Singapore daily papers. Tea time conversations at the ubiquitous outdoor roadside food stalls centered on whether, as a protégé of finance minister Tun Daim Zainuddin, he had fallen out of favor with the Prime Minister's office and, therefore, was soon to be out of business. Born in 1946 in the then sleepy mining town of Alor Setar in the northern state of Kedah, Tajudin first rose to prominence as a protégé of Tun Daim, who as Minister of Finance had been a prime mover in Malaysian business since independence. "Daim's boys" were at the center of his own accumulation of wealth and became prototypes of the Malay businessman-on-the-go in what was to be the newly created developing country of Malaysia, Inc. Tajudin was one of a select group of talented *bumiputera*, friends of Daim, who were the direct beneficiaries of Daim's business empire. Entirely composed of freshly privatized national companies, the empire was cobbled together under the umbrella of the Fleet Group, formerly a holding company for the United Malays National Organization (UMNO), as outlined above (Gomez and Jomo 1999:148-151). Daim and his boys concentrated on accumulating capital and corporate control in fast growing sectors of the economy – in particular telecommunications – as quickly as possible. I became fascinated by the crosstalk and the discrepancies in the news reports and conversations that I overheard.³⁸ Who was Tan Sri Tajudin and why was everyone obsessively speculating about his future? Below, I trace the story of the rise and fall of

³⁸ As noted in chapter 1, all of the major daily papers in Malaysia are government controlled or party affiliated. The national news agency, *Bernama*, follows directives from the prime minister's office, censoring and rewriting stories according to the perceived national interest of the PM's office.

Tan Sri Tajudin Ramli as an exemplar of the Malay Malaysian elite in the context of Malaysia, Inc.³⁹

Tan Sri Tajudin gained control of three public companies as they were privatized by the government in the early 1990s and these same companies were then recipients of government bailouts after the economic crisis of 1997. The companies are: Malaysian Airlines (MAS), Technology Resources Industries (TRI) and Naluri, Inc. The rise and fall of Tan Sri Tajudin is instructive for three reasons. First, in the post-crisis period TRI and Naluri were brought together in one of the biggest mergers and acquisitions ever in corporate Malaysia. Because of their size, both in terms of market capitalization and market share in their respective industries, the merged companies had a large impact on the Malaysian economy as a whole, on the image of the Malaysian economy abroad, and on the Malaysian workforce. Second, Tajudin, as a character on the Malaysian scene, represents in his person and in his actions a broader set of social relations through which the restructuring of Malaysia, Inc. came about (see discussion of Malaysian elites in chapter three). Third, it is imperative to trace the minutiae of market gossip and market movements in order to depict the flows of information which ultimately undergirded mergers and acquisitions in the restructuring of the Malaysian stock market. As I gained access to “inside” information regarding the Naluri bidding process (because my informants were interested in bidding on Naluri), I could trace the information flows on

³⁹ *Tan Sri* is an honorific similar to a British knighthood. The highest class of earned honorific, rather than hereditary or royal, is *Tun*. For example, Tun Daim Zainuddin was granted this honorific in recognition of his years of service as Finance Minister of Malaysia. There has been a steady inflation in the honors list such that titles at the lower end of the honorific scale, for example *Datuk* and *Datin*, do not convey as much prestige as in the early 1980s.

Tajudin and his companies from a comparatively privileged position. In tracing the outlines of these market transactions, I will focus on the flows of information at the time that transactions were occurring. In hindsight, the re-nationalization trajectory should have been apparent, but at the time, the reasons for Tajudin's fall (and for his mentor Finance Minister Tun Daim Zainuddin's removal) were uncertain and speculation was rampant as everyone rushed to calculate the odds for and against his companies.

In the decade before the crisis, Tajudin was publicly portrayed as the handsome, affable face of *bumiputera* corporate professionalism. His entrepreneurial spirit conformed to Dr. Mahathir's template of a polished, urbane professional, though he was not known as "an idea man" or responsible for any grand innovations or corporate strategies. The government was then preparing to privatize the telephone sector, but before the privatization exercise even began, i.e. before any bids were accepted, Tajudin was already being gossiped about as the eventual beneficiary. When, in 1989, he acquired a majority stake in Celcom Sdn Bhd from the state owned national telephone company, Syarikat Telekom, it was clear that he was a favored *bumiputera* businessman, being given a singular advantage by receiving the first private license for a cellular company in the country. At the time, the Fleet Group owned the remaining shares of Celcom. In 1992, another of Daim's companies, Time Engineering, a subsidiary of the Renong Group (also controlled by government entities) agreed to sell the remaining shares of Celcom to Tajudin's company, Technology Resources Industry Berhad (TRI). TRI was now the sole owner of Celcom. Given the advantage of governmental favoritism in licensing and clearing regulatory hurdles, Celcom grew rapidly to become

the leader in the industry in Malaysia, with a reputation for excellent networks and good customer support.⁴⁰ And, as Celcom became a moneymaker, Tan Sri Tajudin assumed the status of a “captain of industry.”

The growing giant Celcom, extolled by the press as the symbol of corporate Malaysia’s modernism, was among the first to get caught by the crisis. In the early 1990s, Celcom built a digital service network and launched its global system for mobile communications creating a 1.75 billion ringgit debt structure, spread out over 36 banks, to refinance its existing debt as well as to meet future capital needs for expansion. At that time, reportedly Celcom had 650,000 subscribers. In 1996, Tajudin sold 68 million TRI shares for 269 million ringgit to the Asian subsidiary of Deutsche Telekom (DT). DT became a strategic investor with technical and marketing input into Celcom’s operations. In 1996, Celcom reportedly had 950,000 subscribers. And in 1997, Celcom followed

⁴⁰ In 2001-2002, there were five players in the telecommunications market in Malaysia. Maxis, the centerpiece of another rising entrepreneurial star, T. Ananda Krishnan’s empire, became the success story of the industry with one of the largest IPO in the KLSE’s history launched in July of 2002. At that time, Maxis was the market leader, both in terms of number of subscribers, with 2.3 million and in terms of average revenue per subscriber (the industry standard for judging profitability), at around 112 Ringgit per month per customer. Celcom was holding the number two position, with 2.1 million subscribers and around 99 Ringgit per month per subscriber. DiGi.com, a joint venture 60% owned by Norway’s Telnor, held the third position in the industry with 1.3 million subscribers and 68 Ringgit per subscriber per month. Telekom’s cellular subsidiary TM Touch, had 1.2 million subscribers and 106 Ringgit per subscriber per month. The final market player, Time dotCom, a subsidiary of Time Engineering Bhd, indirectly controlled by the United Engineers Malaysia (UEM)/Renong conglomerate, had also undergone a restructuring and transfer of ownership in the midst of a government takeover. Renong had been headed by another recipient of former finance minister Tun Daim’s patronage, Tan Sri Halim Saad. Time went public in 2001 but its share price dropped rapidly with the ousting of Halim. In addition, Time was the only competitor for Telekom’s fixed line operations, but this sector of the industry was increasingly stagnant as subscribers increasingly came to prefer hand phones. Time had 800,000 subscribers and received around 55 Ringgit per month per subscriber.

many other Malaysian companies into multinational diversification, launching a joint venture with an Iranian telecom. Celcom did not, however, profit from its diversification because, with the onset of the financial crisis in late 1997, the company and its parent TRI were devastated by their debts, in particular the US dollar denominated loans they had taken out. The slide of the ringgit (as outlined in chapter one) made these loans unpayable, i.e. non-performing. In the fall and winter of 1998, different banks transferred 615 million ringgit worth of non-performing loans owed them by TRI to the newly created national debt collection agency, Danaharta. In 1999, TRI's bondholders reacted to the financial crisis by calling in \$375 million worth of bonds and a further 380 million ringgit of non-performing loans was transferred to Danaharta. Tajudin had to scramble to create alternate lines of credit. His attempt to salvage TRI became a national obsession, not only because he was media savvy, but also because of the social significance of the telecommunications industry in Malaysia.

Telecommunications as a frontier of modernity

Burgeoning demand for telecom services is driven by globalization in finance (in turn enabled by technological innovations in the telecom sector); this suggests why developing countries often seek to capitalize on this sector's growth. However, the success of the United States in promoting the agenda of deregulation in various forums has also meant that private corporations rather than states have profited from telecom growth. While the first round of fixed line communication innovations were largely government-led and controlled, the infrastructure of the mobile round of technological innovations has been privatized and, in most cases, governments have not been able to capitalize on their previous investments (Schiller 2005; Strange 1996:100). In many ways

the telecom industry has been analogous to the timber industry at the end of the 19th century in developed countries and at the end of the 20th century in developing countries, providing a bonanza of quick profits for those with institutional support and connections. Indeed, in Malaysia and Indonesia, the timber baron millionaires, having exhausted the resources of the jungle, are now capitalizing on information infrastructure as their new bonanza (Rehman 1993).

The importance of the telecom sector in Malaysia is underscored by the ubiquity of wireless communication. Years before it became commonplace in the United States, in Kuala Lumpur and other Southeast Asian cities, “hand phones” (in local idiom) became a crucial, perhaps *the* crucial, status signifier. Everyone from the poorest Indonesian migrant construction worker to the richest executive owned a hand phone. Brands, colors, companies and accessories became part of an intricate set of coded markers, enabling consumers to evaluate another person’s status through their hand phone. It was common to keep your cell phone either on your body for display (around your neck for smaller models or on your belt for men) or on the table in front of you in a café or a restaurant. In my experience in KL, the idealized young, urban, hip consumer of television and mall advertisements was often found sipping tea or coffee in a café while chatting on his or her hand phone. In addition, SMS messaging became a ubiquitous means of social interaction whether for political polling as in the Philippines or, as is most common in Malaysia, for flirting.

Indeed as symbols of the lifestyle of Asia's modern, middle class consumer culture, hand phones and the market for them have entered into the drama of corporate nationalism. Boosting hand phone usage also enables a statistical boosting of comparatively poor Malaysians into middle class status. The process is similar to the quota system for overseas maids engineered by PM Mahathir and discussed in the previous chapter, whereby only Malays are allowed to employ cheaper Indonesian maids while Chinese must employ more expensive Filipina maids; the differential allowed the government to vaunt a rising Malay middle class as marked by employing a domestic worker. An attempt by a rival Singaporean company to take a majority stake in a Malaysian phone company was greeted with contempt by Malaysian politicians and by the local press. In other words, although only a small consumer item, the hand phone quickly became imbricated with layers of social class, status and racial inequality as well as being embroiled in the broader policy goals of nationalist social engineering by the Malaysian government.

The ubiquity of hand phone communication is emphatically enforced in the business world where it is impossible to conduct business or even to arrange for a meeting without hand phone contact. Similarly there are no spaces, public or private, where it is not permissible to carry on a phone conversation. Whether in the bathroom, the theater, in a business meeting, on the train, at breakfast, lunch, dinner or tea, phone chatter is continuous. According to the press and media, hand phones have become a major object of theft and women in particular have been targeted in a rash of handbag and phone snatchings. Horrific stories of friends and relatives who have been victims of

snatch theft continuously circulate via email and SMS text messages and friends often greet each other with the latest word on how to protect yourself. As a result of theft, the official numbers on the penetration rate, the number of cell phone users in Malaysia, may be significantly under-estimated.⁴¹ Given Malaysians' passionate attachment to hand phones and their significations, interest in the initial privatization, then crisis-driven re-nationalization, of the telecom industry was not surprising.

Governmental patronage in practice

Even before the financial crisis began to unfold, Tajudin was able to keep his companies afloat primarily through galvanizing his access to political influence. In order to trace the story, a few of his other business activities must be examined. Tajudin received another plum privatization project in July 1994 when he was granted a syndicated loan for 1.792 billion ringgit from a consortium of banks to buy from Bank Negara, the Malaysian Central Bank, a 32% stake in the Malaysian national airline, MAS.⁴² Privatization of the national carrier was controversial, because like PM Mahathir's pet project Proton (the national car), Malaysian Airlines was considered a flagship company of the state, a corporate cultural ambassador for Malaysia. Commentators and people on the street began to ask why a flagship company should be privatized. The PM's department responded that MAS was not a moneymaker and therefore represented a drain on government resources. While MAS had attempted to

⁴¹ In 2002, the penetration rate was 32%, meaning that 32% of adults owned hand phones. Malaysian analysts project this rate to go much higher. For comparative purposes, Norway, Sweden and Denmark are considered to have the most mature markets and their penetration target is 50-60% as is that of passionate cell phone using countries like Hong Kong, Taiwan, and Singapore.

⁴² The price represents 8 Ringgit per share.

acquire brand recognition, in a blatant copy of the style of Singapore Airlines’ “Singapore girl,” arguably one of the Southeast Asian best known brands around the world, the company had not succeeded in creating a niche for itself in the ruthlessly competitive world of global travel. Tajudin utilized another company, Malaysian Helicopter Services, later renamed Naluri Berhad, a publicly listed helicopter and air services company, to acquire the MAS stake. Naluri was also used to acquire a 40% stake in Perbadanan national Shipping Line Bhd from Pernas, a government owned investment vehicle. Through these publicly listed companies, Tajudin was able to acquire controlling stakes in three key industries (air and sea transport services as well as communications) over the course of 10 years (beginning in 1983 working for Daim’s Fleet Group).

The significance of Tajudin’s stake in MAS and his connection to Finance Minister Daim became apparent in 2001 when the government, via the Ministry of Finance, purchased Naluri’s MAS shares for exactly what Tajudin had originally paid – a 250% markup over current market price for the stock.⁴³ Naluri had pledged its MAS shares as collateral for its loans, which were sold to Danaharta as non-performing. It should, therefore, have been possible for the government to purchase these shares either from the banks at cut rates or, after the default, from Danaharta itself. A year later, on January 9, 2002, the police began investigating alleged management irregularities at MAS. The investigation focused on business arrangements between MAS and a

⁴³ Just a few weeks before the announcement, a Malaysian government pension fund bought Brunei Investment Agency’s 9% interest in MAS for 4 Ringgit a share.

Germany-based cargo handler controlled by MAS's former executive chairman and key shareholder, none other than Tan Sri Tajudin.

Contracts between MAS and ACL Advanced Cargo Logistic GmbH (which is a 60% owned unit of Naluri Bhd) as well as leasing arrangements between MAS and Atlas Air Worldwide Holdings Inc. of New York for four cargo airplanes serving the Hahn cargo hub were also implicated, having resulted in substantial losses for MAS. The contracts were signed in 1999, during the period when Tajudin was executive chairman of MAS, and chairman of ACL's parent company. The legal proceedings focused on conflicts of interest in Tajudin's sitting on both company's boards. In addition, Cendanasari Insurance Sdn Bhd, which provided insurance services to MAS during Tajudin's term as executive chairman, gained large commissions for purchasing insurance coverage for MAS from Lloyds of London. According to standard industry practice the insurance should have been purchased directly. The fact that Rizuan Mohamad Murad, a major stakeholder in Cendanasari, was linked to Tajudin through two other companies was seen as evidence of further conflicts of interest in Tajudin's dealings (Lopez 2002d:1,4). In other words, by paying the much higher price for Naluri's MAS shares, the Ministry of Finance in effect saved Tajudin, postponing his eventual unraveling. How that unraveling transpired is discussed below.

The “new” Malaysia, Inc.

As stated above, the initiation of Malaysia, Inc. was also the beginning of privatization and deregulation in the Malaysian economy. In the Malaysian context, the

initiative was understood to mean improved cooperation between the Malay controlled state apparatus and the Chinese controlled private sector. The expression “*new Malaysia, Inc.*” came into common usage in the middle of 2001. There was a concerted attempt in the financial press (concomitant with launching the Multimedia Supercorridor, a new tax free zone meant to attract high tech investment) to re-brand Malaysia as a shining example of good corporate governance, good national government and technological expertise. Originally ascribed to an unidentified source close to the re-nationalization schemes, the expression “*new Malaysia, Inc.*” was used by commentators with a considerable amount of irony, as the beneficiaries of the government’s ongoing re-nationalization and privatization were the same urban, Oxbridge educated, governmentally or royally connected elite *bumiputeras* who benefited from the first privatizing incarnation of Malaysia, Inc. In private, corporate executives and officials sidelined by Dr. Mahathir’s new crew referred to the “new” *bumiputera* tycoons as “bums.” Was there a substantive change in the nexus of political and economic elites in the new Malaysia? Again, Tajudin Ramli’s attempt to maintain control of his business empire provides a test case. In the following account, I rely on published news reports from the *Far Eastern Economic Review*, the *Business Times*, the *New Straits Times*, and the *Edge* as well as information gleaned from interviews with fund managers and participants in the bidding process for pieces of Tajudin’s empire.⁴⁴

⁴⁴ As well as TRI and Naluri annual reports for 1999-2003 and interviews with investors interested in acquiring Naluri, the following description relies on the published reports of Jacqueline Ho in the *Edge* (2002a-l), Leslie Lopez in the *Asian Wall Street Journal* (2002a-c), and S. Jayasankaran in the *Asian Wall Street Journal* (1002a, b).

The paragon of corporate Malaysia, Tajudin Ramli found himself at the beginning of 2001 in control of two companies: TRI (profitable but insolvent) and Naluri (with no business operations but holding a pile of cash from the sale of Malaysian Airlines). It was unclear whether Tajudin would be allowed to inject his accumulated funds into TRI, or whether he would be forced to cash out and cease play. In June, TRI unveiled a recapitalization plan.⁴⁵ Tajudin also needed to repay personal loans on which his TRI and Naluri shares were pledged as collateral or face losing control of his empire. Telecom industry gossips generally agreed that the recapitalization plan was the last chance for TRI. If it were blocked, then the government would step in and renationalize the company just as it had done with the national airline and other (formerly government controlled) conglomerates such as Renong and United Engineers Malaysia. It was also rumored that the state-controlled national telecom, Telekom Malaysia, was interested in acquiring Celcom and thereby consolidating the industry and gaining the prime position. There was speculation and uncertainty as to whether TRI's restructuring proposal would be approved and in what ways Naluri would be allowed to use its newly acquired cash pile. TRI and Naluri's stock prices fluctuated wildly during this period and, though shares were difficult to acquire for the ordinary investor, there was a significant changeover of institutional investors and volatility in the price of shares.

⁴⁵ In 2000, TRI had revenue of 2.1 billion Ringgit with an operating profit of 318.6 million Ringgit but more than the entire profit was eaten up by interest payments, which put TRI 101.5 million Ringgit in the red.

Shareholders unanimously approved Celcom's restructuring plan at the end of 2001.⁴⁶ There were, however, delays and problems in the implementation of this plan. First the KLSE and Securities Commission (SC) did not approve it on technicalities. The approval snafu was read by the market as the second clear indication that the government wanted Tajudin out of the telecom business. The first clear signal was SC's rejection of TRI's proposal for Naluri to act as the anchoring participant in the restricted issue, i.e. to take up the largest portion of the shares. The KLSE also questioned the price set for the restricted issue and delayed the listing, causing turmoil among foreign investors, many of whom were returning to the Malaysian market for the first time since the crisis and the imposition of capital controls. In the end, the SC and the KLSE approved all aspects of the restructuring plan except for Naluri's participation as an anchor, but not until Deputy PM Badawi and PM Mahathir publicly intervened to move the process forward at the end of February 2002.

The government had a strategic interest in the process because, if TRI defaulted for a second time, the bondholders (all of whom were foreign investors) would gain control of one of Malaysia's premier telecoms. At the same time, the PM's office was attempting to forge a merger and remove Tajudin from control at TRI. The game became almost comic as Tajudin, the PM, Danaharta, the SC, the KLSE, and foreign and minority

⁴⁶ The recapitalization plan involved a rights issue, a restricted issue and an internal restructuring. The rights issue comprised up to 840.9 million new rights shares on a 1 to 1 basis priced at 1 Ringgit. The restricted issue comprised up to 724.1 million new restricted shares at the price of 1.75 Ringgit per share with a six month moratorium on sale or 1.93 Ringgit per share with no sale restriction. The internal restructuring involved a share reduction and the "collapse," or delisting of TRI, and the listing of its wholly owned subsidiary Celcom Malaysia Bhd in its place.

investors all maneuvered for advantage. Meanwhile, for the average investor and market watcher, TRI became *the* hot stock. Brokers and newspapers cracked jokes about the constant barrage of phone calls, “Can buy TRI-lah?” While only the institutional investors were able to get in on the action, it was clear to everyone that a merger between TRI and state-owned Telekom, signaled as desired by both Telekom and by the government, would mean a major increase in TRI’s stock price from the record lows after the crisis.

As planned, TRI offered a restricted issue in February 2002 as part of its restructuring plan.⁴⁷ It was offered only to institutional investors and was mostly taken up by foreign groups, suggesting a positive view of projected growth and profits in the telecom industry in Malaysia and for TRI in particular. Unfortunately, Tan Sri Tajudin himself needed to come up with 130.4 million ringgit to take up his share of the rights issue, as entailed by his stake in TRI, or he would default to Danaharta. He failed to raise the cash and, on March 27, Danaharta issued another default notice. Danaharta then paid to take up Tajudin’s share of the rights issue, stating that they did not want TRI’s recapitalization plan to be “derailed.” Tajudin had thirty days to rectify the default before Danaharta began selling his collateral, the shares, in order to recover the debt.⁴⁸

⁴⁷ Funds from the rights issue were used to redeem the 375 million U.S. dollar euro-convertible bond by the due date of April 22, 2002. The rights issues were priced at 1 ringgit for every new ringgit share in TRI. As TRI shares were trading at 2.30 Ringgit at the time this was considered an excellent price, even discounting the uncertainties surrounding company management and debt load.

⁴⁸ Behind the scenes in January Telekom, offered Tajudin 2.4 Ringgit per share for his 24.3%% interest in TRI. Telekom also tried to purchase DT’s 21% stake in TRI, but DT refused to sell. Tajudin reportedly stated that he would only accept ten times that amount

On Friday morning, April 26th (Fridays are half days because of Friday prayers) Tajudin failed to pay the 130 million ringgit needed to secure his entitlement of TRI's new shares. Danaharta declared the loan in default. Before even one business day had passed, on Monday, Commerce International Merchant Bank Berhad's CEO Nazir Razak announced Telekom's purchase of Tajudin's stake in TRI.⁴⁹ The entire business community recognized the sale as pre-planned. In addition, the announcement by Nazir Razak, grandson of former PM Tun Abdul Razak, known to be in Dr. Mahathir's good graces and rumored to be in line for a key government post, made the announcement's connotations even clearer. Everyone wanted a stake in the "new" Malaysia, Inc., and during the week of the announcement, TRI was the volume leader on the KLSE, jumping more than 5% on a record volume of 93.13 million shares changing hands. Telekom paid a slight premium on what TRI was trading for, but it is unclear whether the price paid was appropriate as there was no open tender for the shares.

An open tender was not expected, however, as Dr. Mahathir had already stated that he wanted Celcom to merge with TM Touch, Telekom Malaysia's cellular business. While no one at Danaharta would confirm this, it seems clear that Danaharta's speedy sale of Tajudin's shares in TRI to Telekom was "directed." Analysts considered it quite likely that other parties would have paid more for the shares, but as stated by former Deputy PM Badawi (now Prime Minister) on May 5, "... it is Telekom, so it's okay"

per share, an indication that Tajudin was still hoping for some sort of a bailout, not for TRI itself, but for himself.

⁴⁹ Telekom bought 270 million shares at 2.75 ringgit per share for a total of 717 million ringgit.

(Bernama 2002a:1). He argued that the government had been worried that Tajudin's stake would be purchased by foreign interests.⁵⁰ When Dr M addressed the press stating, "we don't need many [telecom] companies, we only need three companies in Malaysia," Telekom admitted that it was behind a series of off-market transactions buying TRI stock and increasing its stake in TRI (Fazli 2002:1).

What about Tajudin's other shares and his other companies? In November of 2001, the Securities Commission rejected Naluri's proposal to begin a reverse takeover of TRI. The SC's decision was read by market analysts as the first clear signal that a government-led consolidation in the telecom industry was in the offing and that Tajudin was about to be stripped of his corporate assets. The SC went to unusual lengths to justify this decision, even taking the previously unheard of step of issuing a list of reasons. They stated that Naluri's proposal did not comply with Chapter 18 of the guidelines for reverse takeovers and the proposed acquisition would not generate any cash-flow return for Naluri. In addition, to meet the criteria for reverse takeovers a company must have three years of profitability (which TRI did not have) as well as good prospects for cash flow in the asset to be acquired. Again, TRI was too highly indebted to qualify. Naluri's takeover of TRI would also have breached chain listing rules, as TRI

⁵⁰ Telekom Malaysia Bhd is firmly controlled by the government: 86.2% of the shares are held by Kazanah Nasional Bhd., the government's investment arm, Minister of Finance, Inc., the PM's investment arm, the Employees Provident Fund, and Bank Negara Malaysia, the central bank, Permodalan Nasional Bhd, another governmental investment arm, and other government linked funds.

would be the sole source of Naluri's earnings on paper.⁵¹ With his former patron out of office, it was uncertain whether Tajudin would be able to restructure his debt. His shares in TRI and Naluri had been pledged as collateral for the 1.8 billion loan to buy MAS in 1994 and were sold to Danaharta in 1998 after he defaulted on payments to five different banks. His debts as restructured and discounted (by 374 million) by Danaharta totaled 942 million ringgit.⁵²

The SC's attempt at transparency in this ruling was obscured some months later when, as outlined above, Danaharta did not opt for an open-tender sale of Tajudin's TRI shares. As suggested above, the lack of an open-tender process was, however, not particularly surprising, in light of Dr. Mahathir's statements in January saying that Telekom was "keen" on TRI and that it was merely "a question of price... it is up to them. The government wants to see the industry consolidate because there are too many licensees (Bernama 2002b:2)." In addition, the government indicated that they would only issue three third generation licenses, while there were five mobile companies extant, and these statements also fueled interest in TRI. In early March, Naluri announced a plan to return the profits from the sale of MAS to Naluri shareholders, subject to SC approval. The capital repayment plan would have meant that Tajudin could receive 400 million

⁵¹ It is unclear, though, whether the SC would have been able to block the chain listing as this rule was changed in order to allow the listing of the North-South Highway Company in 2000.

⁵² Security for repayment included 17.27% stake in TRI, a 44.84% stake in Naluri and an 80% stake in a property company Promet Langkawi Resorts. When Tajudin defaulted on the interest payment of 18.64 million Ringgit in December of 2001, Danaharta issued a letter demanding payment and started proceedings to sell his collateral. Tajudin promptly filed a lawsuit asking for an injunction against Danaharta. The court ruled in Danaharta's favor and sale of Tajudin's assets proceeded placing Tajudin's protected status in jeopardy.

ringgit (as his 45% stake share in the repayment), but the repayment plan was stalled by lack of SC approval pending the disposal of Tajudin's shares by Danaharta.

Backed into a corner, on May 7, 2002, the day after Danaharta announced the tender exercise for Naluri, Tajudin met with the chairman and managing director of Telekom and, on May 8, dropped his suit against Danaharta for selling his TRI shares to Telekom in April. Telekom continued accumulating TRI shares in off-market deals bringing their stake to 22%.⁵³ As the Employees Provident Fund, the government-controlled employee pension fund, owned another 12% of TRI stock, it was assumed that Telekom could muster enough votes at an extraordinary general meeting to oust Tajudin and other board members and put their own representatives on the board.

Telekom, of course, wanted to place its own representatives on the board and to oust Tajudin and his appointees before making any general offer. Although, as an interested party, Telekom's representatives would not be able to vote on any proposed merger between TM Touch and Celcom, Telekom would be in a better bargaining position and able to sway more votes if the board installed under Tajudin's tenure were removed or altered. Telekom's representatives were assuming, correctly, that their instant number one position in the cellular market following the merger of TM Touch and Celcom would provoke a major share price upswing.⁵⁴ Their plans were hampered at the Wednesday June 26, 2002 annual shareholders meeting for TRI, when the proxy voters

⁵³ An off-market deal is a deal arranged between a buyer and a seller of stock, usually institutional investors, where the price is agreed upon between both parties, i.e. not necessarily at the market price.

⁵⁴ TM Touch is Telekom's cellular subsidiary.

for Telekom Malaysia Bhd and the Employees Provident Fund were, incredibly, physically stopped at the door by TRI employees and denied entry with the excuse that their proxy forms had not been correctly completed.⁵⁵ Without the votes of the EPF and Telekom's representatives, Tajudin and other board members of TRI were reelected.

Four days later, on June 30, Deputy PM Badawi stated that government regulators would intervene to resolve the proxy dispute. And, after a telephone call from Badawi, Tajudin and four other board members known to be his loyal allies resigned from the board. Telekom did not finance the mandatory general offer through the proceeds of the sale of its own subsidiary to TRI, essentially eating the assets of its new company. Instead they financed the deal through a share swap. A share swap between two companies can be manipulated to favor one group of shareholders over another by overvaluing or undervaluing the shares of one company in relation to the other. In order to do this, the seller and the buyer need to be controlled by the same company. In Malaysia, as elsewhere, the seller and buyer may not appear to be the same but may in actuality be controlled by the same individual or organization through the utilization of proxies and nominee companies. In the case of the merger between TRI and Telekom, the Malaysian government (through its nominee and proxy ownership of Telekom) was able to value the shares of TRI at a substantial discount below their market value. The difference between the market value and Telekom's "internal" valuation when the

⁵⁵ TRI officials stated that the proxies for the EPF and Telekom reps did not include the central deposit account numbers of beneficial shareowners. The forms did not in fact require such information and other shareholder proxies were allowed entrance without providing the same information.

merging units swapped shares enabled Telekom to fund the purchase of TRI.⁵⁶ Tajudin and his allies at this point resigned.

But what about the rise of a set of new *bumiputera* elite? After Tajudin failed to meet the extended deadline to take up his share of the rights issue, Danaharta called for bids on his Naluri shares. Because Tajudin's shares represented 44.84% of the company, any purchaser would have to make a mandatory general offer for the other 46.26% according to KLSE rules on takeovers. At that time it was estimated that Naluri had enough net tangible assets to justify a price of 2 ringgit per share.⁵⁷ Naluri's previous capital distribution plan was put on hold pending the sale of Tajudin's controlling stake in the company. When the national debt collection company, Danaharta, opened the bids for Naluri they found that there was only one from a private company, Valiant Entity Sdn Bhd, jointly owned by Bistamam Ramli, Tajudin's brother and Lim Kheng Yew, Tajudin's close business associate, both of whom were executives at TRI (Danaharta 2002). Danaharta awarded Valiant the tender and the government awarded Naluri back to Tajudin.⁵⁸ Naluri was thereby enabled to proceed with its capital repayment plan and Tajudin and his associates used their 400 million ringgit share of this plan to pay

⁵⁶ The Putin administration's re-nationalization of Gazprom and takeover of Yukos provide an interesting parallel example (see Financial Times Feb. 4, 2005).

⁵⁷ As stated in their annual report for 2001 Naluri had a paid-up capital of 690.52 million Ringgit meaning that any potential bidder needed at least 1.4 billion Ringgit to place a bid. Naluri's key assets were the TR Tower office building on fashionable Ampang Street and 800 million in cash representing the net proceeds from the sale of MAS for 1.8 billion.

⁵⁸ Danaharta allowed Valiant to raise their bid to the reserve price, set by Danaharta beforehand, to 1.65 per share for a 44.8% stake in Naluri a total of 510.9 million Ringgit. Valiant entity then paid 10 million Ringgit on the spot and pledged to pay the balance within 12 months, providing bank guarantees for the outstanding amount.

Danaharta. Danaharta thus ended up recovering 1.2 billion (717.4 million from Telekom for Tajudin's TRI shares and 510.9 million for his Naluri shares) of the 1.79 billion that the Ministry of Finance paid to bail Tajudin out of MAS. The money collected by Danaharta will go toward the pool of restructuring money (not back to the government) so that in the end the ultimate payment will be borne by the Malaysian public.⁵⁹

On top of which, Tajudin and the other resigning board members received severance payments, golden parachutes, in the amount of nearly 40 million ringgit representing a reduction of TRI's profits by 20%. Although the payments were not technically illegal, they created a backlash of resentment as TRI had been retrenching staff from its 4000-person workforce.⁶⁰

Why was there only one bid received for a company with the kind of cash that Naluri was sitting on? It was not possible for anyone outside of government to do real due diligence.⁶¹ In the investment company to which I had inside access, one analyst spoke with employees of Naluri and eventually reached a low-level accountant responsible for cash placements. From this employee he learned that the original cash

⁵⁹ Through the sale of Tajudin's shares in TRI and Naluri, Danaharta managed to recover (assuming all payments are made) 80% of the 1.4 billion owed by Tajudin.

⁶⁰ TRI was already paying its directors more than twice what other industry leaders paid. The salary payments for the entire workforce for 2001 amounted to 223.9 million Ringgit. The payments to Tajudin and his allies thus represented a substantial number of jobs eliminated, 17% of total salary payments.

⁶¹ Due diligence is the search for accurate information on the assets, liabilities and future prospects for a company that potential buyers are allowed and required to do before completing agreements. Due diligence may include anything from checking on the backgrounds and activities of CEO's to checking company records and books. It is not unusual for companies to hire private detectives during the process of due diligence.

pile from the MAS sale, which was placed with almost every bank in KL, had dwindled from 762 million ringgit to 650 million ringgit. The accountant stated that the difference had been transferred to various subsidiaries as “loans.” It was clear from the accountant’s statements that there was no chance whatsoever of recovering these monies. Potential bidders were afraid that all of the money might have evaporated and there was no way to know before bidding. Danaharta stated that as they were only the chargee of the shares, not the actual owner, by the terms of their mandate they could not force Naluri to submit to adequate due diligence. The winner of the bidding process might end up spending a lot of cash for an empty shell.

In addition, another local investor, with better connections to the PM’s office, told me he spoke to one of Dr. Mahathir’s aides and was told “not to bother” joining the bidding. Clearly, the government was directing the process of awarding Naluri, even though it was billed as an “open” bidding process. Other interested parties were Quek Leng Chan of the multinational conglomerate Hong Leong Group and Ananda Krishnan, a major player in the telecom industry, both of whom were well connected to the Prime Minister’s office but did not join the bidding because they could not conduct due diligence on Naluri beforehand. In summary, the public discourse of a “new” Malaysia, Inc. was contradicted by the behind the scenes operations to protect Dr. Mahathir’s favored confederates.

Tajudin, through Naluri, thus gained control of 1.8 billion ringgit and a chance to repay his debts. The government’s move did have some unforeseen consequences; Tun

Daim resigned from the post of Finance Minister in June (Lopez 2002e). Private speculation among members of the press and my informants was that Dr. Mahathir was forced to part company with Daim, at least publicly, after the flagrant bailout of Tajudin because of the extent of public outrage, though this was never publicly acknowledged. The opposition attempted to galvanize public anger at the ballot box. Speaking at the opening of the 2002 Penang State Convention, Democratic Action Party (DAP) party leader, Lim Kit Siang, asked,

Who is the model of a Malaysian patriot? One would imagine that all the guest speakers at the three-day National Patriotism Congress are held up as models of Malaysian patriots. Going through the three-day program, I find that one of the guest speakers is none other than Tan Sri Tajudin Ramli who will be speaking on “Patriotism and Globalisation.” Tajudin has been in the news lately, with Technology Resources Industries (TRI) suing him and two ex-directors to recover RM56 million ringgit in controversial payments bordering on unethical practices. Tajudin is also a household word because of his role in the notorious RM1.8 billion MAS bailout, for which a proper accounting has still to be made to the Malaysian taxpayers. It is most shocking that Tajudin will be one of the guest speakers to preach to top political leaders, in government and opposition, on the meaning of patriotism, which is [sic] a contempt for the whole system of governance...

Daim continues to impact the field of corporate Malaysia, but his departure provided an opportunity for Dr. Mahathir’s enticing of foreign investors through rebranding Malaysia as a prudent, trustworthy game player. Daim disappeared from public view but rumors of “Daim sightings” continued to circulate. According to these rumors, he was last seen in New York selling large diamonds to a dealer. Part of Daim’s power stemmed from his continuing as UMNO party treasurer. He stepped down from this position when PM Badawi appointed a new treasurer after party elections in 2004. Daim’s removal reflected Dr. Mahathir’s desire to maintain personal control and redirect patronage toward his own new *bumiputera* corporate players.

Global conglomerates compared

How does the transfer of ownership and control, the cronyism operating in Malaysia, Inc., compare to other international corporations in the global arena? As exhibited in Dr. Mahathir's attempt to corner the tin market (outlined above), Malaysia, Inc., from the initiation of the concept in the early 1980s, was a government-run power project. The owners, proxies and representatives of the project changed in line with the phases of Dr. Mahathir's economic policies and political strategies. However, the twin goals of development and creating a *bumiputera* entrepreneurial class (through mergers and acquisitions, privatization initiatives, and centralizing control in the office of the Prime Minister) remained constant.

I suggested to a government official who was responsible for restructuring failing companies that Malaysia, Inc. could be viewed as an oligopoly operation and he responded in a matter of fact tone that, "Malaysia is a command economy." Another informant, a known syndicate operator responsible for shady deals ramping up stock prices and then unloading the overpriced stock to confederates at state-run trust companies, agreed that Malaysia, Inc. might be operating market fixes. He then went on to argue in terms that I also heard from others, that, "It's just like Enron, yes? The U.S. is no different." Based on news reports and investigative journalists' reports into the ongoing litigation surrounding Enron's bankruptcy, below I outline the crucial similarities between "cronyism" as market making in the Malaysian and the U.S.

contexts. The comparison underscores the growing significance of the financial regime being created by neoliberalism globally and possibly facing a new conjuncture today.

Comprehending Malaysia, Inc. as a corporate unit and Enron as a corporate unit requires taking the rhetoric of Malaysia, Inc. at face value, for a moment, and examining the transfer of innovations and tools from one corporate arena to another. The transference, from the developed to the developing world, of President Reagan and PM Thatcher's open market economic orthodoxy in the 1980s (based on free trade and capital account liberalization between nations, and deregulation of industries and privatization of public goods within nations) laid the groundwork for further corporate innovations. One major innovation enabled by deregulation of the banking sector in the United States, which subsequently became standard practice around the world, was the repeal of the Glass-Steagal Act of 1933 which had prevented banks, insurance companies, and brokerage houses from merging or offering each other's differentiated services. Glass-Steagal was replaced with the Gramm-Leach-Bliley Financial Services Modernization Act of 1999, buttressing consolidation and vertical integration in the financial services industry and leading to unprecedented conflicts of interest between operations within firms, as suggested by the corporate scandals at JP Morgan and Citigroup in 2006 and 2008 which revealed collusion between their merchant banking and brokerage arms (Arnold 2008:14). In a similar way, there has been a loosening in standards of corporate governance – the legal checks and balances enacted to avoid conflicts of interest and unfair business practices. Worldwide deregulation, privatization, and liberalization have

removed the controlling, regulating influence of international and national legal frameworks. In the corporate world this has nourished corruption (Markham 2006).

Another innovation is the unregulated use of mark to market accounting whereby companies are legally entitled to calculate future revenue curves as present day earnings, i.e. to count possible future earnings on long-term contracts as current “real” revenue. For example, as Enron became more involved in energy trading and derivatives contracts the company switched to mark to market accounting, which was common among finance companies but untried by an energy company, and began valuing contracts by treating price curve projections as current revenue (Bryce 2002:69; Markham 2006:99). In addition, Enron’s accountants, backed by their external auditing firm, Arthur Anderson, were able to alter the revenue total by altering the price curve projection.⁶² While Enron’s accounting became illegal only with the creative financing set up to keep debt off its books through the creation of shell companies, the use of mark to market accounting enabled a nexus of cooptation between auditors and their clients. In the case of Tajudin Ramli’s conglomerate, use of mark to market accounting enabled obfuscation of the losses incurred during the economic downturn of 1997 and 1998 and, in the same manner as Enron, Naluri’s actions became illegal with the attempt to create shell companies.

⁶² Valuing future revenue as current revenue made earnings in particular sections of Enron look brighter, for example, Jeff Skilling, CEO of Enron Finance, could take a deal with the New York Power Authority (wherein Enron agreed to provide power for 23 years at a fixed rate for revenue of 1.3 billion dollars) and “mark it to market” as a 1.3 billion earning in 1990 rather than as a 1/23 of 1.3 billion earning every year for 23 years. As Skilling was being paid percentage bonuses for the market value of Enron Finance, the use of mark to market accounting increased his earnings by millions of dollars (Bryce 2002: 64).

Enron became a giant in the energy business through mergers with key companies (such as InterNorth), which were forced into integration by speculators and corporate raiders in the 1980s (Bryce 2002:32). Raiders were able to create quick profits through acquiring stakes in companies leading to hostile takeovers, downsizing the workforce and reselling the company as a better profit and dividend maker. In the U.S., stock price growth became defined as a major corporate goal reinforced through incentive structures for employees and leading to a shift in emphasis from cash flow to revenue growth. In a similar fashion, during the boom years for equity investing in Malaysia, in the early 1990s, mergers and acquisitions became the moneymaker for emerging entrepreneurial magnates like Tajudin Ramli. While the government often acted as the agent for corporate raids in Malaysia, the process of consolidation, transfer of ownership and profit taking was parallel to that of the United States corporate restructuring.

An additional component in the transfer of techniques from one corporate arena to another across countries is the creation of networks of government patronage, enabling a system of preferential treatment through the alteration of the regulatory landscape and through the provision of credit to favored “cronies.” Undemocratic processes and the peddling of political influence characterize the practices of the regulatory authorities of both Malaysia and United States. They are evident in the lack of open meetings and open tender practices, as well as in the circulation of personnel between government and private corporate circles. For example, Enron’s former CEO, Kenneth Lay’s journey to becoming the center of Houston’s power elite began with his hiring of James A. Baker III, former Secretary of State, and Robert Mosbacher, former Secretary of Commerce, as

consultants for the Enron Corporation. These two consultants developed deals around the world, including major contracts in Kuwait after the U.S. invasion in 1991. Ken Lay also hired Wendy Lee Gramm, wife of Senator Phillip Gramm, and former head of the Commodity Futures Trading Commission, as a consultant. Before her time at the CFTC ended, Dr. Gramm passed rules exempting derivatives contracts from federal regulation, thereby enabling Enron to continue its energy trading operations (Bryce 2002:79-81). Her husband, meanwhile, as senator was an important architect of the 1999 repeal of Glass-Steagall.

As outlined above, the circulation of personnel between UMNO party offices, public appointment and private corporations in Malaysia follows a similar pattern. Immediately upon assuming the premiership, Dr. Mahathir began centralizing power in the Office of the Prime Minister.⁶³ Centralization enabled this government to profit from privatization as much as from private industry. Primarily through the sale of assets and licenses via the Ministry of Finance (Inc.) the great political “holding companies” of the governing coalition – UMNO, MCA, and MIC – embarked on an acquisition of assets that enabled TMT’s dominance of the KLSE market. The ensuing concentration of wealth in the hands of the politically connected *bumiputera* elite was then disguised but

⁶³ The newly completed government seat, Putrajaya, is a symbolic manifestation of the centralization of power bringing all branches of government, including the judiciary, under the Office of the Prime Minister. . The largest building in Putrajaya, at the center of the main promenade and tourist attractions, is the Office of the Prime Minister. Built during the worst of the 1990s economic downturn, Putrajaya and its high tech sister city Cyberjaya, were ghost towns except for an administrative apparatus and government workers

not hidden through the appointment of government proxies and the use of shell holding companies (Gomez and Jomo 1999; Gomez 1990; 2002).

Another parallel concerns the provision of credit to politically connected enterprises. The credit guarantees and overseas market access that Enron received from the Overseas Private Investment Corporation (OPIC) is similar to the Fleet Group's privileged access to credit at Maybank and at overseas affiliates of Finance Minister Daim's family banks. As the sitting U.S. President has the privilege of appointing the board and executives at the OPIC, he or she has effective control over "the smallest but most powerful investment bank and insurance underwriter on earth" (Bryce 2002:104). OPIC loans and/or backing for particular projects mean far more than money because they are guaranteed by the credit of the U.S. government and other creditors read them as a government sanctioned green light. In fact, OPIC's approval is usually required by other banks and insurers of risky projects. Similarly, Maybank and other government-run banks in Malaysia have been "required" to lend money to particular projects and particular businesses.⁶⁴ As with the operations of the Ministry of Finance, Inc. in Malaysia, although funded by taxpayer's money, OPIC meetings are secret and are not subject to the Freedom of Information Act (Bryce 2002: 106).

Details of the diffusion of the Wall Street business model and the financialization of corporate practice (through remuneration and other incentive structures and technical

⁶⁴ For example, funding for the building of UMNO's party headquarters, a giant convention center named Putra World Trade Center, was illegally obtained through "forced" loans from Bumiputra Malaysia Finance (BMF) a Hong Kong subsidiary of Bank Bumiputera, which subsequently went out of business.

innovations in concert with the booming equities market and the “new economy”) were examined in chapter two. Here I wish to point to the impossibility within the current regulatory climate of generating an accurate picture of a conglomerate’s business assets and liabilities, or of doing proper due diligence. The impasse is created by standards of accounting and corporate governance practice that obfuscate financial positions such that not only outsiders, but also insiders within the corporate structure are rendered incapable of fully grasping a business’s finances. It is unclear whether the Sarbanes-Oxley legislation, imposing new and more extensive reporting and record keeping requirements on all publicly-traded companies and mandating that executives of those companies take personal responsibility for the procedures of collecting data for the company's financial reports and for the integrity of their contents, which was introduced in the United States in 2002 (in the wake of Enron’s failure) will decrease the occurrence of collusion between auditors and corporations. In the context of the increasingly opaque market for information, the credit and risk ratings generated by conglomerates in the financial services industry remain provisional at best (Markham 2006:575). The current round of write downs of non-performing loans by banks due to the mortgage backed securities crisis seems to indicate that Sarbanes-Oxley has not provided sufficient oversight or incentives.

The creation and maintenance of an opaque market serves a particular category of institutional investor (and those investment banks who handle their business) and maintains a division between different types of investors and their exposure to risk. The sociality of networking facilitates not only the transfer of assets and risk across regulatory

borders but also the formation of a shared global field for the formation of various syndicates. The explosion of conflict of interest litigation over the past few years reveals the depth and breadth of favoritism. What matters is the sociality of the “new rich,” not only in Asia but globally. Stock ownership is not an adequate substitute for control or participation in the political process of creating and managing markets. Cronyism, whether in a state syndicate or a global conglomerate, benefits from a global arena in which the decisions of networked elites are apprehended as decisions of “the market,” i.e. substituted for regulatory frameworks.

There is one central difference in the playing out of cronyism in Malaysia and the U.S. which is access to legal recourse. In the wake of the Enron fiasco, thirty people, including the CEO and CFO of the corporation, were charged with crimes in connection to illegal actions at Enron (Markham 2006: 110-112). In addition, corporations who provided accounting and financial services to Enron were implicated in the fraud and faced penalties. Citigroup, for example, received \$188 million in revenue from transactions with Enron and subsidiaries between 1997 and 2001 in return for helping Enron structure transactions moving \$4.6 billion in debt off the balance sheet. JP Morgan Chase also received hefty fees for arranging financing for Enron during the same period. Although both companies’ stock prices plummeted in 2002, the overall effect was not lasting (Markham 2006:120). A class action suit, filed on behalf of Citigroup shareholders by Pompano Beach Police and Firefighters Retirement System and focusing on the bank’s role in the Enron transactions, was dismissed, but the Board of Regents of the University of California also filed a class action suit which Citigroup agreed to settle

in 2005 for \$2 billion. JP Morgan Chase settled for \$2.2 billion. In addition, for their role in structuring instruments to move debt off Enron's balance sheet, Citigroup and JP Morgan Chase agreed to pay \$255 million to the SEC as well as paying additional money to the state and city of New York to avoid criminal prosecution (Markham 2006:125). Employees at Merrill Lynch, Lehman Brothers, and H&R Block were also charged with illegal operations on behalf of Enron while suits surrounding Enron's illegal actions resulted in the closure of its complicit accounting firm, Arthur Andersen. Because global and venerable Andersen had certified Enron's accounting and financial disclosures as correct, their failure to provide objective accounting judgment resulted in numerous lawsuits and government investigations. The resulting conviction on obstruction of justice charges and loss of confidence eventually led to closure (Markham 2006: 197,211). There have, of course, been claims of politically motivated dismissals, yet the continuing litigation surrounding Enron's collapse indicates at least some degree of autonomy of the judiciary in the U.S. system. None of these suits resulted in a reworking of financial architecture, but investors, both institutional and individual, had some recourse.

In the case of Malaysia, by contrast, although accounting and corporate governance standards are converging on neoliberal standards, the legal system has never had autonomy from the executive branch. During the colonial period the judiciary was responsible to British corporate interests and during the current period, the judiciary is responsible to Barisan Nasional corporate interests (Khoo 1995:286-292; Jomo 1988; Rehman 1993:241). As such, there have been no comparable convictions or penalties

paid by Tajudin or any of his associates. Indeed, as argued above, neoliberalism creates possibilities for accumulation on the part of international, institutional investors as the expense of locals. Hence, while Malaysian taxpayers footed the bill for the buyout of Tajudin in 2002, Deutsche Telekom earned 200 million euros through the sale of its stake in Celcom (Malaysia) Bhd. in 2006 (Telecommunications Brief 2006:A14).

As companies are churned up through mergers and acquisition, private equity concerns and, in particular, sovereign funds will only increase in importance. Financialization is key to this cycle of accumulation, exacerbating the processes outlined in this chapter. Strikingly, worldwide mergers and acquisitions for 2007 concentrated on the financial sector and private equity concerns were the dominant actors (Thomson Financial 2007:C1). Further, in the wake of defaults in 2008, large conglomerates such as Citigroup, made gigantic through mergers – it is the largest financial concern in the world – have reverted to raising cash from sovereign funds such as those of Korea and Kuwait as well as from hedge funds (Thomas 2008:B1, B8).

Chapter Five

The Praxis of Experts in Global Financial Markets

Marketplace, market space, and *habitus*

The business of financial experts, referred to in this analysis as fund managers, is to compare markets and on the basis of their capacities to enact trades. In so doing, the managers participate in making markets. Lacking sovereign status, fund managers rely on networks, education, and their ability to wield innovative financial tools such as derivatives – cobbling together instruments and leveraging funds in order to make returns. Obviously, they depend as well on a nurturing political environment, from favorable laws and judicial frameworks to cronyistic relations with governmental authority. Through ethnographic fieldwork, anthropology has an advantage in supplying tools for capturing the informal rules and practices through which such managers engage state and market (Abolafia 1996; Holmes and Marcus 2005; Zaloom 2003). As we will see, while fund managers depersonalize strategy by embedding it in rituals of justification, ethnographers can provide the means for untangling these rituals and justifications.

As seen in chapter three, part of networking in fund management is the long term aggregation of class privilege. This chapter explores the inculcation of a *habitus* that enables effective competition and establishes reputations among players. We will see how value adheres to the cultivation of social relations, to systems of mutual obligation, and to the powerful structures that in turn become institutionalized through such systems. Praxis in this construction need not be “economic” in any formal sense. Pierre

Bourdieu's concept of the "field" of economic action is a useful gloss that incorporates the sense of informal and formal economic practice. Most important, the metaphor of "fields" encompasses influences which are not direct. For example, as we have seen, dominant core countries may define regularities as well as the rules of the game by imposing representations most favorable to their interests and also by modifying the environment, that is the market, reshaping the space in which exchange takes place. Utilizing fields as a metaphor for excavating the economic allows a conception of networking, the accumulation and exchange of social capital, which does not privilege structures, or treat individuals as bounded, unchanging, or determined units. In this configuration, agents and networks constantly change their relationship to the overarching social configuration. The social agent, the individual, as well as overarching inter-subjective structures, are both viewed as always "social and collective" engagements (Bourdieu 2005b:84).

While Bourdieu's conception of economic fields as force fields is very similar to the idea of international regimes examined in chapter two, he also provides a means for talking about the sets of dispositions formed through praxis in the economic field. The concept of *habitus*, as the taken for granted basis of social action and ways of relating – out of which networks of sociability are formed – brings to the fore a bodily means of relating to a field of practice. Originating in the work of French social anthropologist, Marcel Mauss, the idea of practical knowledge as inscribed in bodily practice is the key to analyzing the relationship between individual agency and broader structural patterns of force (Mauss 2000). Below, I am interested in establishing economic fields as *habitus*.

However, as Bourdieu argues, “habitus determines itself in determining what determines it,” namely the economic field (Bourdieu 2005:86). The circular nature of the formation of *habitus* can be scrutinized through the ways that habitus produces reasonable (not necessarily rational) expectations that are in turn the product of predispositions created by incorporating constant, recurring experiences and adapting to new ones. In analyzing the work of fund managers at a firm in Malaysia, I am relying on a conception of action framed via the concept of *habitus*.

Crucially, Bourdieu provides a means for analyzing networks in relation to one another. Who will have the most influence? The potency of networks depends on the position of agents within fields. The point for critical analysis is to identify the “conditions which delimit the space of possible strategies” while at the same time looking at competition between agents in all fields (Bourdieu 2005b:83). I am interested in elucidating what kind of subjects have the most range of motion within global financial markets and the consequences of this for the distribution of power within the global financial regime. Informal modes of socialization in the fund management industry rely on racialized patterns of network formation. The resulting informal and informational networks have impacts on market making and market sovereignty. Much of the analysis which follows is derived from observations at a hedge fund in Kuala Lumpur. As stated in chapter one, after an initial interview with the CEO, Ali, I considered this fund management company to be an ideal site for investigating market operations in Kuala Lumpur. The firm invested in both Malaysian markets and global markets. And, as explained in Appendix 1, hedge funds represent a peculiar type of institutional investor

but, because managers trained in bond, futures and stock markets tend to “retire” into managing hedge funds, they also provide an interesting cross section of financial market practice. Ali had worked all around the world and consequently had a far-flung network of contacts. He and his partners had inside contacts with elites, including government circles, in Kuala Lumpur. As the head of a small private fund management company he only needed to obtain clearance from his partners to have me as an unofficial intern. In a second more informal interview, I asked whether it might be possible for me to hang around and observe the firm’s operations. He assented and I worked as an unofficial intern at Ali’s local hedge fund for six months, where I was able to track market positions, daily operations, investor junkets, after hours pub crawls, and training practices. My access to Ali’s fund was based partially on his perception of me as a white American who might have access to alternate investment circuits. Also, as shown in chapter three, as a scion of a well connected family, Ali’s class privilege played a central role in his ability to operate in Malaysia.

In order to examine relationships between fund managers and how they attempt to galvanize network access in their favor, I accompanied XAM managers on several fund raising and networking junkets to Hong Kong and to Singapore. While XAM managers were negotiating for preferential rates with several prime brokers, I interviewed other hedge fund managers asking them about their views of Malaysian market restructuring, their own investment practices, and their social networks. I garnered information regarding fund managers’ perceptions of one another, the informal hierarchy of operatives, and their modes of after-hours networking. From these interviews it emerged

that, for these fund managers at least, place-based modalities were crucial to their *habitus* and had an impact on their evaluation of one another and management of capital.

In this regard, Manuel Castells' argument regarding the primacy of space over place in the flow of capital is problematic. Castell's argument has been taken up by Edward LiPuma and Benjamin Lee in their analysis of the power of financial markets as the ultimate 'space of flows' in globalization. Lipuma and Lee argue that the "culture of financial circulation" has trumped other power centers in global political economy (LiPuma and Lee 2004:22). And, that "the resurgence of the culture of financial circulation is transforming this landscape, significantly because the very character of capital, and especially instruments such as derivatives which are essentially abstracted relations about the relations of capital, requires much less in the way of institutional and governmental support systems." (Lipuma and Lee 2004:93). But, while all markets produce agents who operate under shared sets of cultural understandings and dispositions, the spaces for action associated with particular marketplaces can give rise to radically different power structures. Further, the use of the term culture without attention to the overarching economic field obscures the power of networking in relation to structure. Markets are dependent on the utilization of social networks by actors. For example, as I argue in chapter six, the cultivation of unique relationships between hedge funds and merchant banks leads to specific informational advantages. In addition, as shown below, the extension of relationships globally requires more in the way of governmental and infrastructural support systems than either Castells or Lipuma and Lee allow.

Work days at a hedge fund

Observationally, it was striking to me that agents within the circuits of fund management in Kuala Lumpur, Singapore and Hong Kong, cultivated conspicuously masculine and American forms of consumption. Gaming, extreme sports, and sex tourism, intensified through fast moving technological feeds, are commonly shared pursuits in European and American financial centers (Abolafia 1996a; Levin 2001; Lewis 1989; McDowell 1994; Zaloom 2003). Based on my interactions with fund managers in Malaysia and Singapore, they are also common pursuits in emerging markets. As argued below, formatted through workplace rivalry and mediated by electronic interfaces, fund managers' desires in these places represented a truncated range of expression and an ethically proscribed rationality.

Before elucidating the forms of consumption alluded to above, a description of the scene at the X Asset Management in Kuala Lumpur (hereafter XAM) is necessary.⁶⁵ The company was a hedge fund trading in different securities markets around the world and utilizing derivative products to manage its funds. XAM had been the proprietary trading arm of a major KL-based merchant bank but in 1997, had hived off as a hedge fund, in part because the partners thought they could better exploit opportunities outside the bank's regulatory umbrella. Additionally, the CEO, Ali, was loosely connected to the political opposition and therefore a liability to the bank's prospects. Besides Ali, the

⁶⁵ The names of fund management companies and all informants have been changed except in cases where information is public record. I have, however, tried to keep the general flavor of everyone's names intact. Ethnically Chinese staff all used English professional names (in lieu of personal names in Hokkien, Hakka, Cantonese or other Chinese languages spoken at home).

chief executive, there were two other partners – his father and a Chinese Singaporean banker – and seven employees. When I first joined the group – as unofficial observer and intern – they were launching a new “market neutral Asian fund” with a target investment pool of US\$25 million (the equivalent of what they were managing in other vehicles at the same time).⁶⁶ The fund was to be focused on arbitrage between Japan, New Zealand and Pakistan; to include other Asian markets; and to utilize event driven, long/short, volatility and arbitrage strategies to create profits during the recovery and restructuring in Asia (see Appendix 1 for explanation of these strategies). Launched as an entity in 1997, just as the crisis hit, XAM was one of the retirement ventures of the CEO, Ali who, in his forties, had already accumulated a fortune as an options trader in Tokyo and the U.S. The company was incorporated in Malaysia but acted as the fund management advisor for several investment funds incorporated in the Cayman Islands. The various investment vehicles being managed were, therefore, offshore. The prime broker for the newly launched fund was the Hong Kong branch of a multinational bank while investors were recruited from Europe, the US, Singapore and China. As such, the location of the hedge fund in Malaysia was irrelevant to most of its operations. According to Ali, the prime reason for its location was “the quality of life in Malaysia where land and labor are very cheap, the government is stable and there are several top flight English language schools” – a combination he considered hard to find in Asia.

⁶⁶ “Market neutral” means that the risks incurred through positions taken by the fund will be hedged through a variety of means such that the “downside” risk on any position approaches zero.

Following standard industry practice, the office was organized into a front office (trading) and a back office (settlement) but everyone worked in the same large, bright open room of an upscale business complex in a posh suburb of Kuala Lumpur, about fifteen minutes from downtown. Construction on the complex was ongoing; indeed the jungle that lay behind it was still being clear-cut even as the Starbucks and the Deli Français were putting up their signs. Ali, the CEO and major partner, had previously worked in Hong Kong for Salomon Brothers (before its merger with Smith-Barney and later with Citigroup) in their proprietary derivatives trading operations. He had also worked in London and Chicago as an options and derivatives analyst and trader and held a degree from MIT. In education and career trajectory he is typical of the fund managers operating in Asia, many of whom have attended Ivy or Oxbridge schools in the U.S. or U.K. before working for a large multinational in Asia, only later joining smaller Asian firms.

A handsome energetic extroverted character, Ali was committed to the “work hard, play hard” philosophy adhered to by many of the fund managers that I interviewed.⁶⁷ He has an omnivorous, analytical mind interested in both art and politics. In addition to running XAM he saw himself as an “angel” funder, constantly on the lookout for entrepreneurial opportunities, and he provided seed money for many small start-ups in KL. Ali was the only member of the team who had derivatives experience

⁶⁷ Ali was one of the fund managers that I interviewed in my initial stage of information gathering. Because he was running an interesting local fund and was very gregarious and open in the initial interview, I ended by asking him if I could act as an unofficial intern at his firm in order to grasp the intricacies of daily trading strategies and operations. As I stated in chapter one, I think he allowed me to do so primarily because he found such an odd request entertaining.

and he spent a lot of time teaching the other fund managers how to locate and make good on arbitrage opportunities. In addition, as noted in chapter three, Ali had impeccable Islamic credentials – a well-connected old elite family name, connections, and resources – though he was constantly cracking jokes about the formalities of state occasions and observances where, to participate he had to enlist a chaperone because he did not know the proper prayer etiquette. For example, when the Yang di Pertuan Agung (the current King under Malaysia's rotating kingship system wherein each state Sultan rotates in order into the position of King upon the death of another) died in 2002, attendance at the official funeral ceremonies at the national mosque in Kuala Lumpur was expected of any *bumi* entrepreneur who wished to further governmental connections. As the King's death was unexpected, Ali was in a great rush to find someone to attend the ceremonies with him who could covertly lead him through the prayer ritual. Overseas, Ali's friends described him as an "Americanized Malay." When pressed they translated "Americanized" as "aggressive" or "a strong player" or "takes no shit" which I interpret to mean that his friends in fund management (both American and British) viewed Ali as behaving in accordance with American style financial industry standards of aggressive competition and machismo.

The second fund manager, John, a Chinese-Malaysian, was formerly the head of Malaysian Equity which conducted research for a large multinational bank, as well as working previously for Citigroup and in a similar capacity for local asset management companies. He obtained an MBA from Berkeley in the 1980s and has been working in Kuala Lumpur ever since. A committed, conservative Baptist, John was very focused on

church work and on his family. He was fond of telling anecdotes about his oldest daughter and her negotiations for an extension of curfew hours, which he ranked on a par with international diplomacy. John was the oldest staff member and was accorded considerable respect, not only for his expertise and connections but also as an elder; the atmosphere in the office became much more informal and silly when he was out. He was, however, a consummate team player and knew how to join in the gossip and concerns of the group.

Joe, the primary workhorse who did most of the monitoring and trading, was a rather shy and serious Chinese Malaysian and much more reserved than the rest of the group. Trained in Australia as an analyst and fund manager, he occupied many different positions in KL, having come to the job market just as the boom was imploding. Having been through the ups and downs of many different companies, he was much more insecure than the other employees. Sam, the junior fund manager, was a very outgoing loud, American-trained analyst just beginning his career. As a newlywed, he and his wife were either at the club playing competitive sports or at home playing with their pure bred Shitzus. Sam took most of the office ribbing, as he was on the bottom of the totem pole. The other staff made daily jokes about his large appetite and size.

The back office workers were two accountants and a lawyer. May, also Chinese-Malaysian, is a capable and calm lawyer. The only woman at the firm, she had worked as a trader before XAM separated from its merchant bank beginnings. A graduate of the University Malaya, she was the only employee (other than Mohamed, discussed below)

who had no overseas work experience. Although unmarried, she was focused on marriage and family, always working on her physique and marriage prospects. She is as well, a gracious host, known to her friends as an accomplished cook. She spent her off time taking care of her diabetic parents and consuming (black market) unexpurgated DVDs of the HBO television comedy about single women in New York, “Sex and the City.” The other two back office employees, Keith and Mohamed, were old friends from school and fairly quiet. Mohamed, an Indian-Malaysian but Muslim rather than Hindu, was hired so that the firm would meet the quota regulations to qualify for *bumi* status.

Returning to the ways in which staff cultivated a conspicuously masculine and American form of consumption, I want to elucidate the formatting of specific desires through workplace initiation. The first example is John’s triumph with a pellet gun. Possession of firearms is illegal in Malaysia and carries severe penalties. The prohibition lends a transgressive glamour to anything involving guns. For this reason everyone was enthusiastic about joining the trip during one lunch hour to a mall across town so that Sam could purchase a pellet gun. During the World Cup Games, lunch was usually a two hour affair because of the slowdown across all markets (Zulkifli 2002:2). (Some analysts speculated that the slowdown in markets was due to individual investors selling off and diverting funds to syndicated betting on the games. In Malaysia, syndicated betting is illegal but also quite common) (Tan and Phang 2002:4). Although toy guns were legal, they were terribly expensive and served as status markers in younger Malaysian circles. Sam had already arranged a hunt-and-see competition (similar to

paintball but with small pellets) with his friends. He had become a paintball aficionado during his college years in the U.S. and was trying to create a similar scene in KL.

During the same week, Ali was away wooing potential investors in the U.S. Immediately prior to his leaving there had been a few tense meetings regarding on-going projects, structural reorganization, and some capital losses. During these meetings Ali was very aggressive in a manner caricatured by Michael Lewis in *Liar's Poker* and Thomas Wolfe in *The Bonfire of the Vanities*; he could have been a model for their description of the aggressive corporate machismo of American fund management companies, screaming and swearing at everyone, irrespective of age or position. It was clear from other talks with Ali that he conceived of his actions in these meetings as productive, morale boosting team talks. In contrast, the other staff members viewed them as an “American” aberration. Joe was visibly shaken but both he and the rest of the staff communicated privately that the hardest part of the shakedown was watching Ali swearing at John. Ali was younger than John; dressing him down would be inconceivable within the Malaysian, especially the Malaysian-Chinese, context unless it were across class lines, i.e. toward a domestic worker. A touchy mood set in and endured until the lunch hour trip to the mall.

After lunch, and the purchase of the very expensive pellet gun, we all came back to the office and Sam was anxious to try out the gun. Within a few minutes, everyone was running around in a sort of fever, shooting at targets (usually a photo or something else of Ali's). There was a cacophony of simultaneous laughing and talking. And then, as

would be the case on any playground, there was a suggestion that we should find out if the pellets hurt. Unexpectedly, John volunteered to be the victim and the younger analysts took turns taking pot shots at him. Volunteering to be shot substantially increased John's credibility as a team player and all expressed a sense of collective relief after the tense moments of the previous weeks. Indeed, though completely unplanned, this gleeful game resembled the carefully orchestrated games at American corporate retreats such as Bohemian Grove, described in chapter one – games that are meant to engineer trust through edgy competition followed by collective catharsis.

At another level, the purchase of the gun relates to the integral role of games and sports in Malaysia's national imaginary; its invented traditions (Hobsbawm 1992:1-14). Games and sports are promoted through various government initiatives as part of the proper middle class lifestyle and seeking entry in the Guinness Book of World Records is a national pastime. As well, within the memory of the WWII generation, which encompasses the colonial period and the Japanese occupation, sporting clubs, as the only legal means of public assembly, served as the main forum for organizing political resistance. As clubs were organized along linguistic and communal lines they also served to reinforce class distinctions (Harper 1999:43-47). For example, Dr. Mahathir's obsession with Formula One racing led directly to the creation of the Sepang Racetrack, which is *the* elite social forum for Malaysians, supplanting the prestige of clubs for riding and hunting inherited from the colonial era. Construction of the racetrack was financed in conjunction with the new government seat, Putrajaya, and Cyberjaya, its sister-city, all located along a high tech industrial corridor that includes a new airport designed by

Japanese architect Kisho Kurokawa. As discussed in chapter three, all of these construction projects, ongoing during the financial crisis, benefited government corporations and UMNO's investment arms. Everyone who has any claim to being a businessman, including Ali and other fund managers, acquires tickets when Formula One comes to town. It is also a forum for anointing new rising stars. Thus Bernama, the national press corporation, publicized Datuk Azman Yahya, assigned the unenviable task of national debt restructuring, as an amateur racer extolling his racing trips and tips (Edge 2001).⁶⁸

Another refrain, illustrative of the fund's subculture, is a story told by May of "a friend" working at Maybank in the late 1980s. The narrative revolved around a Malay lady who would come to work each day and "dump her leftover tea on the floor, not in the garbage mind you, but on the floor-lah. They just don't understand the way things work." For May's workmates at XAM the reference to the dividing line between "they" as *bumi* and "us" as "real world" competitors was very clear. But her tale also frames leaving rural roots behind as the dividing line between tradition and modernity. Her listeners agreed that Malays were "essentially" rural and provincial. And the Malay "outlook" was as yet unchanged by the dictates of the market because Malays had not yet had to experience the vicissitudes of "real competition," being protected by the political status quo. With one exception, however, all of the workers at XAM were recent urban migrants themselves. I heard other versions of May's account from other non-Malay informants – indeed the story functioned as a touchstone for bank employees – and all of

⁶⁸ Datuk is an honorific bestowed by the King and roughly equivalent to the title of Sir in the U.K.

these accounts turned on the inability of “*bums*” in general to make it in the modern world. But if questioned for specifics, speakers would claim that their friends would never do such a thing. As shown in chapter three, this easy revision, which views one’s own personal history only in relation to self but the personal history of others in relation to nationalism, provides a slippery frame for racial conflict in the nation.

Shortly after Sam’s acquisition of the pellet gun came May’s triumph with a political sex scandal video. She was the first in the office to obtain a digital copy of an infamous recording of a female Taiwanese politician, Chu Mei-feng, who was secretly videotaped having sex with a married lover, her coworker, at her apartment. The sexually explicit video, recorded without Chu’s knowledge or consent, caused an uproar across Taiwan and was later distributed on pirated VCDs (video CDs) across Asia. By forwarding it to the men in the office, May was not only able to validate her connections and savvy but also lay claim to being as sexually avid as “one of the boys.” The solitary woman in the office, May was not subject to any overt harassment, but the workplace was nevertheless a *habitus* of sexual predation as has been shown for financial firms around the world (Lewis 1989:39-40,46,140; McDowell 1994:737,745; Zaloom 2004:375). Peter Levin, for example, having studied the gendered logic of a commodities exchange in the United States, points to the ways that aggressive masculinity is constituted as competence during the workday and as sexualized play during off-hours (Levin 2001:120). By facilitating access to yet another pornographic episode, May acknowledged the rubric of machismo, and was in turn admitted as a proficient player. Later, her status was confirmed when she was delegated to purchase a birthday gift for a

Hong Kong broker who was being courted by the fund. Everyone was duly impressed when she found an “erotic” baking company on the internet and sent him a phallus-shaped cake. Nevertheless, the stratified nature of work and play in the field of finance precluded the possibility of May joking as sexual aggressor; there was no such space in which to act. If ritualized language and aggression are crucial indices of competence, then May and other women in the fund management field may be structurally barred from achieving full competence by the informal practices of the profession.

Of course, differences are evident. Within the small firm I studied, only Ali fully embodied the ideal of instrumental rationality and his behavior, assumptions, and Americanized style of interaction provoked palpable discomfort among his staff. In private, May, Joe and Sam all commented on Ali’s offensive “American” style behavior. At the same time, not only the structure of ownership in the firm, but also the other managers’ assumption of the superiority of American ways, precluded them from criticizing Ali’s behavior. While they often talked of their boss’s American-ness as a cultural divide between themselves and him, they never questioned the marketability of American-ness as a means for capital accumulation. In addition, although they talked about class in terms of the division between themselves and their barely urbanized compatriots, the government-sheltered *bumi*, they never framed differences between Ali and themselves as class differences. It was as if they were ignoring his access to governmental patronage, to foreign capital markets, and indeed to the global marriage market, all of which flowed from his family’s colonial and post-colonial elite status as discussed in chapter three. Ali’s power was framed, rather, as deriving from earned

expertise which was surely true but only in part, given that class privilege was a foundation for that expertise. As argued below, Ali's networking expertise was ambiguous because partly based on the fund's yearly returns, partly on his London, Hong Kong, Chicago, and New York connections, and partly on his *bumi* status which did not necessarily translate into social capital outside Malaysia.

Networking praxis and the role of conspicuous cosmopolitanism

Unsurprisingly, it was noticeable in interviews that I was able to command more of a managers' time if I was able to prove my networking ability and access to information by referencing other managers in their social network. For example, if I mentioned a contact that they knew then informants might relax and order another drink, going on to expand on statements about their own transactions or their view of others. While formal interviews usually took place at firms during working hours, I also sought to arrange follow up encounters during off work hours at bars or restaurants where I could observe interactions and networking practices. For example, in Hong Kong one popular hang out where I encountered several informants was a small, densely packed Tapas bar close to the downtown financial center. In Singapore, many financial services workers frequented the waterfront bars that line the river near the financial center. It was in these contexts that I heard and overheard tales about sex and sex tourism.

Based on these encounters it would seem that sex tourism and travel are part of the consuming patterns of fund managers whose play typically includes club crawling, drinking, and trawling in the "red light" districts. For example, in interviews and at bars

in off hours, local managers would constantly make fun of Anglo-American managers for being “China-girl crazy” and indeed many of the younger traders, brokers, and lawyers from England and the U.S. demonstrate a noticeable “Asian fetish” during their apprenticeship years in Asia. Of the fund managers I developed a rapport with in Singapore and Hong Kong all of the non-Asian managers commented on this phenomenon. As well, it was standard practice in Singapore and Malaysia for wealthy men to support mistresses, usually ensconced in one of the newer suburbs of KL or Malacca.⁶⁹

Also evident in interviews, as elicited by questions about what managers did for fun, were statements about lifestyles of conspicuously cosmopolitan consumption patterns. For example, George, an older white American hedge fund manager in Hong Kong, who evinced a very conservative investment style, spent over an hour telling me about his “hobby” of following and sometimes participating in archeological digs in Europe and America. As he spoke he displayed a detailed knowledge of archeological theory as well as a range of contacts in the field. As George had already “placed” me as an impoverished graduate student, rather than an attempt to impress I would suggest that his goal in talking about his hobby was to show himself as a well-rounded individual with global aspirations and networks encompassing cultural capital. June, a mid-40s British fund manager in Hong Kong, one of only three female fund managers among those interviewed, invited me along on her weekend shopping spree and “beauty regime.” In

⁶⁹ The apartment complex where I lived in KL was home to a number of such mistresses and I am basing this observation on informal conversations with them as well as on observations of their frequent domestic quarrels in public.

the hours spent at her favorite up-scale salon, she explained her focus on maintaining her sex appeal as well as creating her ideal home away from home as her reward for all the years she spent as a junior employee at a British fund working 18 hour days and snatching sleep in off hours. “Now I demand the best” she declared before launching into a description of her Thai vacation home which included a private beach and live-in chef. As I had already revealed that I had never had a pedicure in my life, I interpreted her tales of the “good life” in Thailand where she planned to retire, not as an attempt to impress but as a statement of her desired future, a life of ease lived in selected global locations. As such I would argue that her desires provide a clue as to fund managers’ presentation of self and the accumulation of prestige within their social networks. Similarly in observing Ali’s socializing with other managers, he seemed to often be searching for a “hook” to display his own or his associates’ cosmopolitan linkages and consumption patterns, e.g. debating the merits of Chinese food in London and Korean food in Hong Kong, or the virtues of architect, Santiago Calatrava’s latest project. Seemingly, being able to display his globally acquired, discriminating taste made him more legitimate and might translate into social capital galvanizing access to information or capital or contacts.

Of course networking is not always successful. XAM managers for example failed in their attempt to make contacts that would enable them to find out who was managing the Soong family fortune consolidated by Soong Mei-ling, Chiang Kai-shek’s widow, and her brother T.V. Soong, China’s former foreign minister and financial guru of the Nationalists after removal to Taiwan. John was convinced that their fortune was measured in billions but he could not find out through his Citigroup contacts and Ali

could not find out through his network who was involved. They explained their failure as deriving from their weak contacts in the larger New York based hedge funds. Ali was, however, successful in cultivating an oddly abrasive Swiss banker, Vincent, who was selling his contacts to hedge fund managers in return for a share of proceeds in their investment vehicles. Ali initially considered Vincent a dubious character but after investigating his connections through conversations with fund managers in Europe, he brought Vincent into the firm as a “consultant” on the newly launched fund. Cultivation of Vincent’s network by XAM managers included paying for his trips to Geneva and for his entertainment in Kuala Lumpur. While Vincent did eventually bring in several million in pooled funds, it was much less than had been anticipated as he had portrayed himself as the ultimate cosmopolitan “playboy” with access to the royal family of Monaco.

Here the concept of “structural holes” may provide a framework for understanding Ali’s limited success in translating his informational advantage in the Malaysian market into social capital within his global networks. Ronald Burt argues that brokering across the structural holes between networks that do not overlap may provide a “viewing advantage that can translate into social capital” if brokering across structural holes within an organization leads to better performance and/or good ideas (Burt 2004:351). While Burt’s analysis refers to networks within electronics conglomerates in the U.S., the idea of brokering across structural holes might be fruitfully applied to Ali’s attempts at networking within and outside of the Malaysian context. As discussed in chapter four, his vantage point in Malaysia meant that he could provide a different level

of analysis than outsiders and he might potentially profit from brokering between his Malaysian networks and larger global networks of fund managers. In the case of his attempts to galvanize his network access within Malaysia, he was relatively successful in convincing investors and government officials of his and his firm's competence and efficiency. His admittedly better informational access within Malaysia did not, however, automatically translate into social capital outside the country on his fund raising junkets. Based on observing his networking praxis, I would argue that Ali was "underprivileged" in trawling for capital overseas due to perceptions of limited cosmopolitanism in configurations of "Asian-ness" on the part of other fund managers. He sought to overcome these strikes by increasing his cultural capital through providing "angel funding" to various business ventures. While putatively for profit, the schemes had yet to show profits, but benefited him at the level of constituting hard evidence of entrepreneurial initiative. Although he knew how to make his entrepreneurialism legible to U.S. investors, however, this did not always accrue the prestige he sought. He used XAM's posted 121% returns to make his skills legible to local investors as well and was more successful in raising money locally.

Based on interviews and observation of networking praxis in these settings, it is my contention that the subjectivity cultivated via workplace norms in fund management corporations encourages a particular mode of consumptive desire. Work practices do not necessarily dictate behavior at play but there is a constriction of options, a narrowing of the field of behavior that results in actions that seem like caricatures when viewed from the outside. In fact playtime is "business as usual" for individuals caught within the field.

Based on my limited sampling, the career trajectories of individuals are key in shaping the modes of their desiring. Traders and fund managers inhabit a limited field, driven by a quest for speedy gain, working 15-18 hour days without much time for leisure. In talking with me, managers argued that only during their early careers, do they spend all their leisure time in bars and dives; by their late 30s or 40s they move into tamer work patterns as well as marriages and family life. The frenzy of capital markets, however, cannot be sustained without fund managers' cultivation of a kind of manic desire which is, in fact, constitutive of these markets even if it also poses a threat to themselves and to the populations put at risk by their celebration of volatility. Based on observations of socializing patterns after working hours, it would seem that fund managers cultivate an "entrepreneurial" spirit in their leisure pursuits that recreates the speed and adrenaline of their workdays. For example, many managers expressed an interest in "extreme sports" which seemed to be more prestigious than the traditional yachting and riding pursuits of the 1980s. In the course of conversations at bars several informants also described surfing porn for hours on end at work and at home. To them, the activity is a feckless impulse to consume as much as possible, as a ritual. It is not a means to stimulate or simulate sexual desire. The compulsion that they described is akin to the risk taking, deal-making behavior inculcated by fund management training. For example one middle-aged Chinese-Singaporean hedge fund analyst who also ran a successful consulting business commented, "It's just another part of work."

In the context of the frenetic pace and demands placed on fund managers, how do they themselves frame their work? One fund manager I interviewed at Citibank in Kuala

Lumpur, a 44 year old successful Indian Malaysian, argued that “It makes sense that anthropologists should study us – we are like a tribe.” Discussing his recent trip taking several junior employees to India, he stated that it was a formative training experience for these younger Malaysians to see how the “really poor” live. Given the poverty of many Indian Malaysian plantation workers in Malaysia (Ramasamy 1994), his statement revealed the lack of socializing across class lines in Malaysia. And the use of the metaphor “tribes” reveals aspects of networking as a communal organizing principle – the metaphor is not familial but rather one of fictive kinship formed through the crucible of common experience in training, time-work disciplines, and masculine forms of relating. At another level, as argued below, given that the process of making markets is also a process of making individual subjectivities, there is a “reflexive” feedback between subjectivities formed in the crucible of apprenticeship in financial institutions and the subjectivities formed through the institutions and structures of capital markets worldwide (Mackenzie 2004a and 2004b).

Moral sensibilities

Another interesting aspect of the *habitus* of fund managers as encountered in Hong Kong, Singapore and Kuala Lumpur was how closely they hewed to the instrumental rationality they claim for all operators in the market. An example is Ali’s approach to security: he proposed buying a stake in the Malay monopoly on security provision, in effect securitizing policing by applying the same repertoire of strategies to socially produced goods as to private enterprise. According to his neoliberal ideal, as long as the market is in play, then public goods will be produced. Viviana Zelizer (1985,

1994, 2005) has outlined the substantial work that individuals put into marking the boundary between intimate relations and market relations (for example marking the boundary between relations of courtship and prostitution) but a striking aspect of my observations of day to day transactions in fund management is how little the boundary between the intimate and the market seemed to matter to fund managers in divergent spheres of their lives. Indeed many managers expressed their ideals in terms of simplifying interactions to align with the instrumental rationality of the market, including, in particular, a predilection for short-term interactions with women, e.g. “buying” short term contracts with mistresses for the duration of their stay in Asia.

This is not to say that experts in financial services are incapable of forming intimate attachments or moving through the expected sequence of life transitions (marriage, children, divorce, retirement) but rather that their ideation of reasonable interactions is (for the period of time that they are working 70-80 hour work weeks) quite distinctive when compared to people in other lines of work. Even when “retired” into the relatively easier work schedule of hedge fund management, their default position is the application of market logic and expertise to political and cultural problems as well as market problems. As suggested above, in Kuala Lumpur and Singapore, there was a marked juxtaposition of betting on the market and betting on the World Cup when the markets were slow (Dalila 2002:1). While the pervasive association is certainly inculcated through competitive workplace norms, in addition there is some evidence that the “high” produced by sports betting or risky sexual behavior is chemically the same as

that produced by risky trading in finance (Anderson 2008:C1; Knutson and Bossearts 2007:8174-77).

In general terms, I argue that fund managers viewed political and social problems through the market lens, sharpened through long grueling hours of trading. For example, fund manager circuits are inhabited by a well-recognized character called “the quant.” Every fund management company has a few quants – math wizards who can calculate the odds on any deal or game. Quants cultivate a numerical view of the world through which the best choices are dictated by the odds and risks are calculated through the mathematically precise but socially impoverished universe of game theory. In reference to his days as a “quant” trader in the U.S. bond markets, former U.S. Treasury Secretary Robert Rubin stated that risk arbitrage is “a high risk business, but I’ll tell you, it did teach you to think of life in terms of probabilities instead of absolutes. You couldn’t be in that business and not internalize that probabilistic approach to life. It was what you were doing all the time” (Endlish 1999:109 quoted in UBS 2000:34). Rubin is also famous for beating the Las Vegas casinos through his “quant” ability for calculating odds (Lewis 1989). For his part, Ali, in suggesting that the problem of police extortion rings could be solved by securitizing the industry, was also thinking like a quant. The government would incorporate the police and sell shares on the market so that “everyone would have a stake in the risks and rewards [of policing].” Applying his fund manager’s tools for analyzing the market to another arena, he too was rendering anything and everything calculable.

As shown in chapter two, the current round of globalization has intensified competition among cities seeking transnational, corporate “anchors” to locate within their jurisdictions, creating synergies for additional economic development. While states have always been market makers, their toolkit has altered drastically. The transfer of techniques between government and private corporations for putatively national goals has intensified, such that now, governments and private corporations alike evaluate expectations and probabilities through proprietary quantitative models developed in financial services companies.⁷⁰ Increasingly comprehensive, these models are now used to evaluate opportunities and structure policies in such different arenas as social security, litigation, war, pension funds, and intelligence gathering around the world.⁷¹ For this reason the work of “quants” is increasingly valued. Indeed the dispersal of these quantitative models, often by recycling the same personnel in country after country, can be seen as a major goal of neoliberalism (Winters 1996:17).

Part of the work of quantification is done via mathematical software and the global real-time apparatus of marketing information and communication, that is through the technological structures of global finance capital. The technological apparatus, however, is necessary but not sufficient. Individual fund managers must also interpret data read off of Bloomberg screens, relating their findings to their own qualitative

⁷⁰ Proprietary here means privately owned modeling software developed in-house or through joint ventures and kept confidential.

⁷¹ I spoke with several people, employed by international credit rating agencies, who after graduating from elite business schools in the United States had been employing proprietary models (developed at their first places of employment) in arenas as diverse as: the Central Intelligence Agency, the State Departments in the United States and in Singapore, telecommunications companies, and hedge funds.

information about markets and their skill in rendering previously incommensurable aspects commensurable. Information that is obtained through far flung social networks, and accumulated through cosmopolitan travel and work imperatives, also counts; it too, can be rendered in numbers.

Illustrating the structural hierarchy within global financial markets, top operators in U.S. bond markets claim the closest resemblance to “homo economicus,” the highly rational and self-interested decision maker who informs economists’ models of market dynamics (Abolafia 1996b:16). Scripts for membership in this select group include the construal of trading as a source of both excitement and mastery. As with the examples outlined above for the case of XAM, market operators engage in a form of “deep play” wherein status within the restricted field of competition corresponds to status within the group (Abolafia 1996a, Geertz 1973: 436-440). In this sense, the entrepreneurial spirit, in Malaysia as well as within global financial circles, is defined by participants as opportunism – pursuing self-interest with guile – combined with hyper-rationality enacted through “selective or distorted disclosure of information in a transaction” (Abolafia 1996b:19). In an infamous example, Salomon Brothers (now part of Citigroup) systematically rigged the Treasury bill market in 1991. Ultimately their short-term profits derived from the losses of other market participants but the reputational, cultural capital that Salomon Brothers derived from being in the best place to make profits continued to ramify in the long-term. Theft of proprietary information, trading on insider information or on leaks, dispersing false information are all seen as a routine part of

“playing the game” and it is in this sense that participating in the circulatory regime in itself becomes a means of accumulation (Abolafia 1996b:21).

Hyper-rational decision makers, in the mold of “homo economicus,” supplement their analytical tools with elements of intuitive judgment in their decision process (Abolafia 1996b:23; Zaloom 2003). Utilizing intuitive judgments in sorting, checking and establishing the value of information includes reference to formal and informal “traditions.” Here, institutional structures at the top of the hierarchy have a distinct advantage (Abolafia 1996b:28). In emerging markets, for example, analysts often argue that the lack of “high quality, independent, international” debt rating information leads to a paucity of “informational content” within debt ratings. Hence market participants ignore these ratings such that the information presented no longer performs its signaling function. However, empirical evidence shows that ratings do maintain a signaling effect when normally positive agencies switch to a negative rating (Poon and Chan 2008:790,797). The divergence reveals the ways that aspects of public opinion management are built into the informational products, in this case credit ratings (Strathern 2005:464-67). This is because, in all situations (whether of limited availability of information or of information overload) market operators rely on intuitive judgment and status networks for sorting and evaluating information (Abolafia 1996b; Zaloom 2003). But as such, the process of the construction of tools for apprehending the market is also part of the construction of market valuation.

The pervasive association of objectivity and masculinity among fund managers creates a structural disadvantage for women in the same way that the pervasive linking of arbitrage with efficiency creates a structural disadvantage for emerging markets. Indeed for any marked outside or outsider this informational, associational hierarchy provides a privileged terrain for accumulation and exploitation. Further, a fantasy of instrumental rationality embodied in concrete actors is just another way of privileging *some* actors – in this case those with the sovereign capacity to determine the state of exception (Agamben 2005; Haraway 1988). In arbitraging between national economies, fund managers implicitly acknowledge a racist geography as part of the constitutive basis of “the numbers.” The fund managers I interviewed in Hong Kong, Singapore, and Kuala Lumpur made their racialized view of market hierarchies explicit. For example, an older Chinese manager of a Japanese specialist fund in Hong Kong stated,

There is no alternative to the U.S. business model – unfortunate but true – therefore in Asia the game is to copy and become more professional, less driven by greed and fear. The European/Japanese model hasn’t worked and neither has the Confucian/Chinese model. There is no alternative to the U.S. model even if you don’t like it.

Another trader at a Singaporean fund said, “There are no arbitrage ops [opportunities] in Malaysia. The economy is good but the only good businesses are private not public. That’s ok because, [given the Security Commission’s rules on foreign ownership, see chapter four] the owner has hooked up with a *bumi* so no problem.” A British trader operating out of Hong Kong also offered his racialized portrait of the market: “The Malaysian market is mostly a Chinese game, they’re gamblers. The arguments of [against] cronyism are overdone; you can’t have democracy everywhere.” In the case of

Malaysia, the internal racial formation and the external market hierarchy are intertwined in participants' calculations.

In their analysis of the formation of the Chicago Board Options exchange market, Donald Mackenzie and Yuval Millo have argued that the power of personal networks can be determinative of market liquidity (Mackenzie and Millo 2003:177-118). According to them, the success of options pricing theory across markets was due not to the “discovery” of preexisting price patterns but rather because markets and market sociality changed in ways that brought performance in line with the predictions of options pricing theory – a self fulfilling prophecy (Mackenzie and Millo 2003:137). Similarly, practitioners of game theory, as they incorporate it into financial practice, do not “discover” existing patterns of choices. Game theory is the tool used to analyze other actors' potential actions, which in turn shape the analyzers' actions, which in turn, as the manifestation of all these actions combined, shape the market. Game theory provides a template of assumptions which, when disseminated across the field of finance, renders the particular calculative practices required by game theory predictive. Even while their actions are termed “attacks” in line with the terminology of game theory, I am not suggesting that any of the fund managers I talked with were purposefully setting out to destroy economies. Rather, in line with their understanding of efficient market theory, they claim a kind of superiority and explain their actions in terms of adding liquidity and increasing market efficiency. The destruction of individual citizens' livelihoods entailed in currency and capital market swings remains beyond their purview – an unintended consequence.

An analysis of the game of currency speculation in the Malaysian arena published in the local business weekly the *Edge* in 2002 not only illustrates the racial geography which is encapsulated in the calculative practices of game theory but also the moral sensibilities that seem to accompany a game-oriented approach to market “efficiency.”⁷² The author, who called himself Gameboy, repeated many of the claims that I heard in interviews with fund managers, namely that during the financial crisis the Malaysian government was “cheating” even as currency speculators were attacking the ringgit. In an interview with me, Gameboy stated that he was attempting to educate the public by explaining the dynamics of the crisis. In addition, he wanted to sway policy and improve the standing of hedge funds in Malaysia, in the wake of the crisis. In addition, Gameboy provided me with a longer version of his article which he felt to be more compelling. Below, I quote from his longer unpublished version. The article juxtaposed local stereotypes personified in the character of Abang, meaning ‘brother’ in Malay and also a common term of address in rural areas, and Sin Yee Kiat, a Chinese Malaysian businessman. Abang and Sin were used as proxies for intrusive local government and the wily actions of hedge funds as they sparred during the financial crisis. Gameboy sets the scene by using a classic illustration from game theory, the “prisoner’s dilemma”:

Let’s take a situation where two brokers, who have been colluding in manipulating a stock, are brought in for questioning by the regulator. They have indeed been buying and selling stock from each other to give the appearance that the stock has speculative liquidity. They have separately been detained and are both put in separate ‘interview rooms’. Sin Yee Kiat and Abang Besar, are both told that the SC [Securities Commission] is well aware of their activities... (Gameboy 2002)

⁷² This analysis of the Asian crisis and the government’s reaction was published in a local weekly, *The Edge*, under the pseudonym “Game Boy” on August 14.

Gameboy continued the illustration as the government warns both Sin and Abang that their illegal actions may carry a penalty of up to ten years. The government regulators then suggest a secret deal for each prisoner wherein each will receive a lesser penalty if they confess. Gameboy carefully calculated the odds, explaining to the reader that the rational choice for both prisoners is, of course, to refuse to confess. However, he pointed out that the usual behavior of prisoners trapped in this dilemma is to “cheat” by confessing and cutting a deal with the government. He went on to explain how the same reasoning was applied by hedge funds and the Malaysian government during the currency crisis in 1998 as the “game of currency attack” arose because of the carry trade, wherein KLSE shares and ringgit were held offshore, and because local investors were borrowing U.S. dollars by pledging KLSE shares as collateral to the bank.⁷³ Gameboy argued that this situation allowed the banks to use the collateral for further business, lending them to hedge funds who were interested in shorting the market (see Appendix). Gameboy sees the situation that developed as a “complicated and perverse” vicious cycle which favored hedge funds,

There were borrowers making purchases of more shares (in some cases the very shares they were providing as collateral). As they bought more shares, they would then pledge more of the very same collateral, which was in turn being lent to hedge funds to sell. These developments helped create a one sided game with a vicious cycle in which hedge funds could then attack over-leveraged borrowers again and again (Gameboy 2002).

⁷³ A carry trade is any trade involving borrowing (and paying interest) in order to buy something else that yields higher interest. In currency markets, carry trades involve borrowing in a foreign country with lower interest rates than in the investor’s home country and investing the funds borrowed in the domestic market.

The implication of Gameboy's description of these carry trades is that hedge funds and the local government were operating an Ali-Baba scheme of their own at the expense of local, individual investors. In our conversations, he reasoned that by introducing a regulatory framework allowing carry trades and keeping local interest rates down, the government acted as a "front" for the hedge fund speculators who were able to attack the currency. In addition, he argued that, as the government was also "laying on the same trades" as the speculators, the Ministry of Finance, Inc. stood to profit no less than the "Ali" of the Ali-Baba scheme. As will be seen in chapter six, carry trades have also been seen by other analysts as a significant factor shaping the dynamics of the currency crisis and the behavior of speculators.

According to Gameboy, however, there could have been a "rational" solution to the crisis involving the cooperation of the government and foreign investors in which both locals and foreigners would unwind their positions. Describing "cheating" as defined in his game theoretical explanation of the crisis, he argued that if the government had "cheated" correctly by imposing a pegged the exchange rate (but without currency controls), the hedge funds would have been forced to unwind their short positions. Of interest here is the way that Gameboy defines this form of cheating as the imposition of regulatory action by the government. According to his analysis, "in the prisoner's dilemma, the game of currency attacks has no clear mechanism for proper communication or cooperation." In his terms then, the only "rational" defense to this game of currency attack was for locals to "protect" themselves by making sure that the

exchange rate was not entirely out of the control of the local government. He argues further that locals could also “defend” their borrowing by hedging their potential liabilities and exposure:

For instance, having borrowed US dollars and pledged his shares as collateral at a cheaper rate than he could otherwise have obtained in ringgit, the local borrower Sin Yee Kiat, could purchase two options. He could purchase an option against an appreciation of the US dollar and he could purchase an option against a fall in the share price of the collateral (Gameboy 2002).

In other words, for Gameboy, the solution to the risk of currency attacks in an open, liberalized economy lies in further financialization, evading a trip through the production circuit of accumulation and restricting accumulation to the financial realm.

Interestingly when Gameboy’s *Edge* article was published, the reception by other investors was mild. Among those I spoke with, there were several who considered his points – that the Malaysian government was “cheating,” that hedge funds were “rational” in attacking currencies, and that further liberalization was a good fix for the current financial debacle – to be self evident. I considered the use of the Ali-Baba metaphor, in the character of Sin and Abang, to be ironic, given the ongoing roundup of opposition figures and continued detention of Anwar Ibrahim. However, when I proposed the idea that such actual prisoners might not even have the chance to make a “rational” choice in the terms suggested by Gameboy, fund managers responded that I had strayed outside the economic into the political arena – that such reasoning was outside the scope of economic analysis.

Such denial of the relevance of “outside variables” is systematic in financial culture – an integral part of the rewards system. As seen in the attempts at status acquisition within XAM and by XAM managers within global fund management, an individual’s “entrepreneurial spirit” is evaluated in relation to their past track record even though this is no predictor of future success. By the same token, work for the collective corporate entity, such as reforming the rules and regulations of the stock exchange or market regulators, or the legal system, is considered bureaucratic rather than entrepreneurial. The political work of keeping the institutional framework of the market itself going is devalued – literally seen as women’s or junior male’s work. “Real” men’s work is to manage risk and anticipate volatility. Therefore, in an interesting double move, my informants’ analysis of market dynamics does not attribute value to the institutional framework. As such fund managers can simultaneously partake of the benefits of class power while denying that class exists as a powerful means to power. In the same way, the beneficiaries of privileged entitlements remain unaware that entitlement even exists. I argue this is why within the context of XAM Ali’s expertise was not seen as deriving from his family’s social networks as described in chapter three.

A number of additional assumptions are embedded in Gameboy’s application of game theory to the Malaysian scene. First, he effectively relies on the Efficient Market Theory (EMT) in the orthodox form, most popular in the 1990s, which affirmed that stock prices incorporate all available information; that competition among millions of investors around the globe brings to light all useful information regarding a stock and its price movements (Stearns and Mizuchi 2005:292). EMT adherents argue that while

stocks might be overvalued in the short run, over the long term prices will always reflect all information about earnings potential and risks. Evidence from emerging markets, however, shows that volatility is endemic (Jomo 1998b, Maxfield 1998, Wade 2000). As well, the long-term is a flexible temporal construct; markets which have recently “emerged” cannot denote more than a decade as the long-term. Gameboy also relies on a corollary assumption, that individuals are the crucial decision-makers within capital markets. He argues that one of the outcomes of globalization is that,

... foreign borrowing and internationalization of a developing country’s currency can trigger off non-cooperative games. As in the prisoner’s dilemma, the game of currency attacks has no clear mechanism for proper communication or cooperation. Once the game starts the rational outcome is for the hedge funds to short and ultimately for the government to submit to the IMF or fix the currency (Gameboy 2002).

Gameboy is thus framing, through the terminology of game theory, an argument similar to Margaret Thatcher’s famous dictum “there is no alternative.”

In the end, Gameboy is relying on a model of game theory where choices are transitive. Within the theory, choice preferences are defined to be “rational” if they are complete, that is if an actor is able to compare all alternatives, and “transitive” if the comparisons are consistent. According to this mode of analysis, an actor needs precise information about exactly what will occur with each choice – an incredibly complex calculation if unintended consequences are to be included. Such calculations are usually glossed over by assuming the probability distribution of what will happen if given choices are made. Also, an individual must have time and ability to weigh every choice against every other choice as well as being fully aware of all possible choices. These two assumptions are almost never realized in real world interactions and calculations. Most

important, as we have seen, not all decision makers are equal. Institutional investors' decisions are based on better information on top of which they have a much greater probability of having their calculations become important market signals and thus self fulfilling (Mackenzie 2003b;2004a;2004b). Gameboy's solution to the problems of instability in cases of currency attack and speculation – the removal of restrictions on short selling and futures trading – is a prescription for making the situation worse. As stated above, he argues that a better outcome would result if locals would 'defend' their borrowing by hedging their potential liabilities and exposures.

The point is that in the "game" of currency speculation, risks are incurred unevenly. The stock pledgers (local businessmen borrowing money) and lenders (the banks) incur a substantial risk on the stock they own and on the currency they borrow, but stock borrowers (the hedge funds and other institutional investors) incur only a contract risk (having contracted to pay a borrower's fee). This asymmetry of risk corresponds to the market's accepted rules of calculation and game theory in particular is part of those calculative rules (Callon 1998:46). While it is not to be expected that Gameboy would publicly provide an explicit critique of the government, given government censorship of the press, it is nevertheless the case that in leaving out corporate and quasi-governmental corporate decision-making from his analysis, he buttresses a circular argument and helps to shape public opinion. Moreover, even had Gameboy provided an industry-wide analysis, game theory offers an impoverished account of the structure of individual firms which forms the bedrock for the reactive stance in a particular industry and market (Bourdieu 2005b:78). My observations of the

moral sensibilities and networking praxis of fund managers gathered in Malaysia, Singapore, and Hong Kong support the conclusion that the subjectivity of actors in the “club” is that of a society that “does not recognize itself as a society, but rather attaches itself to the notion of the individuated, rent-seeking, utility maximizing, consumer-voter” (Palan 2003:174).

As we have seen, by definition the calculating work of fund managers is aimed at seeking arbitrage opportunities with a risk as close to zero as possible; Ali and others like him argue that arbitrage creates liquidity. But managers’ deal making (liquidity) is based on information acquired through networks that are not visible to ordinary participants in capital markets. As this dissertation analyzes, market insiders have an informational advantage in comparison to other market participants. Further, fund managers embed their market theories in the spatial and temporal structure of information processing and contractual pursuits. In 2001, Neil Fligstein proposed that as calculation itself becomes revenue generating and moves toward the center of business practice it creates a financial colonization of the productive sector (Fligstein 2001:235). To this day, neoliberalism has been building and extending the habitat for this kind of expertise. The politics of managing exchange regimes and the politics of extracting value from the different fields of exchange through this expertise will be a central focus for in chapter six.

Chapter Six

Positioning elite networks globally

Value and sovereignty

In the end, there is a fundamental difference, rooted in the fact that markets are places to settle debts, between exchange of goods and services and exchange of capital (Wray 2002:29). As shown in chapter two, since the terms of debt settlement are determined through sovereign power rather than through an invisible hand or other formulation, hierarchies within markets fictionally enclosed in nation-states are determined by who determines the state of exception – where the legal order itself is suspended and any application of force is possible (Agamben 2005:1). In addition, the relation of money to value is ambiguous because circulation, and subjectivities which are acquired via circulation, impact value. While a differential calculus of valuation of human exchange according to the labor theory of value has utility in examining the relative, cumulative advantages of some classes over others, it does not completely mine the substrata of value creation. Again as argued in chapter two, this is because the relationship between capital and state as a form of territorial organization has been changing in accordance with the operations of global-state-like actors.

Regarding the Malaysian state, having failed in its bid to get into the club of global state economic governance institutions in the 1990s (as explored in chapter four), it moved back into client status – transferring sovereign power while realigning (via the imposition and then removal of exchange controls) ownership and control of capital assets to an ethnically designated capitalist class. This transfer of sovereignty was

enacted through the process of securitization, the abstract division of objects into intangible “shares” represented by numbers or pieces of paper. Securitization renders any form of property subject to division, repackaging, and sale to spread risk (Maurer 2003:75-76). But, at the same time, conceptual, technical and procedural norms must be imposed via sets of institutions requiring conversion into a scale of value. As shown for example in chapter five and below in the case of XAM’s failed effort at intermediation, the scale of value, in cases of fresh imposition, may be rendered via specific agents and their subjectivities.

But securitization was also part of 19th century capitalism and its cycles of accumulation. The current dominance of cosmopolitan accumulators relates to the nature of the movement (the cycling between forms of capital) and also to the object being moved. What counts as capital and what counts as movement have changed in the realignment of collective interest between producers and financiers (Harvey 2006:24). An intriguing aspect of securitization in the current turn is the blurring of what has been marked as the boundary between money and capital. Derivatives appear to function both at capital and as money in the current economy, implying that they have a role both in production and circulation and therefore may be implicated in value creation. While others have explored the crucial role of derivatives in colonizing time and spaces of flows (LiPuma and Lee 2004; Pryke and Allen 2000), Dick Bryan and Michael Rafferty argue that what is distinctive about derivatives (as money) is that their value is based on their “capacity for self-transformation” which can be seen in the way that derivatives perform a binding function (contracting relationships that bind the future to the present or one

place to another, e.g. options and futures) and a blending function (contracting relationships that render different assets commensurable, e.g. swaps) (2007:140-141).

Hence,

Derivatives' claim to a general role as money comes not so much from their enormous daily usage, but from the role they play in commensurating a wide range of financial (and physical assets), including diverse forms of money. They are in this sense, 'behind the scenes' money, ensuring that different forms of asset (and money) are commensurated not by state decree (e.g. fixed exchange rates) but by competitive force. In this sense, the effect of derivatives is to merge the categories of capital and money: to bring liquidity to the market for financial assets, making all assets more like money, and to bring capital-like attributes to money – at the extreme, presenting money as itself capital. The effect is to break down the differentiation between the spheres of production or commodities (the so-called 'real' economy) and the money economy (Bryan and Rafferty 2007:153).

Whether analysts can provide a general theory of money – simultaneously a commodity, a means of exchange, a store of value, and a unit of account – which would explain the relationship between particular, socially produced monies and socially produced abstract value is the subject of persistent debate (Ingham 2001, Zelizer 1989, 1994). For instance some analysts adhere to a “state theory” of money focusing on the role of the state authority in designating money as a unit of account and producing trust (Ingham 2001; Wray 2002). Others argue that a “commodity theory” – based on intrinsic value, provides a better explanation of the development of money and its separation from spheres of value creation. For example, from Marx's perspective, money represents alienated human labor and hence the value of money derives from the objectification and extraction of labor out of the purview of social relations and into the realm of abstract relations between things rather than persons (Marx 1959). This process of alienation is also that of rendering the incommensurable comparable and exchangeable. In turn, value

appears in circulation as exchange value, i.e. in the form of money (Marx 1959; Nelson 1999:106-107,140). Many of these debates hinge on the relationship between the “real” economy and exchange regimes – i.e. whether money is viewed as a “neutral grease,” simply facilitating capitalist competition or whether money itself is determined by competitive capitalist processes and implicated in value creation (Ingham 2001; Lapavistas 2007; Wray 2002; Zelizer 1994).

Here, I am concerned with the social relations that monetary transactions produce in attempting to explain and define the power of circulatory regimes. While financial expansions on a global scale are always marked by differentiation via the racial marking of subject populations, the current turn reveals an intensification of the process through a reformatting of exchange that is being “tested out” in emerging markets. Just as “the colonies” were always formative in the development of economies and elite networks in the metropole, in the current round of globalization, post-colonial elites are raised, and participate in the formation of, the entire field of the economic, in this case offshore fund management (cf. Harvey 2005; Mitchell 2002). As shown in chapter three, the post-colonial governing regime in Malaysia has been successful in channeling collective interest through particular institutions, specifically the holding companies of the constituent political parties of the governing coalition, the Barisan Nasional.⁷⁴ Through the transfer of ownership and control of corporate entities, and the risks and rewards (especially in the form of preferential access to credit) entailed, political parties have

⁷⁴ The constituent parties of the BN are the Malaysian Chinese Association (MCA), United Malay National Organization (UMNO), and the Malaysian Indian Congress (MIC), all open only to single ethnicities, i.e. matching ethnic membership, except for the multiethnic and now moribund Gerakan.

become de facto caretakers of individual Malaysians' stake in the political process and access to economic resources. Low voting participation figures reflect this "misappropriation." The unequal distribution of citizenship rights by the Malaysian state has created a situation where Malaysian elites have claims as cosmopolitan corporate citizens that are outside of the state. They have become, in fact, supra-national cosmopolitans in the same way that corporations as fictional citizens have ancillary rights, such as the right of exit, not granted to individual citizens in the neoliberal global market place. Insofar as Malaysia has created itself as a neoliberal market, the Malaysian "market" has become legible and hospitable to arbitrage between and among other financialized racial formations. As we have seen, racial projects articulate the relationship of institutional structures and their representations. The economic development initiatives of Malaysia's postcolonial regime are thus represented by the archetypes of the "lazy Malays" and the "rapacious Chinese" inscribed in the NEP.

The ubiquity of these archetypes can be seen in the way that analysts and others rely on them in expounding on the crisis, e.g. in Gameboy's public relations exercise explored in chapter five. In his portrayal, Abang and Sin are used as proxies for intrusive local government and the wily actions of hedge funds as they sparred during the financial crisis. Gameboy sets the scene by using a classic illustration from game theory, the "prisoner's dilemma" but personifies the characters as Sin Yee Kiat, which can be roughly translated from Cantonese as Mr. Wiseguy and was a reference to syndicate operations in Malaysia as well as a nod to mafia parlance in the U.S. Abang Besar can be translated from Malay as Big Brother and was a reference both to nepotism within

UMNO and to George Orwell's famous novel *1984*. Gameboy's exposition of the "prisoner's dilemma" is a parody on the prevalence of so-called "Ali-baba" schemes in Malaysia, wherein the Muslim/Malay acts as a frontman for the Chinese/Malaysian partner, allowing both to benefit from *bumiputera* regulatory and preferential government laws and programs, enacting a rich cronyism. The term has extremely derogatory connotations because *baba* is also local parlance for pork and the juxtaposition of Ali with *baba*, as in Ali-baba," means defilement. The rhetorical flourish of rendering these archetypes as both individual and corporate was meant to underscore the "cheating" being enacted.

But as shown below, for governing bodies like nation-states, "cheating" may be an imperative not a choice; in certain situations central banks must become the buyer or seller for a transaction or they cannot maintain stability (let alone conduct monetary policy for the benefit of the nation). As shown in chapter two, the geography of global finance implies that all countries and corporations have a stake in the most powerful economic groupings of core countries; as a consequence these big players enjoy a range of liquidity underpinned by sovereignty. By contrast, smaller countries – above all the thinner "emerging markets" – are burdened with uncertain liquidity reflecting their client status. Whether the crisis of the fall, 2008, which began in the U.S. and quickly threatened other core countries, will alter this contrast remains to be seen. Below, a reprise of the financial crisis of 1997-98 in Malaysia, and of fund managers' responses to it, elucidates some of the dynamics in play in securitization.

The role of arbitrage in the Malaysian crisis

Since fund managers get their market information from a variety of channels (e.g. through their brokers and other industry contacts as well as through their own personal networks), popular portrayals of a financial crisis, wherein institutional investors are sources for stories and rumors, offer after the fact explanations. During the crisis in Asia in 1997-98, financial experts deployed an array of behind the scenes information, gathered to plan their strategies. In order to tap these information flows, I interviewed managers at 22 hedge funds investing in Asian and emerging markets⁷⁵ with capital of around 2.1 billion and leverages between 2 and 20 times capital, and employing a variety of strategies. Investors in the funds (which were revealed only in general terms) can be separated into two groups of roughly equal size: high net worth individuals and institutional investors.

A few key points emerged from these interviews. First, as it is not possible to hedge or arbitrage properly without being able to go short but shorting is illegal in many emerging markets, fund managers devised various schemes for getting around this restriction. Ways around short selling restrictions as explained by informants included: using synthetic derivatives, finding a broker who agrees to take risk for a premium rate, and buying someone with a local seat on a country's exchange. According to fund managers in Singapore, the Malaysian Ministry of Finance was deeply involved in speculating in capital markets before, during and after the crisis. One informant at a large hedge fund based in Singapore stated that government-linked Malaysian companies had,

⁷⁵ Japan is not considered an emerging market but many hedge funds are designated as "Asia-only" and include both emerging markets and Japanese markets in their operations.

“daisy chains of stock loan transactions which they were trying to unwind. Malaysia [the Ministry of Finance, Inc. and Bank Negara] was already a big speculator so the capital controls were ironic.” He later stated that after the crisis, “the best opportunities are private companies not publicly traded ... friends of X that’s where the real profits are.” And syndicate operations continued even after the controls were put in place, for example one manager stated,

In 2000, big funds like State Street [Global Asset Management] were in a huge 18 million ringgit married deal – buying all the Malaysian second board stocks. With Repco [the largest 2nd board capitalization on the KLSE] a Singapore broker was fronting for a syndicate and it was going for 85 [ringgit per share].

At the time, State Street Global Advisors (SSGA), the world’s largest institutional asset manager had \$1.4 trillion in assets under management. SSGA was also the partner that XAM was hoping to win for their proposed Danasaham fund as shown below. Repco later became infamous after being placed on suspension by the KLSE for management irregularities and cooperating with syndicate trading. I confirmed Repcos’ syndicate operations through interviews with brokers who participated in operations to artificially ramp up the stock’s price through large linked trades – broker A sells to syndicate B, B buys same shares back at higher price and resells to broker C. The chain continues and the volume of trades convinces outsiders to jump into the loop, at which point the syndicate players all sell out to the “outsiders.”

Second, fund managers uniformly cited speculation as the fundamental cause of the crisis. For example, managers interviewed in Singapore reported that offshore market transfers, such as the stock borrowing and short selling⁷⁶ outlined in chapter five,

entail a bit more cost but institutional investors do it automatically. Of course it's not transparent as the custodian banks just reassign the stock; there is no actual transfer but technically stock borrowing is buying shares with no price established. [Stock] borrowing offshore is not considered short selling so this is another way around regulations against selling a stock you don't own.

When asked about causes of the crisis, managers in Singapore and Hong Kong all agreed that, in the words of one Scottish hedge fund manager, “uncontrolled currency speculation is dead right.” As evidence of the point that institutional investors have access to market information on a different scale from individuals, the same Scottish hedge fund manager running a fund in Hong Kong, reported the following story:

Tiger [one of the largest hedge funds in the world run by a protégé of George Soros] was within days of throwing in the towel on their baht speculation when one of their spies in the Thai Central Bank said they [the Thais] were down to two days [worth of reserves] so they kept on. The Thais were being the counterparty; they should have just let it drop so it would have been too expensive to short.

Whether his story is true or not – it was orally repeated by two other industry sources – it reveals that market participants attempt to arbitrage the constricted options they perceive governments and central banks face. The Thai central bank certainly could have let the baht depreciate (which is what they did at the end of August 1998) but that would have been the end of the government to say nothing the hardships faced by Thai citizens. The same manager then continued, “these folks don't believe in markets, in connections...

⁷⁶ In Malaysia at the time, the penalty for short selling (selling stocks you do not own) was a maximum fine of 10 million Ringgit or 10 years behind bars.

This is why they can't make it outside their own country.” When I pressed him to clarify, it emerged that what he meant by “connections” and, I would argue what fund managers in general mean, is volatility. Volatility is any movement whether up or down in any commodity (or derivative) price. But governments running national currencies cannot weather endless volatility and neither can they avoid it.

Some analysts argue that the unwinding of “carry trades” provides a compelling explanation for the dynamics of the 1997-98 crisis, as well as the vectors of its contagion across the Asian region (Taylor 1998; Wade 1998; 2000). “Unwind” used as a verb in financial parlance means to carry out the multiple trades needed to close out the positions involved in any contract, or reverse a transaction through buying an offsetting transaction. A fund manager may need to carry out hundreds of transactions to reverse out of a contract or position. A carry trade is any trade involving borrowing (and paying interest) in order to buy something else that yields higher interest. As discussed above, in currency markets, carry trades involve borrowing in a foreign country with lower interest rates than in the investor's home country and investing the funds borrowed in the domestic market (see also Appendix 1). The associated risk involved in carry trades is the uncertainty of exchange rates; because the original loans are denominated in a foreign currency, if the borrower's domestic currency falls in value relative to the currency borrowed, then the debt increases in value. As these transactions are usually leveraged, a small movement in exchange rates can result in huge losses unless the carry trades are hedged appropriately.

According to interviews I conducted with hedge fund managers in Singapore and Hong Kong, macro hedge funds had sizeable gains in July 1997, when the Thai baht devalued by 23%. Further support is provided by Stanley Druckenmiller, the manager of daily operations for the Quantum Fund at the time, who confirmed the existence of his fund's short positions in baht but stated that their positions were less than the \$4 billion U.S. dollars that had previously been reported (Mydans 1997:1). As explained in Appendix 1, speculators often use short positions when attacking a pegged exchange rate. At the onset of the crisis, carry trades were between Thai corporations and banks which borrowed in foreign currency and therefore at a lower interest rate. Because those banks' and corporations' earnings were in baht, as long as the domestic currency did not depreciate, the foreign currency loans were a cheaper source of funding.

By fixing the exchange rate, the Thai central bank was indirectly paying a premium to foreign investors in exchange for their support of domestic funding needs. To the extent that the foreign lenders were themselves highly leveraged institutions – such as proprietary trading desks of investment banks or hedge funds – these carry trades were, however, becoming vulnerable. In July 1997, expecting that the Thai central bank could not sustain its currency peg, foreign lenders (institutional investors) decided to unwind their carry trades in Thailand. In order to close their positions, they sold baht and bought dollars in the spot market. Their selling put pressure on the baht and forced the central bank to act as the counterparty, buying baht in order to prop up their exchange rate. While the economic fundamentals in Southeast Asia were seen as “ripe for accident” at the time (due to competition from China in key sectors like consumer

electronics) (Krugman 1995), if the bind that central banks face is taken into account, we can see that the entire international financial regime becomes “ripe for accident” rather than only single national economies (Wade 2000).

Racialization and accumulation

As seen in the day-to-day interactions at XAM, and in case studies of other markets, Euro-American, masculinist whiteness is an aspect of the *habitus* of experts engaged in global financial markets (Abolafia 1996 and 1998; Levin 2001; Mackenzie 2004b; McDowell 1994; Zaloom 2004). Further, on the international terrain fund managers’ patterns of networking, information flows, and social interaction are a means of relating the inside and outside of putatively nation-state economies which are actually globally constituted. In this context, I argue that it is productive to stretch the concept of racial formation as “a sociohistorical process by which racial categories are created, inhabited, transformed, and destroyed (Omi and Winant 1994:55-6),” across global terrain. Doing so illuminates how financial experts, in arbitrating between the U.S. racial formation and other racial formations, create value.

Analyzing circulation and systems of value, anthropologists have long argued that value denotes a triple embedded meaning: what is good and desirable in human life (moral), the degree that objects are desired (economistic), and as well a comparative element of creating meaning out of difference (structural) (Appadurai 1986; Cook 1966; Dilley 1992; Levi-Strauss 1976; Mauss 2000; Polanyi 1947, 1957b; Sahlins 1972; Strathern 1988). All three formulations of value are intertwined through patterns of

human action and interaction (Graeber 2001:1-3). Taking the triple modes of creating and assessing value into account when analyzing patterns of economic action sheds light on the work of the fund managers examined in this analysis. In a different context, Marilyn Strathern argued that coercion provides the framework for gift exchange as a creation of value – apprehended as the forceful formatting of relations between subjects through the exchange of objects (Strathern 1992). As noted in chapter one, Marcel Mauss saw gifting as an alternative to coercion and war. Globally, as argued in chapter two, the suspension of juridical norms provides the bedrock of accumulation via dispossession.

Further, as argued in chapter two, in the modern era state sovereignty – in producing spaces for primitive accumulation – is a central agent. Here, money is seen as a particular kind of social symbol, a state fiction, produced via the central bank, “the soul of the state” (Brantlinger 1996:162). Ultimately, within the “money as social relation” view, money represents access to a network of information. But the information implicit in a monetary transaction requires trust and reference to the network of social relations making a transaction possible; it cannot simply exist as the object exchanged or the exchange relationship itself. Monetary networks of exchange, therefore, represent networks of information implicated in the production of trust, wide acceptance, and the validity and stability of value. Although classical and neoclassical models of economies assume the neutrality of money, money as a state produced fiction is not logically or politically neutral (Dodd 1994:3). This is because money does not simply flow but rather undergoes a series of emissions from one transactor to another.

Managing emissions falls under the purview of nation-states and proto-global state formations. But, as discussed above, there are multiple competing theories as to the most efficient role of government in managing the money and the role of money in exchange regimes (Bryan and Rafferty 2007; Ingham 2001; Lapavistas 2007; Wray 2002; Zelizer 1994). Of interest in the specific case of Malaysia is the conflation of race and religion inside the country which is turned to advantage by fund managers even while they, being categorized as “others” or “Asian” by Euro-American elites, are themselves marginalized within the larger class configurations of global capitalism. As we have seen in the case of Ali, exclusion resulted from racial identification and an assumption of provincialism, even while he was harnessing racial categories to the advantage of his firm, e.g. pulling in alternative networks of “multicultural others.” In the context of London futures markets, Caitlin Zaloom analyzed a move on the part of a futures trading conglomerate to replicate an “American-style multiculturalist paradigm” by hiring previously unrepresented racial “others” on the assumption that their differences would mean different interpretive perspectives enabling them to broker between “structural holes” which would generate more profits for the company (Burt 2004; Zaloom 2006:91-92). In the assumption that these “others” would generate profits through their different perspectives a gap is revealed between the firms’ stated aims of training “homo economicus” across the board while also assuming that each racialized other brings an “otherness” that can be commodified.

In the current era, global capitalism seeks to draw in collaborators and customers from every piece of the globe. Analyzing the course of racism in relation to the rise and expansion of capitalism, George Frederickson states that

a de facto color line remains because the non-Europeans of the world are, as a result of slavery, colonialism, or a late start on the path of modernization, on the average poorer and more disadvantaged than people of white or European ancestry. But active racism is not necessary to maintain this “new world order,” nor is it clear that conventional antiracism can do very much to change it. In this context militant sectarianism or religious tribalism can easily become the refuge of people whose sense of community and traditional ethical values are threatened (Frederickson 2002:148-149).

Similarly, in the current era, many have commented on the slippage between religion and race in defining “others” (Barber 1996; Frederickson 2002; Mamdani 2004). But, Frederickson argues that while religion easily becomes race, religion has an “escape hatch” in that conversion is always a possibility. In the case of Western ideological racism which locates the root of difference in an assumption of permanent inheritance such as blood, genes, or culture, there is no escape hatch (Frederickson 2002:146). Given that what characterizes “many of the perpetrators of violence against the Other...is social marginality” (Frederickson 2002:150), historically the most virulent racism comes through the actions of those descended from privileged groups whose position is threatened by designation as outsiders or others. If the emergent global state formation continues to reinforce difference and marginality, even while engaging networks across racial formations, then it might be expected that racism will increase among elites in emerging nation-states. If, on the other hand, the emergent global state formation erodes difference and marginality while increasing the security of elites, then it might be expected that racism will decrease in importance (Mullings 2005:16).

As argued in the case of XAM, the value-added for “local elites” comes out of their successfully galvanizing access to both local and global racial formations. Put somewhat differently, the actions of local elites reinforce racial formations in both their local nation-state context and in the context of the structural dominance of Anglo-American institutions in the global financial regime. In sum, the transnational capitalist class operates to shore up a subjectivity which privileges “whiteness.” The elites whom I interviewed were not invested in maintaining neoliberalism; they considered this terrain to have been already won. Nor was it possible to read their political alliances from their structural position, important as these alliances are to their on-going activities in the market. Their modes of articulation are institutionalized in fund managing circuits but also reproduced via circuits of cultural capital such as philanthropic and educational organizations. In the Malaysian case, it would seem that in the context of current value creation in capital markets, galvanizing access across and within networks does reinforce difference even while arbitraging engages networks across racial formations. The question remains, however, how value is generated through these networks. Below I outline XAM’s failed attempt to garner a lucrative deal by brokering between Malaysia’s racial formation and global fund managers in the aftermath of the financial crisis.

Arbitraging globally: “Nearing the end of the national buy-out”⁷⁷

The complex organizational history of bond markets and stock markets incorporates elements of gambling, combat, and cartel association, all intertwined

⁷⁷ A quote from the sales pitch to the PM’s office summarizing the economic trajectory of Malaysia, Inc. at the mid-point of 2002.

through an emphasis on self-regulation. In the U.S. for example, a common argument is that self-regulation is all that is needed because of the long-term self interest of all participants in market restraint. Since the 1970s liberalization and deregulation, however, volatility has stimulated both innovation and increased speculation (Abolafia 1996b:5). As such, market participants have a long and short-term interest not in stability or equilibrium but in continuity, in replicating conditions which will enable volume and volatility to continue. The distribution of power and the behavior of market agents in constructing networks within which to operate can then be seen as resulting from the recursion between the strategic action of groups and structural changes in their environment. It is not the case that financial market configurations are necessarily the most efficient; rather they are the result of different organizational routines. In these circumstances power derives from strength of reputation, the distribution of advantage between market stakeholders, rules of exchange and means of enforcement in a particular marketplace, and the degree of possibility of regulatory intervention (Abolafia 1996b:10). As argued below, XAM's attempt to sway government policy must be viewed in this light.

An illustration of the power of arbitrage utilizing reputational networks and local assessment of a regulatory regime can be seen in the actions of XAM managers in attempting to sway public opinion and profitably direct government policy (see Appendix 1 for description of long/short equity strategy). Ali and the other fund managers I interviewed maintain that their work helps, rather than hinders, economic growth in developing countries. They argue that shorting provides much needed liquidity. For

fund managers, the solution to a market crisis is refining and unleashing more innovative tools in capital markets; hence XAM's proposal to the Prime Minister's Office for establishing an Exchange Traded Fund (ETF) – a proposal that was ultimately rejected.⁷⁸

Because of planned changes in the local investment management industry resulting from the financial crisis, the Malaysian government enhanced the role of institutional investors in the provision and management of funds. In line with core country "best practices," the regulators at the Malaysian Securities Commission (SC) and industry experts also problematically assumed that, "given their influence and resources, they [the institutional investors] are also more capable of effectively discharging their governance responsibilities with respect to the companies they invest in" (Securities Commission 2001:21; cf. Report of the President's Working Group 1999:B1-B13). The SC in other words has decided to allow self-regulation in the asset management industry. Today, both trade in asset-backed securities and short selling of Malaysian government securities and corporate bonds are legal. Most crucially, investments by the Employees Provident Fund (the largest investment pool in Malaysia) have been deregulated and liberalized under self-policed "prudent person" rules.⁷⁹ Tellingly, unit trusts and other fund management vehicles have been allowed to participate in the derivatives market

⁷⁸ Exchange Traded Funds (ETF) were introduced in the US in 1993 and quickly rose in number to 78 ETFs in 2000 with funds in excess of 70 billion USD. An ETF is an open-ended investment trust which is traded on a stock exchange. Retail investors can only trade units on the exchange; they cannot create or redeem units from the fund. Institutional investors, by contrast, can trade and also create and redeem through contracts with the fund.

⁷⁹ The prudent person rule is a legal metaphor requiring fund managers to invest on behalf of client's only in investments that a prudent person seeking reasonable income and preservation of capital might buy for his or her own portfolio. It is also called the "Prudent Man Rule."

while local futures market intermediaries are now free to trade international derivative products.⁸⁰ Reciprocally futures brokerage firms may be majority controlled by foreign firms.

In Malaysia institutional investors include provident and pension funds, unit trust funds, asset management companies and insurance companies. The shift towards the current Anglo-American model of capital market formation and intermediation impels reducing intermediation by banks in favor of investment managers and stockbrokers' intermediation, whether for high net worth, or for corporate and government, investors. Individual investors have meanwhile migrated toward internet trading because of the lower fees. Amanah Saham Nasional (ASNB) a unit trust management company wholly owned by Permodalan Nasional Berhad (PNB), a government investment vehicle, manages almost 70% of the unit trust industry's net asset value. The Employees Provident Fund (EPF), a compulsory savings scheme similar to the social security administration in the US, dominates the pension fund sector.⁸¹ In 2000, there were 71 licensed asset management companies (including hedge funds) managing funds for clients for the purposes of investment. A year earlier, in 1999, asset management companies controlled 407.7 billion ringgit in funds 81% of which were outsourced from unit trust funds to investment management companies. Local insurance funds also outsourced a large percentage of their 50 billion ringgit in funds to other asset managers.

⁸⁰ In Malaysia, a unit trust is a fund management firm that issues units for public sale and invests the money in other companies (paying shareholders profits based on the number of units they hold).

⁸¹ In 2001, the statutory rate was 23% of employees' monthly income (11% contributed by employee and 12% by employer). At the end of September 2000, the EPF had over RM167 billion in funds under management (Securities Commission 2001: Appendix 56).

The concentration of assets in the industry is clear; in 2000, four institutions accounted for less than 3% of the total number of investors but held almost 43% of the total value of KLSE equities (held under the category of foreign nominees). A paradoxical result of the crisis, in other words, is that the liberalization of capital controls resulted in the further concentration of capital in the hands of government-linked institutional investors.

While acknowledging that competition for human capital is a major problem for smaller markets and that professional expertise in fund management is limited because of brain drain, the government's recovery plan offered no incentives to keep fund managers in Malaysia. Moreover, within the investment management sector, the relatively constrained EPF holds about half of the RM 300 billion in the sector.⁸² As the EPF only outsources about 1% of its funds to external fund managers, they have considerable leverage within the Malaysian capital market and over other investment managers. While the unit trust funds account for nearly 15% of total funds under management, that number is skewed because Permodalan Nasional Berhad (PNB) manages nearly 70% of the unit trust industry's net asset value. PNB is another government investment vehicle and is required to invest in banks and government bonds (because of investment restrictions including UMNO's funding needs). PNB and the EPF together account for almost 80%

⁸² At the end of 1999, investment management funds in Malaysia controlled about RM280 billion in assets of which the EPF held RM157 billion while the amount of funds channeled through the banking sector was RM560 billion. Asset management and unit trust companies managed about RM49 billion and insurance companies around RM46 billion while other pension funds around RM28 billion. For comparative purposes, in the U.S. (for 1995 from Arthur Andersen's estimates) mutual and pension funds accounted for over 41% of financial assets roughly equal to percentage held by banking institutions. At end 1999, investment companies managed a total of \$7.6 trillion in assets more than double the \$3 trillion deposited with U.S. commercial banks.

of all the capital being managed by investment companies in Malaysia – an enormous pool of resources diverted through government channels and allocated toward specific *bumiputera* investments and sectors, in effect making the market for fund management expertise into a government monopoly.

Not only is decentralization of fund management regressing; the deregulation of the stock brokering industry has amounted to a forced downsizing rather than increased competition. Stockbroker's licenses were limited to 10 before 1995, when the industry was deregulated. However, at the same time the fee structure was fixed. As part of the revision of the capital market after the crisis, the fee structure was "liberalized" in order to force a consolidation in the industry. It is estimated that half of the brokerage companies went out of business (Fernandez 2002:14,20; Lee 2002a:B8; Lee 2002b:B3; Siow 2002:64-66). Transaction costs are high (compared to the rest of the region) and most brokers make their money from commissions on trade executions rather than investment advice, underwriting of new securities, nominee or custodian services. Given the circumstances of "captive" savings in the EPF, the rising middle class in Malaysia with capital to invest has avoided government-run investment funds (if possible) and migrated to managing their stock market investments themselves via the internet. But, as serious study and understanding of the market and of market risks, not to mention excellent connections, are required to increase returns, individual investors are at a disadvantage.

Hoping to expand their investment base to include government-linked institutional investors, XAM's proposed a schema wherein government agencies would devolve their shares in listed companies (which amounted to controlling shares in most of the top KLSE companies) to a new entity which would then create units to be devolved to an ETF. This fund, to be called Danasaham, would then sell shares to investors, "reshuffling" the cash proceeds of the sales upwards, back to the same government agencies (minus the fees). XAM's reasoning was that listed companies were trading very cheaply (after the crisis) and options for restructuring (in favor of economic growth and liquidity) were limited. If the government "bought out" listed companies and took them private, it should be able to preserve national ownership, maintain currency controls, stem short selling, and keep the ringgit peg. Most important, it should be able to restructure and reform the companies to "restore their true value" (quote from XAM's August 2002 brief of presentation to then Prime Minister Mahathir) as was the case with the National Economic Restructuring Plan and through the agencies of Danaharta and the Corporate Debt Restructuring Committee. XAM argued that the final step should be to "relist to unlock true value" through Danasaham in order to "reap benefits of reform" by reprivatizing assets at full [pre-crisis] market value. The idea, as outlined, involves the government's churning of privatized-nationalized-reprivatized companies in conformity with the economic rhetoric of neoliberalism and, as shown in chapter four, was in line with the bailouts that the government had then already undertaken.

In pitching the idea to the government, XAM considered the selling points to be clear:

The government could “rectify” crisis losses to portfolios of government agencies without bearing the costs of restructuring, that is the new shareholders (the Malaysian public) will bear the costs, and as well government agencies would receive new funds for investment purposes. As well, there is *no proposed revision of control* of said corporations (from supplementary materials to proposal to the Prime Minister 2002, *italics mine*).

In other words, the “market” would bear the burden of redistributing risks, specifically to “minority” shareholders in the persons of individual Malaysian investors. In addition, the government would be creating a “market stabilisation mechanism” in the equity market by legally enshrining a buyer of last resort – the fund manager would act to buy and sell exchange traded fund units at a premium or at a discount depending on whether the market was “overheated” or “collapsing,” thereby restoring confidence or dampening “irrational exuberance,” in former U.S. Federal Reserve Chairman Alan Greenspan’s famous phrase. XAM argued that the ETF was a means to return government holdings to the market in a “systematic, non-disruptive manner through a locally listed unit trust fund” (from supplementary materials to proposal to the Prime Minister 2002). Shares would remain with the ETF; IPO investors would get units not shares. The fund manager’s role would be minimal as the ETF was designed as an index fund only passively tracking the index, entailing no stock picking and no danger of a sell-off when stocks left government hands.

Aimed at the average retail [individual] investor, the ETF would require a public education campaign, however. In addition, corporate governance would have to be “enforced” through an independent local institution (XAM was volunteering to act as an

independent fund manager/watch dog). In the end, though, the Prime Minister's department did not adopt the proposal. Managers at XAM stated that they assumed the government rejected the proposal, which would have provided good cover for their ongoing buyouts of favored cronies, because it would have involved too much exposure of the books of larger government investment corporations, known to contain accounting irregularities. Perhaps most important, other fund managers stated that Malaysia, Inc. was substantially involved in international arbitrage and would not want to lose its informational "edge" by giving up the ability to actively manage its investments.

Overseas hedge fund managers, who of course were privy to evaluations of the Malaysian market he proffered, were a crucial part of Ali's fund raising junkets; indeed, access to their funds enabled him to claim credibility and financing for his "market based" solution to the Malaysian debacle outlined above. If successful in convincing the PM to open the Malaysian capital market via XAM's investment vehicle and social network, Ali would have made windfall profits in management fees. XAM actually put forward two linked proposals, the Exchange Traded Fund just described and a Malaysian Restructuring Fund, MRF, to be advised by State Street Global Asset Management and anchored by investments from the International Finance Corporation (IFC) and Khazanah Nasional, the investment arm of the Ministry of Finance, of which PM Dr. Mahathir was the Chairman (see chapter four). The involvement of the IFC would be a "guaranteed validation" for Malaysia and Dr. Mahathir's policies, a clear signal to international capital markets that Malaysia's credibility was restored. Attempting, in their terms, to put together a McDonald's-like "happy meal" of convenient investment products to bring

capital flows back to Malaysia, officials at XAM argued that MRF would provide capital for restructuring, that is rescuing, companies in financial distress. Malaysian companies would “benefit from the experience of fund managers in restructuring companies to prevent a backslide into non-performing loans” (from XAM’s letter to PM Mahathir June 2002). In essence, XAM’s proposal was to insert themselves as the intermediary between Malaysia, Inc. and the global investment community. They would thereby increase their own prestige and fee potential by brokering between the political-economic configurations at different levels of the global hierarchy of investors. Though the proposal failed, it was in line with changes in the structuring of credit markets overall wherein securitization is viewed as a rational response to crisis.

Structural vulnerability and the position of central banks

Over the course of the last century, just as developing countries have tried import substitution, export oriented, state-led and other development schemes in the search for growth, countries have also attempted all sorts of mix and match options in the search for how to finance and pay for growth – i.e. how to manage the relative value of a national currency. For developing countries issuing their own unit of account, the range of options is threefold: a fixed exchange rate (based on a foreign currency peg or currency board), a floating exchange rate, or the designation of another currency, another state money, as the unit of account. In a floating exchange rate regime, the overnight interest rate (corresponding to the Federal funds rate in the U.S.) is set by the monetary authorities. The rate on sovereign debt for that state’s money will be directly related to the overnight interest rate because of arbitrage. Rates on long-term state debt will be

determined by market participants' (arbitragers') expectations of future overnight rates, but the central bank will seek to maintain its target overnight interest rate. In a floating exchange rate regime, the state trades control of one policy instrument (the targeting of the exchange rate) for control of interest rates (Wray 2002:35). Within economics, this is known as "the unholy trinity" referring to the structural bind faced by all policy makers when markets are produced within states or currency alliances – namely the impossibility of simultaneously fostering currency stability, capital mobility and autonomy of national macro-economic policy (Cohen 1998). The extreme version of a fixed exchange rate regime is dollarization, a scheme where the domestic currency is eliminated and replaced with an international currency (usually the dollar), as for example in Ecuador in 2000. Yet another option is a currency board, wherein a fixed conversion rate between the national and an international currency is adopted with a full guarantee of convertibility provided by some central monetary authority, as was the case in Argentina and in Chile in the late 1990s (Calvo 2003; D'Arista 2003; Palley 2003; Ponsot 2003).

All of these exchange rate regimes have their advocates and detractors but, in the end, the debates surrounding them miss the central issue (discussed in chapter two): in the absence of full sovereignty, developing countries cannot really manage a fixed, floating or blended exchange rate, and central banks cannot maintain sovereignty within the current international financial regime because the current regime renders them structurally vulnerable. By definition in "emerging markets" exports, imports and international capital flows account for a substantial share of their overall economy, thus any large changes in the exchange rate (which fundamentally impacts all exports, imports

and flows) will create major changes in the overall economy. For this reason, market participants acknowledge that central banks in developing countries have a “fear of floating” (Wolf 1998:16).

In other words, developing countries’ central banks cannot afford to give up all attempts to control their exchange rate because the overall economic effects will be catastrophic. However, no developing country, with the exception of China (whose enormous reserves include those of the Hong Kong Central Bank) can successfully defend its exchange rate. Indeed, during the Asian financial crisis brokers estimate that Sir Donald Tsang, then Financial Secretary of Hong Kong, spent \$10 billion staging an intervention in the Hong Kong stock market in order to stave off what he saw as hedge fund’s manipulation of the market (Landler 1998:2). Sir Donald argued that he had to intervene to support Hong Kong’s fixed exchange rate in order to stop hedge funds which were manipulating the currency through short selling (Landler 1998:2). Fundamentally, the relative value of currencies can no longer be controlled on a national level. Hence, to participants in the fully globalized world of finance, developing countries or “emerging markets” as separate units represent an opportunity for competitive profit making and arbitrage (Kregel 1998a). As previously noted, arbitrage is any trading practice that profits from incongruities between markets, e.g. differences in the price of assets or in regulatory regimes. Below, I argue that within the current global financial regime speculators are able to exploit the difficulty of central banks’ predicament in attempting to create a “good” or “competitive” exchange rate regime within developing countries.

In a fixed exchange rate regime, a state promises to convert its currency to the designated reserve currency at a prearranged exchange rate. At the same time the state has to hold reserves sufficient to uphold that promised exchange rate and it must control fiscal and monetary policy such that it does not drain its reserves. In a floating exchange rate regime, the government provides no guarantee, although in practice states usually try to designate an acceptable range for the float. They also try to hold foreign currency reserves in order to minimize wild fluctuations and control their monetary and fiscal policy such that the currency does not become devalued too steeply. Here states trade in control of interest rates for limited control of exchange rates. But since a state has to maintain reserves in order to maintain the peg, it will most likely have to adjust interest rates. Any drain on reserves (or even an expectation of a drain) will lead to an increase in the overnight interest rate. Such a state will also have to be careful about running a deficit because a deficit (as seen above) results in reserve credits in the banking sector which, as reserves are switched into interest bearing assets, will impact the overnight interest rate, which will in turn impact the need for the state's reserve holdings.

States which adopt fixed exchange rate regimes surrender their sovereignty by eliminating their ability to set the terms of fiscal and monetary policy within country. This is because, in a state operating with a floating exchange rate, treasury debt corresponds to reserves that pay interest. Issuing treasury debt in this regime has the purpose of removing "excess" reserves from the system and allowing the central bank to achieve its overnight interest rate target. There is no risk of default because the state is not borrowing on its own liabilities; the state can always pay interest and retire debt by

crediting banking system reserves. On the other hand, a state operating a fixed exchange rate regime does carry a default risk because it may not be able to maintain sufficient foreign currency reserves to convert at the target rate. Thus there is always a default risk on sovereign debt issued by a state operating a fixed exchange rate regime (Wray 2002:36). When sovereign states choose to fix exchange rates, issue sovereign debt in a foreign currency, or install a currency board, they allocate a measure of their sovereignty to core countries. A currency board will have to borrow dollars or obtain dollars through its tax system (ultimately through exports) in order to spend.

The fixed-float hybrid regime characteristic of Southeast Asian countries in the 1990s was not bad policy but rather a concerted attempt to navigate a set of choices which were dictated by the governance regime of the international financial system – a system that ranks nation states' default risk in accordance with the size of their economy, size of reserves, quality of governance, and alignment with Anglo-American norms of financial practice and relationship with patron states. Arguments over the nature of money and money supply often obscure the nature of sovereign power exercised through nation-state economies. But,

when the state seizes financial and real assets (sometimes for failure to pay taxes, sometimes as fines for criminal activity, and sometimes through use of eminent domain), the veil of money obscuring the nature of sovereignty is removed. All other economic agents in the sovereign nation must use money income, or issue debt, or rely on charitable giving (including that of the state), or engage in petty production to obtain resources. No other economic agent can issue liabilities that represent final means of payment for itself (Wray 2002:38).

Hence, as argued in chapter two, if client states of the third world are forced to cede this ability through the structural power of the international financial regime as it stands, then

they do not have sovereign power of their own, and in the competitive arena of globalization, are not states, but rather nations without state power.

Central banks attempt to control the price of money through various means including national monetary and fiscal policies, e.g. setting interest rates,⁸³ but national monies subsist in a broader context of international monies and consumers. Whether they are corporations or individuals or central banks, consumers gravitate toward the cheapest and most credible monies. In a blended or a pegged or a floating exchange rate regime, consumers will borrow the cheapest money, usually a foreign currency; borrowers will owe in the foreign currency but will be paid in the local currency. As noted above, in such a carry trade, if the local currency depreciates, then borrowers will be unable to pay their loans. Carry trades and the mechanics of the choices facing central banks were major factors determining the dynamics of the Asian financial crisis of 1997-98. In order to illustrate the dynamics of speculative attacks as understood by the market participants I interviewed, below I outline the range of tools central banks use in attempts to defend their exchange rates.

Forward contracts are the speculator's instrument of choice in attacking an exchange rate. Peter Garber provides the following example: a speculator may begin by selling the currency he wishes to attack through forward contracts to a domestic bank at long maturities (usually 30 days). The bank will then balance this long position in the

⁸³ Countries also use fiscal policy to set exchange rates. For example, if an administration taxes imports and subsidizes exports the net effect will be "real" currency depreciation or a change in the de facto exchange rate, but taxes are difficult to enforce particularly for developing countries with many ports of entry and/or porous borders.

weak currency, now further weakened, by immediately selling the currency for spot settlement (in two days). The bank's currency position will then balance out, but it will still have a maturity mismatch in both currencies. It can borrow the weak currency overnight to cover the settlement of the spot sale but it will still have a mismatch for the long forward contract (Garber 1998:23). Banks usually utilize a foreign exchange swap to solve this maturity. If the forward and spot exchange rates were 25 baht to one US dollar and a customer sells the 2500 baht forward for \$100 to a bank (this is off-balance sheet, but it has payment implications just like an on-balance sheet item), the bank then sells 2500 baht for dollar spot exchange and enacts a one month forex swap exchanging \$100 for 2500 baht spot and 2500 baht for \$100 thirty days forward. If the exchange rate of the baht goes down 50%, then the customer's forward contract earns a 50% profit in thirty days. The ultimate counter party in these transactions is the central bank of the currency under attack because in times of crisis there will be few spot market buyers of a weak currency. A central bank, in defending its exchange rate level, must become the counter party (Garber 1998:23).

Particularly in developing countries, many investors remain exposed to unhedged exchange rate risk because structured derivatives contracts provide bank customers (investors) with the means to circumvent regulations (and increase profits) and provide borrowers with below-market borrowing rates (cheaper credit). For example, such contracts could be constructed around a one-year dollar-denominated note paying a guaranteed above-market interest rate, but with the amount of repayment of principal linked to an index, for example the Thai baht/dollar exchange rate. As the asset is

denominated in US dollars, and the interest is guaranteed and paid in US dollars, the notes will carry an investment grade credit rating to be entered on the balance sheets of investors as the equivalent of a US Treasury security (not as a foreign exchange investment subject to foreign exchange and country risks). However, the above-market interest rate on the note is created by the sale of a put option on the Thai baht (giving the purchaser the option to sell a specified quantity of the underlying asset before the contract matures) at a price just above the current market rate. As this put option is embedded in the contract, it is equivalent to the buyer having purchased the Thai currency. If the baht exchange rate remains constant, the put will not be exercised and the option premium received will be retained by the contract writer to be used to meet the above-market interest rates payable on the contract. However, if the baht depreciates to a value below the put option's strike price, then the buyer of the put will exercise the right to sell baht at a price which is above the market price. The put option will thus have repercussions, not on the interest rate paid to the purchaser of the contract, which is guaranteed, but on the principal returned to the investor. Since the writer of the put option has an unlimited exposure, a major change in the exchange rate will cause a total loss of capital invested (Kregel 1998:679-81).

In addition, private capital inflows to many emerging markets take the form of short-term loans because these contracts are easily restructured. The same contract as above could also have been constructed by lending the principal directly to a Thai bank, buying a bank acceptance. The implicit assumption is still that the baht-dollar exchange rate will remain constant so that the baht interest and principal repayment can be

converted at maturity to a dollar value equal to the original investment of principal. If the baht is devalued, then the amount available to repay the principal will be lower (Kregel 1998:680-81). Thus, again the buyer has the entire principal at risk; only the interest is guaranteed. Before the crisis in 1997, U.S. capital managers were anxious to lend to banks in emerging markets (who received cheaper funds) because the returns were much higher than those available in U.S. and European markets. And, in arranging these derivative contracts, banks gained fees and commissions without committing any capital – precisely the position that XAM was attempting to create in inserting itself as intermediary between foreign investors and the reconstituted Malaysian market.

Re-intermediation and potential changes in club formation

The increase in flows through capital markets has direct implications for the “health” of the global financial system in three respects. First, most of the flows in capital markets are derivative transactions. As derivatives are usually off-balance sheet transactions, they represent an uncounted undertow to the surface flow of capital across markets. Ongoing discussions in the United States where current Treasury secretary Timothy Geithner is seeking new regulations on derivatives (e.g. requiring swaps to be traded on exchanges and backed by capital reserves) may have the consequence of increasing transparency but it remains unclear if these regulations will be enacted (Labaton and Calmes 2009:A1, A3). Second, while capital markets are certainly growing, there is not a direct link between their growth and growth in production. As argued in chapter four, the institutions that mediate capital flows do not necessarily channel those flows into productive sectors. In addition, there is no limit on potential

growth in fund managing as opposed to manufacturing or other industries. The explosive growth in this sector has created a playing field which no country or corporation can afford to be left out of. And, third, as argued in chapter five participants view profit making in capital markets as a zero sum “game”; that is as a field of action outside the arena of social reproduction. Their frame of reference can have disastrous consequences during times of crisis in capital markets as argued in this chapter.

As the key institutions through which money is created, stored and distributed, banks are inextricably linked to the evolution of the capitalist system and the rise of corporations and corporate power. However, as we have seen, the 1970s oil shock and the abrogation of the Bretton-Woods accords ushered in a wave of innovation in alternate forms of financing in the 1980s. Increased demand for bonds floated on the public market and the rise of mutual, pension and money market funds led to a decrease in funds available to commercial banks. As well these banks faced increased competition from overseas and offshore financial institutions. With the deregulation of banking, banks shifted to securitization, that is packaging and selling their loan portfolios on the capital market (Stearns and Mizruchi 2005:286-87, Lepinay 2005). In 1999, the Glass-Steagall Act was repealed, eliminating the division between commercial banking and investment banking. Because investment advisors in the commercial arms of banking conglomerates may have a conflict of interest, that is a financial stake, in promoting products of their clients (large corporations) to investors, the risk of illegal cross-selling has become more common. For example, the large-scale cross-selling scandals at Citigroup and Morgan Stanley were among the results of the repeal of Glass-Steagall (Glater 2003). Globally

banks now make most of their money through fees derived from trading in currencies and derivatives, capital market services (syndication and securitization) and capital transactions services (cash management and custody); today only a third of their business comes from traditional lending (Stearns and Mizruchi 2005:286-87; Lepinay 2005). Effectively banks around the world are now replicating the role of institutional investors through their proprietary trading departments (Lepinay 2005). As well, institutional investors have influenced executive compensation; favoring variable compensation such as stock options has created incentives for corporate executives to maximize and manipulate corporate share prices, as evidenced by the ongoing litigation against Citigroup, Enron executives, and other conglomerates (Cresswell 2005:A1).

Through investing agglomerated capital, institutional investors enjoy a competitive advantage in accumulating information about market movements; the size and scope of their positions gives them this edge. As well, coordination and networking within specific sectors of fund management is common (Abolafia 1998; MacKenzie 2003a; 2004a; 2004b) New innovations by fund managers such as leveraged buyouts are quickly copied; cycles of opportunism are created which consolidate and reproduce the overall stratification of investors – for example Malaysia’s privatization, nationalization, re-privatization cycle examined in chapter four. In 2008, as government controlled funds in Asia and the Middle East took up stakes in the world’s largest banking entity, Citigroup, questions of governmental influence over institutional investing came to the fore. After all, if government investment vehicles were to buy a high enough stake in a

global company like Citigroup, one might imagine a reconfiguration of concentric club formations.

It is true that, given the complexity of financial instruments and the far-flung, and rapid expansion of Citigroup's global operations, none of the emergent investors was able to garner a credible idea of current profitability. Positions were taken very quickly with no ability to do proper due diligence. But, as we have seen, the governments in question were buying not just a corporate state but also status in club formations. For example, Prince Walid bin Talal of Saudi Arabia had a role in ousting Charles O. Prince III from Citigroup although Prince Walid has no seat on the board (Sorkin 2008:C10). Even so, globally speaking, the concatenation of interests remains. The substantive difference between, for example, the Chinese government's bailout of banks (Harvey 2005:141) and the U.S. Federal Reserve's bailout of Long Term Capital Management (Lowenstein 2000) lies in the relative power of the executive branch in individual nation-states to exercise control of the judiciary in local and international arenas, i.e. these nation-states' sovereign capacity to determine the state of exception.

As seen in chapter three, in tandem with the decentralized reorganization of assets under the rubric of the "market" there is a fierce centralization of the management of liabilities (or risks) which are then "placed" with particular segments of the population. As Michel Callon has argued,

this arrangement shapes a network of assets and liabilities as well as a network of calculating agencies which develop hedging strategies. These strategies in turn contribute to the emergence of regularities which, by

allowing calculations of what economists would call expectation, lead to their own reinforcement (Callon 1998:47).

Examining the work of market makers, political scientist Tim Mitchell has argued that the process of the construction of the market mechanism itself becomes the means of creating value (Mitchell 2002:293). It is not necessary to alter or increase productive circuits; the point is to maintain the power to format the circulatory regime (Bourdieu 2005b). Here, I argue, the value that fund managers create in the financial services industry is both determinative and parasitic – it promotes primitive accumulation; fund managers structure the undertow of capital movements in favor of a racial geography which in turn further promotes accumulation through dispossession.

Tracking the technical, social, and legal process of creating a range of action for transnational experts – specialists in converting political variables into mathematical variables according to the logic of concentric club formation – shows that the determination of sovereignty passes through both local and international spheres of accumulation without need of ratification. As such, I argue that in the current neoliberal turn, an emergent global-state formation has the leading role. What might be termed a “proto global state” is forming via alliances between state and non-state agencies which are also aligned with networks of mobile capital, glossed as the offshore networks of the global capitalist class. The alienation of the state from democratic processes of accountability proceeds in tandem with the expansion and deepening of competition for mobile capital. The greater the “scale and scope” of competition the greater the opportunity for expansion (Arrighi 1994:16). Hence, as argued in chapter two, the

appropriation and consolidation of sovereign power by mobile capital – in Agamben’s terms the ability to determine the “state of exception” – expands opportunities for accumulation. But further, there is a cyclical escalation of the process as smaller nation-states seek to annex to themselves some of the capacity to profit from systemic cycles of capital accumulation. Given that there is an ongoing escalation of the process of primitive accumulation – accumulation via strategies of predation, fraud and violence which, however, now take new forms – I have analyzed how the Malaysian state seeks to participate in the ongoing escalation.

Chapter Seven

Conclusion

The dramatic financialization of the neoliberal global economy since the 1970s tempts analysts to imagine transformations in the world order of racial stratification. Salient transformative processes are: the emergence of a “proto global state” which is more inclusive and transnational than the “core states” of the past; the emergence of savvy financial actors with broad and conspicuously cosmopolitan experience in many “post colonies” such as Malaysia; and the multiplication of financial and institutional innovations that enable these actors to accumulate significant profit from arbitraging between the global and the local. Some analysts even foresee damage to the prestige and influence of United States financial actors as a consequence the most recent crisis; this would surely challenge older racial hierarchies.

The analysis presented here points in the opposite direction: toward continued, indeed reinforced racial hierarchies. Two kinds of evidence in particular make the case for this pessimistic reading. One concerns the on-going gravitational pull of white Anglo-Saxon masculinity in the cultural practices surrounding network formation, networks in turn being vital to all arbitraging activity. The other concerns the on-going lack of sovereignty in even the more “successful” developmental states or emerging markets like Malaysia. The national elites of such states are themselves, often, engaged in a racial project. The racialized patterns of financial network formation, and the compromises of national sovereignty, only encourage these elites in the pursuit of power through such projects. Finally, in the vein of pessimism, this study demonstrates how

crises, rather than rupturing extant power relations, end up providing opportunities for their re-articulation.

The *habitus* of fund managers and the cycles of arbitraging opportunities engendered by elite networks in Malaysia support the conclusion that financialization continues to reinforce difference and marginality. Even while engaging networks across racial formations, racism will increase in importance among elites in emerging nation states. Alternative scenarios wherein globalization erodes difference and marginality while increasing the security of elites might engender a decrease in the impact of racism. But, while the global crisis of 2008 may mark the advent of new regime of accumulation, wherein the structural power of core states in relation to capital is being challenged, the dynamic of marginalization seen in Malaysia, where elites seeking leverage continue to be disappointed suggests that racism will continue to increase in importance.

Ethnographic investigation in Malaysia shows that the subjectivity and market-making praxis of financial elites in this developing country mimic core country norms and expectations and, further, that the ability to present evidence of cosmopolitan training, outlook and knowledge is a pre-requisite for success in fund management. For example, these fund managers' game oriented approach to market-making attributes no value to sustaining overarching institutional frameworks but rather celebrates and inculcates ideals of individuality, utility maximizing, entrepreneurialism and conspicuous cosmopolitanism. Similarly, in line with studies of U.S. and U.K. fund managers, ethnographic data detailed here regarding the subjectivities inculcated among hedge fund

managers in Malaysia, Singapore, and Hong Kong, rooted locally and investing globally, show racial and class cleavages. But, in fund managers' work, arbitraging between capital structures takes primacy while arbitraging between structures of privilege remains unacknowledged. More to the point, the shared *habitus* among fund managers globally has different consequences in emerging markets than in core countries. For example, fund managers' pervasive association of arbitrage with efficiency has the consequence of creating a structural disadvantage for emerging markets as seen in the analysis of the Asian financial crisis in chapter six and in the analysis of the privatization cycle in chapter four. Simultaneously, as seen in chapter five, fund managers' pervasive ascription of objectivity to a perspective associated with white masculinity creates a structural disadvantage for women, racialized others, and those unable to garner training in core countries.

In this *habitus*, where decisions of elites are apprehended by market operators as decisions of "the market" and substituted for a regulatory framework, these structural disadvantages create fresh opportunities for primitive accumulation in emerging markets. The opaque markets engendered by globalizing elites serve a particular type of institutional investor and the sociality of networking among market makers facilitates directing risks in Malaysia and globally, toward emerging markets and the citizens who live in these national spaces. The preceding chapters have explored arbitraging engagements by different actors: institutional investors making successful speculative attacks against the Thai baht which kicked off the Asian financial crisis; XAM's subsequent failed attempt to insert itself as intermediary between foreign speculators and

the reconstituted Malaysian market; the Malaysian government's attempt to corner the tin market; various perpetrators of the cycle of privatization, nationalization, and re-privatization analyzed in chapter four. All show how the calculative practices of financial experts intersect with the global financial regime reformatting relations between subjects so as to create, in cases of fresh imposition, a forceful, indeed compelling scale of value. Put somewhat differently, Malaysian hedge funds, banks, and governmental regimes all gathered fees by creating avenues for primitive accumulation and acting as intermediaries without necessarily committing any capital.

The ability to determine a forceful scale of value relates directly to how sovereignty, the ability to determine the state of exception, is held only by those networks with strong connections to “core states” which wield power as part of the regime-making “club” in global markets. As we have seen, the competitive advantage of mobile capital-intensive regimes initiated in the 1970s ended domestic policy autonomy in relation to speculative capital flows for many national states. States like Malaysia, mining inherited structures of economic inequality as part of their economic expansion, had already ceded sovereignty. In the context of global competition, Asian developmental states – the development success stories of the second half of the twentieth century – depended on innovations enforced by the imperial power and global elites of late capitalism. A critical element in their success has been the impact of state-market institutional innovations on larger institutions of global governance. Here, the Malaysian state is seen as a qualified failure – unable to achieve “club” status and participate in rule-making but successful in generating economic growth. Chapter six analyzes the Asian financial crisis as the

coercive application of soft law to enforce the adoption of global norms of capital accumulation and reinvigorate accumulation via dispossession according to these norms.

At the same time as Malaysia's attempts to regain sovereignty and get into the rule-making "club" have failed, the strategic entrepreneurialism of the Malaysian state has had powerful, undemocratic effects on Malaysian citizens. This includes continuing custodianship of citizenship rights by elites, the centralization of power in the executive branch, the provision of public credit to politically connected enterprises, and an inability to generate accurate due diligence regarding the activities of conglomerates. All told, individual citizens have been disenfranchised relative to better networked institutional investors. These effects are in keeping with the interlacing of techniques and subjectivities globally as financialization has become key to the current cycle of accumulation, and where racial categories, created and transformed as a constitutive part of the political economy of national and global regimes, have proved to be a basis for continued primitive accumulation. The historical bedrock of Malaysia's specific racial formation is of interest because, as stated above, the racial formation matters to financial experts as they arbitrage between national regimes. And further because Malaysian elites find themselves at a disadvantage in the global racial formation, leading to insecurity.

As core states have disproportionate influence on the overall financial "architecture" through which spatio-temporal fixes are pursued, their elites are privileged and we find them reproducing exclusionary social relations in their networking praxis. The Malaysian case shows aspects of networking as the long term aggregation of class

privilege, e.g. in the family trajectory of Ali's family in chapters three and five. This long term instantiation of privilege, brought about by a state project of creating an ethnically defined entrepreneurial class while at the same time satisfying its elite constituencies, leaves the Malay middle class "privileged" in local terms but marginalized from global capital markets and movements and thus ripe for shouldering disproportionate risk. At the same time, the instantiation of the special status and "reform" of Malays as the organizing principle of citizenship, nationalism and the political economy of Malaysia leaves elites insecurely moored to a racial formation which privileges them in local and global arenas but not relative to regime making elites. In Malaysia, at least, the multiplication of capital market connections in the neoliberal order underwrite continued racialization on both local and international terrains.

APPENDIX

The world of hedge funds

“Alternative investment” is billed as a strategy which maximizes absolute returns of money (profit) while minimizing risk. This is because alternative investment vehicles are supposed to minimize correlation to traditional stock and bond markets, giving investors an edge during market upswings and downswings. Alternative investing provides an alternative to investing in traditional capital markets (stock markets for example) through investment in private equity (taking stakes in private, unlisted companies) or through investing in funds managed by experts. Investors in hedge funds are not investing in an asset but rather pooling their money in the hands of a fund’s managers, expecting their expertise and strategies and possibly their mythic brilliance to create profit.

Hedge funds are the best known entities in the world of “alternative investing.” Minimizing risk is termed “hedging” in the financial world; hence the term “hedge fund.” Until recently, hedge funds were a special category of institutional investor characterized by being unregulated and open only to wealthy, “high net worth” individuals. Hedge funds are private partnership, investment funds where the managers have a stake in the fund, can operate in any mix of markets, and are free to use any strategies they desire. The range and shape of their investments are not regulated, as is the case with other institutional investors. For tax and regulatory reasons hedge funds are always incorporated offshore as limited partnership and limited liability corporate entities. Needless to say, opportunities for highly creative strategies abound.

Hedge funds have become increasingly popular investment vehicles, as returns created by some managers in the range of above 50% per year have been publicized.⁸⁴ In the year 2000, the Bank of International Settlements estimated that hedge funds had around 1 trillion in assets. In the United States in 2000, other institutional investors held about 20 trillion in assets.⁸⁵ While hedge funds had a competitive advantage as the institutional investors with the most leeway in their investment strategies, deregulation of other segments of the fund management industry are eroding their advantage.⁸⁶ Indeed since 1999, when Calpers (California Public Employees' Retirement System) altered their rules to allow investing in hedge funds, there has been a blurring of the line between these funds and other institutional investors. According to the Bank of International Settlements, other institutional investors accounted for 30% of new money flowing into hedge funds in the late 1990's (UBS 2000:7). Hedge funds have also become especially popular investment pools for university foundations and endowments such as those of Harvard and Princeton. Pension funds are now legally allowed to invest in hedge funds as well. The de facto deregulation of institutional investing rules in the last five years has resulted in more managers adopting the tools and strategies and practices detailed below.

⁸⁴ A dollar invested in 1969 with George Soros, former manager of the largest hedge fund in the world, grew to \$300 by 1999 when he retired (UBS 2000).

⁸⁵ At the end of 1998, commercial banks had assets under management of \$4.1 trillion, mutual funds \$5 trillion, private pension funds \$4.3 trillion, state and local retirement funds \$2.3 trillion, and insurance companies \$3.7 trillion.

⁸⁶ In the United States, hedge funds are not free from all regulation. They have to report large positions in selected foreign currencies and treasury securities. In addition, the Securities and Exchange Commission requires traders to report positions that exceed 5% of the shares of a publicly traded firm. As well, the Federal Reserve has margin requirements for stock purchases that apply to all market participants and the Commodity and Futures Trading Commission requires traders with large futures positions to file daily reports. The CFTC and the futures exchanges set future margins and position limits on futures contracts and these regulations apply to all market participants including hedge funds.

The tools of hedge fund managers are leverage, arbitrage and hedging. Leverage is the borrowing of additional money on the basis of funds in hand or, in balance sheet terms, lowering the ratio of total assets to equity capital (net worth). It is also the measure of risk relative to capital. The use of leverage can make hedge funds fragile as well as profitable.⁸⁷ Arbitrage is any trading practice which profits from incongruities between markets, e.g. differences in the price of assets or differences in the value of assets due to differing regulatory regimes. Hedge funds which utilize fixed income arbitrage (which have the smallest margins and therefore the largest leverage) are usually leveraged between 20-30% and a few hedge funds are leveraged even higher. Hedging is risk management and, other than through diversification of holdings, hedges are created through the use of derivatives.

Derivatives are a category of financial tool used by traders to take positions based on their predictions, taking time and volatility (rate of change) into account. Traders using derivatives profit from change itself rather than from change in the value of an underlying asset, e.g. change in a stock index rather than in stocks themselves. Managers build derivative packages which allow them to maneuver through changes in different asset classes in different countries and in different time frames. The terminology “derivative” springs from both the mathematical terminology for measuring the instantaneous rate of change of a function in relation to another variable, and from the

⁸⁷ Trading desks of investment banks may take similar positions to hedge funds but investment banks have access to credit resources, including other unleveraged streams of income, that can offset their risk (Lepinay 2005).

way that derivatives as a class of financial tools arise from (derive from), but are not coextensive with, an underlying class of assets or risks.

Beta is a measurement of risk for stocks and other investments such as mutual funds in relation to the market. In equities markets, all sectors and indices have a *beta* – or exposure to the market – of one; meaning that all of the capital invested is risked. The market has a *beta* of 1 so a stock with a *beta* of .75 is less volatile than the market while a mutual fund with a *beta* of 2 is twice as volatile as the market. Through the use of derivatives, hedge funds create a lower market risk. Depending on their investment strategy, funds may have anything from a negative *beta* (like a short seller using leverage)⁸⁸ to a multiple of plus one (like a long-biased fund using leverage). A *beta* above one means that more than the amount of capital invested is at risk, i.e. the fund is leveraged. A negative *beta* means that the fund will make money regardless of market movements. Another advantage to hedge fund strategies is that by both buying a stock and selling the same stock short, the investor generates a return no matter what happens. By contrast, “traditional” managers or individual investors, who can either buy or not buy a stock but are unable to sell it short, risk possible loss.

Hedge fund managers’ strategies are described by the proprietary trading section of a global investment bank as follows:

⁸⁸ To be long in something means assuming a position consistent with an asset increasing in value over time. Shorting means assuming a position consistent with a decrease in an assets’ value over time. Time, in this context can mean days, weeks, or decades. Fund managers combine long and short positions such that their “exposure,” the amount they stand to lose with an increase or decrease in an assets’ price, is zero.

Hedge funds leverage the capital they invest by buying securities on margin and engaging in collateralized borrowing. Better known funds can buy structured derivative products without first putting up capital, but must make a succession of premium payments when the market in those securities trades up or down. In addition, some hedge funds negotiate secured credit lines with their [custodian] banks, and some relative value funds may even obtain unsecured credit lines. Credit lines are expensive, however, and most managers use them mainly to finance calls for additional margin when the market moves against them. These practices may allow a few hedge funds to achieve very high leverage ratios (UBS 2000:12)

Ironically hedge funds might also be viewed as the appropriation of the proprietary trading floor of investment banks. They utilize the same set of knowledge, tools and skills but new technology enables their managers to leave investment banks and do by themselves, externally, what used to be handled only by banks. For these reasons, many hedge fund managers are former investment bank protégés who have “retired” to managing their own funds. The strategies deployed by hedge funds are not new; rather what is new is their flexibility and the lack of a regulatory apparatus for their widespread adaptation to the new real-time technologies of finance.

Regulators around the world are faced with the problem of dealing with the off-balance sheet derivative packages utilized by hedge funds. In 1998, in the wake of the Asian financial crisis, one of the largest American-based hedge funds, Long Term Capital Management, collapsed. In the United States, after investigating the fallout of the Asian financial crisis and the collapse of Long Term Capital Management, President Clinton’s Working Group on Financial Markets argued that the problem is rooted in the fact that balance-sheet leverage by itself is not an adequate measure of risk. For any given leverage ratio, the fragility of a portfolio depends on the market, credit, and liquidity risk

in the portfolio. In addition, a high capital requirement based on balance-sheet concepts alone might induce fund managers to shift their risk-taking activities to more speculative off-balance sheet trading strategies as they seek to make high returns (Report of the President's Working Group on Financial Markets 1999:14-18). As the statement from the President's Working Group indicates, the danger of systemic crises is made possible by the increasing use of derivatives for speculative gain. While reaping profits from derivatives, arbitrage, and leverage, hedge funds use the same tools to hedge their bets. It is unclear if the aggregated effects of hedge funds' actions result in the most efficient market allocation (as predicted by the orthodox Efficient Market Theory). Analyzing the rules of arbitrage reveals the extent of systemic danger of market inefficiencies.

Playing the game of arbitrage

There are those who know they are in the game, there are those who don't know they are in the game and there are those who don't know they are in the game and have become the game...(Louis Moore Bacon speaking on hedge fund disasters at the April 2000 Hedge Fund Symposium in London, quoted in UBS 2000:67).

One of the most infamous failed hedge funds, Long Term Capital Management (LTCM), had total assets of \$129 billion at the end of 1997. Thanks to extraordinary leverage, their derivatives positions amounted to \$1.3 trillion at the end of 1997 and \$1.5 trillion at the end of 1998.⁸⁹ When the fund's positions became known, they could not be unwound; that is no one would buy them out of their contracts (Lowenstein 2000;

⁸⁹ Note, however, that these figures represent the notional amount of derivatives contracts, that is the sum of the fund's off-balance sheet positions even where the positions were offsetting.

Mackenzie 2003a). Because there was no liquidity, LTCM became “the game” and Federal Reserve managers decided to broker a behind-the-scenes rescue effort to keep LTCM’s collapse from creating a worldwide crisis. But were LTCM’s strategies an anomaly or a potentially widespread, structural problem? Part of the answer entails examining how hedge funds make money, as outlined below.

Hedge funds combine multiple strategies and departments and blend different styles and strategies as needed. The taxonomy below, although highly schematic, illustrates this principle. Except where otherwise noted, all examples are taken from a UBS Warburg global equities research report from 2000 (UBS 2000). Hedge fund styles range from assessing “relative value” based on researching separate markets, to responding to unusual market events, to “opportunistic” combinations of a variety of strategies. The agglomeration of capital and credit via “fund of funds” constructions is a phenomenon that is increasing, making hedge fund managers’ positions larger, and entailing even deeper structural consequences. It should also be noted that various investment styles may be cultivated as specialties by particular managers or departments of a fund, or they may be combined in the repertoire of singular individuals.

Convertibles arbitrage is the trading of related securities based on a prediction of their future relationship. Convertible securities, redeemable at a fixed point in the future, are usually either convertible bonds or convertible preferred shares which can be exchanged for common stock of the company issuing the convertible security. Fund managers who use this approach attempt to buy undervalued securities, and then hedge,

that is remove the market risks associated with those securities. For example, the hedge fund I examined in Malaysia put on the following trade in Korea: long on the convertible bond and short on the related equity. Traders use the terms “long” and “short” as a form of action. Going long denotes taking a position consistent with an asset increasing in value over time. Shorting means assuming a position consistent with a decrease in an asset’s value over time. Time in this context can mean days, weeks, or decades. As mentioned above, fund managers combine long and short positions such that their “exposure,” the amount they stand to lose with an increase or decrease in an assets’ price, is zero, while at the same time profiting from volatility. In this way, fund managers capture the value entailed in price movements without being exposed to those fluctuations.

Returning to the example of the Malaysian fund placing convertibles arbitrage bets in Korea, we see that as debt or “preferred instruments,” convertible bonds have an advantage over common stock because they carry less credit risk. Debt, in the form of securities has a termination value that must be paid at maturity. If the securities are preferred, their liquidation value has to be paid first before common stock payments can be made (UBS 2000:24). Convertibles arbitragers use asset swaps to “strip out” the credit risk from convertible bonds. Ali, my key contact who headed this fund, was viewing the discounted price of the convertible in terms of under-priced volatility, using option-based models to price the theoretical value of the relationship to the underlying security. The only risk associated with Ali’s trade was that the volatility would turn out to be less than expected. In other words, the convertible bond and the securities could

fluctuate in any manner regarding price; so long as they did in fact fluctuate, Ali made money on this trade. His fund was thus making money off of nothing more than predictions of volatility in relation to a fixed term contract. Capital market liquidity is crucial, creating lots of opportunities for managers. However, if there is no means of exiting once a position is taken, then a trade is worthless. In other words, Ali could only take his position as long as someone else was willing to take the other side of the contract, i.e. as long as someone was making an opposite prediction of volatility.

Fixed income arbitrage refers to attempts to exploit pricing discrepancies among and between global fixed income markets and their derivatives, using leverage to increase returns. Managers pursuing this strategy usually take offsetting long and short positions in similar fixed income securities that are mathematically or historically correlated. These relationships of course are not fundamental and can be “distorted” by market events, investor preferences and “exogenous” shocks. An example in credit markets is long and short default risk. Because a manager must be able to short when using this strategy, arbitrageurs in fixed income are limited to playing markets where short selling is an option (UBS 2000: 28). The prices of fixed income instruments are based on yield curves, volatility curves, expected cash flows, credit ratings and special bond and option features, so fund managers create and rely on proprietary analytical models (that is privately engineered and closely guarded software) to manage their positions. Arbitrageurs attempt to find discrepancies in a financial instrument or an anomaly in the probability of outcome, such as a political event. As the discrepancies tend to be small, positions are highly leveraged.

Basis trading is the most basic fixed income arbitrage strategy. A basis trade involves the purchase of a government bond and the simultaneous sale of futures contracts on that bond. Bond futures have a delivery option, which allows several different bonds to be delivered to satisfy the futures contract. Because it is not certain which bond is expected to become the cheapest to deliver at maturity, this uncertainty, along with shifts in supply and demand for the underlying bonds, may create opportunities for profit. A scenario in Brazil's government bonds in 1999 provides an example. The Brazilian sovereign market consists of many related securities, two of which, at the time, were New Money bonds and Eligible Interest Bonds. Because New Money Bonds were somewhat less liquid than Eligible Interest Bonds, their price changed more slowly in reaction to changes in the Brazilian economy. During a boom in the bond market in 1999, it was "possible to purchase the lagging New Money Bonds at 55 and sell the Eligible Interest Bonds at 65, taking the 10-point credit differential, while picking up 125bp (basis points) in yield [that is a better yield at maturity]" (UBS 2000:29). This trade was profitable no matter what happened to the Brazilian economy; bad news would tend to cause the prices of both bonds to converge as a restructuring continued, while (as it turned out) good news would increase the price of the New Money Bonds (UBS 2000:30).

Equity market-neutral trading is, by definition, hedged to create zero exposure to both equity markets and currency risk. Quantitative long short funds, nicknamed "quant" funds, apply statistical analysis to historical data to identify such trading opportunities. Tracking small but statistically significant profit opportunities across a large number of stocks, managers then leverage their funds to place as many trades as possible. As the

past does not predict the future, there is a high degree of market “intuition” involved in managing quantitative funds, similar to that discussed by Abolafia for bond markets and Zaloom for futures markets (Abolafia 1996:23; Zaloom 2003). Not surprisingly, “quant” fund strategies are usually developed by academics; the managers even come from academic backgrounds in mathematics and economics, e.g. the Nobel Prize winning economists who were pioneering strategists at LTCM. Quant funds go to great lengths to protect the secrecy of their trading rules.

Event-driven fund managers attempt to identify securities that will benefit from singular events, e.g. restructuring, takeovers, mergers, liquidations, bankruptcies, etc. Securities prices of companies during these events are seen as more influenced by the dynamics of the event than by the underlying profitability of the company or market fluctuations. Event-driven strategies rely on long-term research including assessing the legal and structural issues surrounding an event or transaction (as for example the merger between two Malaysian telecoms discussed in chapter four). During a crisis, the correlation between event-driven strategies and the stock market trends can be high, so these trades carry market risk. During the U.S. stock market crash of 1987, for example, merger arbitrage positions fell precisely in line with the general market. Over time, as companies continued to meet their obligations and mergers were completed and confidence improved, merger arbitrage results provided large returns but not many fund managers could wait out the crisis (MacKenzie 2004a).

Risk or merger arbitrage strategies involve taking long and short positions in both of the companies involved. In a stock swap merger, for example, the stock of the company being acquired usually goes up and that of the acquirer goes down. Risk arbitrageurs, therefore, usually long the stock of the company being acquired and short the stock of the acquiring company. If there is a cash bid offered, then the risk arbitrageur is seeking to capture the difference between the bid price and the price at which the target company's stock is trading on the market. All mergers involve a risk that the transaction will not be completed; this "deal risk" is discounted in the target company's stock price. Profits are made by capturing the difference between the current market price of the "target" company's stock and the price to which it will rise when the deal is completed. Former US Secretary of the Treasury & former Goldman Sachs partner, Robert Rubin made his reputation doing risk arbitrage in the 1980s (Lewis 1989). Managers differ as to the amounts of "deal risk" they are willing to absorb. Regulatory decisions on mergers involving, for example, antitrust legal issues, or financing issues regarding whether the acquiring company can put together the financing needed to make the acquisition, are some examples of "deal risk." The overall volume of merger activity is a major limiting factor for risk arbitrage (UBS 2000:35).

Distressed securities arbitrageurs invest in the debt or equity of companies with financial or operational problems, e.g. bankruptcy. These securities trade at substantial discounts but, if companies are able to restructure, then large profits can be made. Hedge funds have an advantage in this market because being unregulated, they can buy less than investment grade securities, that is junk bonds. By contrast, most private and institutional

investors as well as banks are required to get distressed companies off their books. In addition, because they are often illiquid, junk bonds are long term investments, so much so that fund managers sometimes intervene in the restructuring process itself and reorganize the company.

Opportunistic hedge fund managers usually have more capital at risk and more exposure to underlying assets and markets than their more cautious colleagues, but when successful they reap huge profits. Until recently, macro hedge funds or global macro funds were the big players in the industry. In the last five years, however, they have been supplanted by “fund of funds,” which are aggregations of the most successful hedge funds. Here risk is spread even further across multiple markets and strategies which is presumed to make fund of funds virtually risk free and also reduces costs.

Throughout the 1990s macro funds were seen as harbingers of a new risk free era of double-digit yearly returns. As discussed in chapter six, critics argue that through their size and incredible leverage macro funds are able to manipulate markets. Macro funds usually operate by taking long and short positions amplified to a large scale, enabling highly leveraged directional “bets” in specific markets. Because macro funds make their money by anticipating a price change before it happens rather than exploiting “inefficiencies,” macro managers are constantly trawling for opportunities and trends and operate in very liquid markets.

Macro funds with a long/short equity strategy like Tiger Investment Management and Soros Fund Management (both now closed) started by investing in U.S. equities markets, demonstrating high success at stock picking during the 1980s. As they increased in size, their managers' gravitated towards more liquid securities and markets where they could take bigger positions. Other macro funds like Moore Capital, Caxton, and Tudor Investment emerged from a futures trading background and were, therefore, already both global and macroeconomic in scope and expertise. Managers of all of these funds benefited substantially from the deregulation and globalization of currency markets, and the development of financial futures markets outside the U.S., in the 1980s, which, as discussed above, increased the depth and breadth of investment opportunities (UBS 2000:43).

Funds utilizing a short selling strategy seek to profit from a decline in the value of stocks. As well, they earn interest on the cash proceeds from the short sale of stock. In the bull market of the early 1990s, short sellers did not do well; but during bear markets they can make record profits. Short sellers' performance usually mirrors the equities market in general. Short sellers borrow stock and sell it on the market and then buy it back later at a lower price (their assumption in selling short is that the stock price will fall). The key here is that a short sale does not actually require an investment of principal but rather the provision of collateral; proceeds from the sale are held as restricted credit by the brokerage firm that holds the account and the short seller earns interest (UBS 2000:45-46). Macro fund short sellers were active in the Southeast Asian foreign

exchange market, seeking to force (and profit from) the devaluation of those currencies (as discussed in chapter six).

Long/short equity strategies are the most widely utilized strategies in the hedge fund industry, representing around 30% of funds and assets under management in 1999 and remaining central to their successors, the “fund of funds.” Long/short funds take short positions and hedge long positions (again not focused on beating an index or a benchmark but on overall returns) and are usually regional, sectoral, or style specific. When such funds invest in emerging markets, rather than developed markets, they particularly focus on equity or fixed income because emerging markets are more volatile. Their volatility derives from the fact that emerging markets are “thinner;” fewer buyers, sellers and assets mean that small deals can create large swings in the market. For emerging market funds, the “country factor,” that is the overall policy environment framing the political trajectory of companies, becomes the main variable in calculating and quantifying risk. Macro funds and fund of funds investing in emerging markets are often buying and selling undervalued financial instruments in equities markets and hedging the “residual” risk via currency markets. Managers pursuing the long/short style rely on information access, knowledge of accounting and legal frameworks, and insight into political and economic turmoil in quantifying and exploiting risk. Malaysia’s “sovereign moves” are seen against this backdrop as I analyze the making of expertise and subjectivities in playing the global game of arbitrage from a Malaysian space in chapter six.

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